# ANNUAL ACCOUNTS AUDIT. INSTITUTO DE CRÉDITO OFICIAL

**Audit Plan 2021 AUDInet Code 2021/57 National Audit Office**

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**AUDIT REPORT OF CONSOLIDATED ANNUAL ACCOUNTS ISSUED BY THE COMPTROLLER GENERAL OF THE STATE ADMINISTRATION (IGAE)**

**To the General Council of Instituto de Crédito Oficial:**

***Opinion***

The Comptroller General of the State Administration, using the powers conferred to it by article 168 of the General Budget Law, has audited the consolidated annual accounts of **Instituto de Crédito Oficial** (hereinafter the Parent entity or the Institute) and its subsidiaries (the Group), which comprise the balance sheet at 31 December 2020, the consolidated profit and loss account, the consolidated statement of recognised revenue and expenses, the consolidated statement of changes in equity, the consolidated cash flow statement and consolidated report for the year ending on that date.

In our opinion, the accompanying consolidated annual accounts give, in all significant aspects, a true and fair view of the equity and financial position of the Group as at 31 December 2020, and of its results and cash flows for the year then ended, in accordance with the applicable financial reporting framework (specified in note 1.2 of the consolidated report) and, in particular, with the accounting principles and criteria contained therein.

***Basis of the opinion***

We conducted our audit in accordance with the standards regulating account auditing activity that apply to the Public Sector in Spain. Our responsibilities in accordance with these standards are described below in the *Responsibilities of the auditor in relation to the audit of consolidated annual accounts* section of our report.

We are independent from the Group in accordance with the ethical and independence protection requirements that are applicable to our audit of the consolidated annual accounts for the Public Sector in Spain, as required by the standards regulating Public Sector account auditing activity.

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

***Key issues of the audit***

The key issues of the audit are issues that, in our professional opinion, were of greater significance in our audit of the consolidated annual accounts for the current period. These issues have been dealt with in the context of our audit of the consolidated annual accounts as a whole, and in the formation of our opinion on these, and we do not express a separate opinion on those issues.

*Estimate of losses due to impairment of the portfolio of loans and advances*

The estimate of the impairment of the value of Financial Assets at Amortised Cost is one of the most significant estimates in the preparation of the accompanying consolidated annual accounts.

To estimate credit risk hedges, the provisions of Circular 4/2017 of 27 November and other mandatory rules approved by the Bank of Spain are taken into account.

In general, the Institute recognises objective evidence of impairment when, following initial detection, an event or the combined effect of several events cause a negative impact on the future cash flows from loans and advances to customers. Objective evidence of impairment is determined individually for the debt instruments that the Institute has identified as significant and collectively for the others. The Institute's collective assessment includes groups of debt instruments that have similar risk characteristics, indicative of the debtors' ability to pay the principal and interest amounts, the type of instrument, the debtor’s sector of activity, the type of guarantee and the age of amounts due, among others.

Our audit approach has included both the assessment of the most relevant controls established by the Institute related to the calculation of impairment, as well as the performance of detailed and substantive tests. The main audit procedures carried out have included the following:

- Verification of the various internal control policies and procedures established, in accordance with applicable regulatory requirements.
- Examination of the individual databases used, with a review of their reliability and the consistency of the data sources used in the calculations.

- Evaluation of the review carried out of borrowers' records to ensure their proper classification and, where appropriate, possible impairment.
- For the detailed tests, for a sample of individualised loans we reviewed, , their proper accounting records and classification, and, where applicable, the corresponding impairment.
- Re-calculation of the provisions of loans classified as Normal risk or Normal risk under Special Surveillance, evaluated on the basis of the alternative solutions established in the Bank of Spain Circular 4/2017.

The assessment methods used and the detail of information relating to the aforementioned items are included in notes 2 and 10 of the accompanying consolidated report.

*Risks associated with Information Technology*

The very nature of the Institute's activity and the process of the flow of financial information greatly depends on information systems.

The overall internal control framework for Information Systems in relation to the processing and recording of financial information is considered key to our assessment of internal control.

In this context, it is considered necessary to evaluate the effectiveness of general controls of internal control relating to Information Technology Systems.

Our audit approach has included the following processes:

- The evaluation of the most relevant general controls carried out by the Institute in key processes. The main procedures carried out have consisted of general control tests on the main applications, where we reviewed:
    - *Management of changes.*
    - *Physical and logical security.*
    - *Back-ups and Continuity.*
    - *Computer Systems Operations.*
- Revision of the existing interfaces between the main applications in the process of generating accounting information.

***Other issues***

The audit firm Mazars Auditores, S.L.P. by virtue of the contract signed with the Ministry of Finance, at the proposal of the Comptroller General of the State Administration, has carried out the audit work referred to in the first section. In this work, the Comptroller General of the State Administration applied the Technical Standard for relations with auditors in the public sector of 30 December 2020.

The Comptroller General of the State Administration has drawn up this report on the basis of the work carried out by the auditing firm Mazars Auditores, S.L.P.

Likewise, Mazars Auditores, S.L.P., in accordance with the stipulations of the second additional provision of Law 22/2015, of 20 July, on Accounts Auditing, has issued, on 14 April 2021, another audit report on the consolidated annual accounts of the Institute and its subsidiaries, applying the regulations governing accounts auditing in force in Spain (ISA-ES). This report, intended to meet certain requirements laid down in sectoral regulations, as well as for other commercial or financial reasons, has been issued with the prior authorisation of the Comptroller General of the State Administration, by virtue of the provisions of the collaboration contract.

***Other information: Consolidated management report***

The other information comprises the consolidated management report for the financial year 2020, for which the Chairman of the Institute is responsible and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility in relation to the consolidated management report, in accordance with the requirements of the standards regulating account auditing activity, is to assess and report the consistency of the consolidated management report with the consolidated annual accounts, based on the knowledge gained on the Group while auditing the aforementioned accounts and excluding information other than that obtained as evidence during this audit. In addition, our responsibility is to assess and report whether its content and presentation are compliant with applicable standards. If, based on the work that we have done, we conclude that there are material misstatements, we are obliged to report this.

On the basis of the work done, as described in the previous paragraph, we have nothing to report regarding the management report. The information it contains is in line with the annual accounts for the financial year 2020, and its content and presentation comply with applicable standards.

***The Chairman's responsibility in relation to the consolidated annual accounts***

The Institute's Chairman is responsible for formulating the accompanying consolidated annual accounts in a way that accurately represents the Group's equity, financial situation and results, in accordance with the normative framework of financial information applicable to the Group in Spain, and with the internal control that they consider necessary to allow for the preparation of consolidated annual accounts free from material misstatement, as a result of fraud or error.

In the preparation of the consolidated annual accounts, the Chairman is responsible for assessing the Group's ability to continue as a going concern, disclosing, as appropriate, going concern matters and using the going concern accounting principle, unless the Chairman intends or has a legal obligation to liquidate the Group or cease operations, or if there is no other realistic alternative.

***The auditor's responsibilities in relation to the audit of the consolidated annual accounts***

Our work did not include the audit of the annual accounts of Axis Participaciones Empresariales S.G.E.I.C., S.A., S.M.E., a company wholly owned by the Institute and 2 associated entities, whose information is detailed in appendix I to the annual accounts, and whose net book value represents 0.19% of the Group's total assets. The aforementioned annual accounts have been audited by other auditors, and our opinion expressed in this report on the consolidated annual accounts is based, as regards the shareholdings indicated, solely on the report of the aforementioned other auditors.

Our objectives are to obtain reasonable assurance that the consolidated annual accounts as a whole are free from material misstatement, due to fraud or error, and to issue an audit report that contains our opinion.

Reasonable assurance is a high degree of assurance, but this does not guarantee that an audit conducted in accordance with the standards regulating account auditing activity for the Public Sector in Spain always detects a material misstatement when this exists. In 2018, Misstatements may be due to fraud or error and are considered material if, individually or at an aggregated level, they may reasonably be expected to influence users' economic decisions taken based on the consolidated annual accounts.

As part of an audit in accordance with the standards regulating the account auditing activity for the Public Sector in Spain, we apply our professional judgement and we maintain an attitude of professional scepticism throughout the audit. In addition:

- We identify and evaluate the risks of material misstatement in the consolidated annual accounts due to fraud or error, we design and implement audit procedures to respond to these risks and we obtain sufficient and appropriate audit evidence to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is higher than in the case of a material inaccuracy due to error, because fraud may involve collusion, forgery, deliberate omissions, intentionally erroneous reports or the circumvention of internal control.
- We obtain knowledge of the relevant internal control for the audit in order to design audit procedures that are appropriate in the circumstances, and not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of the accounting policies applied and the reasonableness of the accounting estimates and related disclosures made by the Chairman.
- We establish whether the Chairman's use of the going concern principle is appropriate and, based on the audit evidence obtained, we conclude whether or not there is a material uncertainty related to the facts or conditions that may generate significant doubts about the Group's ability to continue as a going concern.
- If we conclude that material uncertainty exists, we must report this in our audit report on the corresponding information disclosed in the consolidated annual accounts or, if such disclosures are not adequate, we must express a modified opinion. Our findings are based on audit evidence obtained up to the date of our audit report. However, future facts or conditions may cause the Group to cease to be a going concern.

- We evaluate the overall presentation, structure and content of the consolidated annual accounts, including disclosed information, and whether or not the consolidated annual accounts accurately represent transactions and underlying facts.
- We obtain sufficient appropriate evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for directing, overseeing and performing the group audit as described at the beginning of this section. We are solely responsible for our audit opinion.

We communicate with the Chairman on, among other issues, the scope and timing of the planned audit and the audit's significant findings, as well as any significant shortcomings in internal control that we identified during the audit.

Among the issues that have been communicated to the Institute's Chairman, we identify those that have been of the greatest importance in the audit of the consolidated annual accounts for the current period and that are, consequently, the audit's key issues.

We describe these matters in our audit report unless legal or regulatory provisions prohibit public disclosure.

*The present audit report was signed electronically through the CICEP.Red application of the Comptroller General of the State Administration by the Head of the Public Audits Division of the National Audit Office in Madrid on 14 April 2021.*

# INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

## Consolidated Annual Accounts at 31 December 2020 and Consolidated Management Report corresponding to 2020

*Free translation of consolidated annual accounts originally issued in Spanish.*
*In the event of a discrepancy, the Spanish-language version prevails*

# INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2020 AND 2019

(Expressed in thousands of Euros)

| ASSETS | 2020 | 2019 |
|---|---|---|
| **Cash, deposits at central banks and demand deposits (Note 6)** | **2 729 630** | **784 604** |
| **Financial assets held for trading (Note 7)** | **61 724** | **69 407** |
| Derivatives | 61 724 | 69 407 |
| *Memorandum item: loaned or advanced as collateral* | | |
| **Financial assets not held for trading obligatorily valued at fair value through profit or loss (Note 8)** | **-** | **-** |
| **Financial assets at fair value through other comprehensive income (Note 9)** | **1 618 994** | **1 826 137** |
| Equity instruments | 905 636 | 827 551 |
| Debt securities | 713 358 | 998 586 |
| Loans and advances | | |
| *Memorandum item: loaned or advanced as collateral* | | |
| **Financial assets at amortised cost (Note 10)** | **29 343 703** | **28 469 446** |
| Debt securities | 7 347 498 | 7 843 423 |
| Loans and advances | 21 996 205 | 20 626 023 |
| Credit institutions | 10 562 681 | 10 215 054 |
| Customers | 11 433 524 | 10 410 969 |
| *Memorandum item: loaned or advanced as collateral* | | |
| **Hedging derivatives (Note 11)** | **285 325** | **393 353** |
| **Investments in joint ventures and associates (Note 12)** | **69 346** | **65 059** |
| Joint ventures | - | - |
| Associates | 69 346 | 65 059 |
| **Property, plant and equipment (Note 13)** | **85 390** | **86 973** |
| Property, plant and equipment | | |
| For own use | 85 390 | 86 973 |
| *Memorandum item: Acquired under financial lease* | | - |
| **Intangible assets (Note 14)** | **6 910** | **6 922** |
| Other intangible assets | 6 910 | 6 922 |
| **Tax assets (Note 15)** | **180 413** | **103 610** |
| Current | 32 290 | 8 557 |
| Deferred | 148 123 | 95 053 |
| **Other assets (Note 16)** | **25 449** | **36 143** |
| **Non-current assets and disposable groups of elements qualified as held for sale (Note 17)** | **-** | **-** |
| **TOTAL ASSETS** | **34 406 884** | **31 841 654** |

## INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2020 AND 2019
(Expressed in thousands of Euros)

| **LIABILITIES** | **2020** | **2019** |
|---|---|---|
| **Financial liabilities held for trading (Note 7)** | **60 824** | **69 313** |
| Derivatives | 60 824 | 69 313 |
| **Financial liabilities at fair value through profit or loss** | | |
| **Financial Liabilities at amortised cost (Note 18)** | **27 759 956** | **25 813 190** |
| Deposits | 12 166 825 | 9 676 814 |
| Central Banks | 3 155 040 | 499 902 |
| Credit Institutions | 7 597 761 | 8 477 599 |
| Customers | 1 414 024 | 699 313 |
| Marketable debt securities | 15 294 101 | 15 734 424 |
| Other financial liabilities | 299 030 | 401 952 |
| **Hedging derivatives (Note 11)** | **600 770** | **240 245** |
| **Provisions (Note 19)** | **686 745** | **303 540** |
| Pensions and similar obligations | 656 | 579 |
| Provisions for taxes and other legal contingencies | - | - |
| Provisions for contingent exposures and commitments | 27 855 | 7 778 |
| Other provisions | 658 234 | 295 183 |
| **Tax Liabilities (Note 15)** | **50 301** | **33 948** |
| Current | 1 098 | 1 005 |
| Deferred | 49 203 | 32 943 |
| **Other liabilities (Note 16)** | **7 342** | **7 837** |
| **TOTAL LIABILITIES** | **29 165 938** | **26 468 073** |
| **EQUITY** | | |
| **Equity (Note 20)** | **5 366 261** | **5 394 074** |
| Capital or endowment fund | 4 314 204 | 4 314 033 |
| Accumulated reserves | | |
| Revaluation reserves | 19 948 | 20 858 |
| Other reserves | 953 017 | 949 805 |
| Profit and loss for the period | 79 092 | 109 378 |
| *Less:* Dividends and remunerations | | |
| **Other accumulated comprehensive income (Note 21)** | **( 125 315)** | **( 20 493)** |
| Elements that cannot be reclassified at profit and loss | 72 925 | 36 916 |
| Changes in fair value equity inst. at fair value through other comprehensive income | 72 925 | 36 916 |
| Elements that can be reclassified at profit and loss | ( 198 240) | ( 57 409) |
| Cash-Flow hedges | ( 202 947) | ( 60 186) |
| Changes in fair value debt inst. at fair value through other comprehensive income | 4 707 | 2 777 |
| **TOTAL EQUITY** | **5 240 946** | **5 373 581** |
| **TOTAL EQUITY AND LIABILITIES** | **34 406 884** | **31 841 654** |

## INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2020 AND 2019
(Expressed in thousands of Euros)

| MEMORANDUM ITEM | 2020 | 2019 |
|---|---|---|
| **Granted guarantees (Note 22)** | **414 937** | **449 279** |
| **Granted contingent commitments (Note 22)** | **4 587 753** | **3 531 853** |

## INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

## CONSOLIDATED PROFIT AND LOSS ACCOUNTS CORRESPONDING TO YEARS ENDED AT 31 DECEMBER 2020 AND 2019

(Expressed in thousands of Euros)

| | 2020 | 2019 |
|---|---|---|
| **Interest and similar income (Note 24)** | **290 849** | **347 102** |
| **Interest and similar charges (Note 25)** | **( 269 060)** | **( 375 158)** |
| **NET INTEREST INCOME** | **21 789** | **( 28 056)** |
| **Dividends income (Note 26)** | **344** | **-** |
| **Profit/(loss) from entities valued through equity method (Note 27)** | **1 995** | **2 266** |
| **Fee and Commission income (Note 28)** | **55 547** | **55 507** |
| **Fee and Commission expense (Note 28)** | **( 6 495)** | **( 7 603)** |
| **Gains or losses from financing operations (net)** | **37 577** | **69 412** |
| Gains or losses on financial assets and liabilities not measured at fair value through profit or loss (net) (Note 29) | 162 | 10 365 |
| Financial assets at fair value through other comprehensive income | - | - |
| Financial assets at amortised cost | 23 | 10 365 |
| Financial liabilities at amortised cost | 139 | - |
| Gains or losses on financial assets and liabilities held for trading (net) (Note 30) | 3 385 | 591 |
| Gains or losses on financial assets obligatorily at fair value through results (net) (Note 31) | - | 1 984 |
| Gains or losses resulting from hedge accounting (net) (Note 32) | 34 030 | 56 472 |
| **Exchange differences (net) (Note 2.4)** | **( 7 852)** | **4 928** |
| **Other operating income and other operating expenses (Note 33)** | **840** | **1 820** |
| **GROSS MARGIN** | **103 745** | **98 274** |
| **Administration expenses** | **( 40 246)** | **( 38 912)** |
| Personnel costs (Note 34) | ( 22 580) | ( 21 546) |
| Other administration expenses (Note 35) | ( 17 666) | ( 17 366) |
| **Depreciation and amortisation** | **( 4 423)** | **( 3 916)** |
| Property, plant and equipment (Note 13) | ( 1 975) | ( 2 014) |
| Intangible assets (Note 14) | ( 2 448) | ( 1 902) |
| **Provisions expense or reversal of provisions (Note 19)** | **72 850** | **( 5 904)** |
| **Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss** | **( 22 162)** | **102 077** |
| Financial assets at fair value through other comprehensive income (Note 9) | 790 | ( 5 700) |
| Financial assets at amortised cost (Notes 10) | ( 22 952) | 107 777 |
| **Impairment or reversal of impairment on non-financial assets** | **( 96)** | **( 316)** |
| Goodwill and other intangible assets (Note 14) | | |
| Other assets (Notes 13 and 17) | ( 96) | ( 316) |
| **Gains/ (Losses) on non-current assets and groups held for sale of elements classified as held for sale not classified as discontinued operations (Note 17)** | **755** | **2 910** |
| **PROFIT OR LOSS BEFORE TAX FROM ONGOING OPERATIONS** | **110 423** | **154 213** |
| **Income tax expenses (income) from ongoing operations (Note 23)** | **( 31 331)** | **( 44 835)** |
| **PROFIT OR LOSS AFTER TAX FROM ONGOING OPERATIONS** | **79 092** | **109 378** |
| **CONSOLIDATED PROFIT OR LOSS FOR THE YEAR** | **79 092** | **109 378** |
| Profit or loss attributable to the parent company | 79 092 | 109 378 |

## INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSES CORRESPONDING TO YEARS ENDED AT 31 DECEMBER 2020 AND 2019

(Expressed in thousands of Euros)

| | 2020 | 2019 |
|---|---|---|
| **Profit/(loss) for the year** | **79 092** | **109 378** |
| **Other comprehensive income** | **( 104 822)** | **36 689** |
| Elements not reclassified on profit and loss account | **36 009** | **30 547** |
| Variations in fair value equity instruments at fair value through other comprehensive income (Note 21) | 51 441 | 43 638 |
| Profit or loss hedge accounting | | |
| Income tax of elements not reclassified in profit or loss | ( 15 432) | ( 13 091) |
| Elements that can be reclassified in profit or loss | **( 140 831)** | **6 142** |
| Hedging of cash flows, effective portion (Note 21) | ( 203 944) | 18 927 |
| Debt instruments at fair value through other comprehensive income (Note 21) | 2 757 | ( 10 153) |
| Income tax of elements that can be reclassified on profit or loss | 60 356 | ( 2 632) |
| **TOTAL RECOGNISED INCOME AND EXPENSES (global result)** | **( 25 730)** | **146 067** |

## INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CORRESPONDING TO YEARS ENDED AT 31 DECEMBER 2020 AND 2019

(Expressed in thousands of Euros)

**At 31 December 2020**

| | EQUITY | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | RESERVES | | | | | | | | | |
| | Capital / Endowment fund | Share premium | Accumulated reserves (losses) | Reserves (losses) of entities valued through equity method | Other capital instruments | Less: Treasury shares | Profit/(loss) for the year attributable to the parent company | Less: dividends and remunerations | Total equity | Other accumulated comprehensive income | Minority shareholders | Total Equity |
| **Closing balance at 31 December 2019** | **4 314 033** | | **952 401** | **18 262** | | | **109 378** | **-** | **5 394 074** | **( 20 493)** | | **5 373 581** |
| **Total recognised income and expenses** | | | | | | | 79 092 | | 79 092 | ( 104 822) | | ( 25 730) |
| **Other variations of equity:** | 171 | | 565 | 1 737 | | | ( 109 378) | - | ( 106 905) | - | | ( 106 905) |
| Capital increases / endowment fund | 171 | | | | | | | | 171 | | | 171 |
| Capital decreases | | | | | | | | | | | | |
| Transfers between equity items | | | | | | | ( 109 378) | 25 000 | ( 84 378) | | | ( 84 378) |
| Other increases (decreases) of equity | | | 565 | 1 737 | | | | ( 25 000) | ( 22 698) | | | ( 22 698) |
| **Closing balance at 31 December 2020** | **4 314 204** | **-** | **952 966** | **19 999** | | | **79 092** | **-** | **5 366 261** | **( 125 315)** | | **5 240 946** |

## INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CORRESPONDING TO YEARS ENDED AT 31 DECEMBER 2020 AND 2019

(Expressed in thousands of Euros)

| At 31 December 2019 | EQUITY | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | RESERVES | | | | | | | | | |
| | Capital / Endowment fund | Share premium | Accumulated reserves (losses) | Reserves (losses) of entities valued through equity method | Other capital instruments | Less: Treasury shares | Profit/(loss) for the year attributable to the parent company | Less: dividends and remunerations | Total equity | Other accumulated comprehensive income | Minority shareholders | Total Equity |
| **Closing balance at 31 December 2018** | **4 313 744** | **-** | **940 176** | **14 355** | **-** | **-** | **75 671** | **-** | **5 343 946** | **( 57 182)** | **-** | **5 286 764** |
| **Total recognised income and expenses** | | | | | | | 109 378 | | 109 378 | 36 689 | | 146 067 |
| **Other variations of equity:** | 289 | | 12 225 | 3 907 | | | ( 75 671) | - | ( 59 250) | | | ( 59 250) |
| Capital increases / endowment fund | 289 | | | | | | | | 289 | | | 289 |
| Capital decreases | | | | | | | | | | | | |
| Transfers between equity items | | | 26 147 | | | | (75 671) | 47 063 | ( 2 461) | | | ( 2 461) |
| Other increases (decreases) of equity | | | ( 13 922) | 3 907 | | | | ( 47 063) | ( 57 078) | | | ( 57 078) |
| **Closing balance at 31 December 2019** | **4 314 033** | | **952 401** | **18 262** | | | **109 378** | **-** | **5 394 074** | **( 20 493)** | | **5 373 581** |

## INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS CORRESPONDING TO YEARS ENDED AT 31 DECEMBER 2020 AND 2019

(Expressed in thousands of Euros)

| | 2020 | 2019 |
|---|---|---|
| **A. CASH FLOWS FROM OPERATING ACTIVITIES** | **1 972 545** | **( 835 413)** |
| **1. Consolidated profit/(loss) for the year** | **79 092** | **109 378** |
| **2. Adjustments to obtain operating cash flows** | **( 18 687)** | **( 72 474)** |
| Depreciation and amortisation | 4 423 | 3 916 |
| Other adjustments | ( 23 110) | ( 76 390) |
| **3. Net increase /(decrease) in operating assets** | **( 733 920)** | **3 629 795** |
| Trading portfolio | 7 683 | 39 747 |
| Other financial assets at fair value through profit or loss | - | 21 580 |
| Financial assets at fair value through other comprehensive income | 207 143 | ( 154 843) |
| Financial assets at amortised cost (2019) | ( 874 256) | 3 634 484 |
| Other operating assets | ( 74 490) | 88 827 |
| **4. Net increase/(decrease) in operating liabilities** | **2 706 512** | **( 4 509 581)** |
| Trading portfolio | ( 8 488) | ( 35 572) |
| Other financial liabilities at fair value through profit or loss | - | - |
| Financial liabilities at amortised cost | 1 946 766 | ( 4 481 981) |
| Other operating liabilities | 768 234 | 7 972 |
| **5. Collections/(payments) for income tax** | **( 60 452)** | **7 469** |
| **B. CASH FLOWS FROM INVESTMENT ACTIVITIES** | **( 2 690)** | **( 2 695)** |
| **6. (Payments)** | **( 4 286)** | **( 2 697)** |
| Property, plant and equipment (Note 13) | - | ( 879) |
| Intangible assets (Note 14) | - | ( 1 818) |
| Shareholdings (Note 12) | - | - |
| Non-current assets and liabilities associated for sale (Note 17) | ( 4 286) | - |
| Other payments related to investing activities | - | - |
| **7. Collections** | **1 596** | **2** |
| Property, plant and equipment (Note 13) | 1 583 | - |
| Intangible assets (Note 14) | 13 | - |
| Shareholdings (Note 12) | - | 2 |
| Non-current assets and liabilities associated for sale (Note 17) | - | - |
| Debt securities at amortised cost (Note 10.1) | - | - |
| Other collections related to investing activities | - | - |

## INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS CORRESPONDING TO YEARS ENDED AT 31 DECEMBER 2020 AND 2019

(Expressed in thousands of Euros)

| | 2020 | 2019 |
|---|---|---|
| **C. CASH FLOWS FROM FINANCING ACTIVITIES** | **( 24 829)** | **( 46 774)** |
| **8. (Payments)** | **( 25 000)** | **( 47 063)** |
| Dividends | ( 25 000) | ( 47 063) |
| Subordinated liabilities | | |
| Amortisation of own equity instruments | | |
| Acquisition of own equity instruments | | |
| Other payments related to financing activities | | |
| **9. Collections** | **171** | **289** |
| Subordinated liabilities | | |
| Issue of own equity instruments | | |
| Disposal of own equity instruments | | |
| Other collections related to financing activities (Note 20) | 171 | 289 |
| **D. EFFECT OF EXCHANGE RATE FLUCTUATIONS** | | - |
| **E. NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS** | **1 945 026** | **( 884 882)** |
| **F. CASH OR CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | **784 604** | **1 669 486** |
| **G. CASH OR CASH EQUIVALENTS AT END OF THE YEAR** | **2 729 630** | **784 604** |
| **MEMORANDUM ITEM** | | |
| **COMPONENTS OF CASH AND EQUIVALENTS AT THE END OF THE PERIOD** | | |
| Cash (Note 6) | **9** | **13** |
| Cash equivalent balances with central banks (Note 6) | **2 704 007** | **709 633** |
| Other financial balances (Note 6) | **25 614** | **74 958** |
| Less: bank overdrafts repayable | | |

# INSTITUTO DE CRÉDITO OFICIAL
# AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
corresponding to the year ended at 31 December 2020

**INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CORRESPONDING TO THE YEAR ENDED AT 31 DECEMBER 2020**

# 1. INTRODUCTION, BASIS OF PRESENTATION AND OTHER INFORMATION

## 1.1 Introduction

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

ICO's registered address is located at Paseo del Prado, 4, in Madrid, where it carries out all of its activities, without any other office network in Spain.

ICO is a public business entity as provided by Article 103 of Law 40/2015, of 1 October, of Legal Regime of the Public Sector, pertaining to the Ministry of Economic Affairs and Digital Transformation, through the Secretary of State for Economy and Company Support. It is a credit institution by law and is considered to be a State Finance Agency with its own legal personality, assets and finance, as well as management autonomy to fulfil its purposes.

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

ICO is governed by the provisions of Law 40/2015, of 1 October, of Legal Regime of the Public Sector, through Additional Provision Six of Royal Decree-Law 12/1995 (28 December), on urgent budget, tax and financial measures; by applicable provisions of Law 47/2003, of 26 November, General Budget, by its bylaws, approved by Royal Decree 706/1999 (30 April), on the adaptation of Instituto de Crédito Oficial to Law 6/1997 (14 April) and the approval of its bylaws (Official State Gazette 114 published on May 13, 1999), and any other matter not covered by the above regulation, are governed by the special legislation applicable to credit institutions and general civil, mercantile and employment legislation.

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

The Royal Decree approved by the Council of Ministers develops these modifications. Requirements to be appointed as independent director include: recognised commercial and professional honourability, have appropriate knowledge and experience, not incur in potential permanent conflicts of interest, and refrain from developing activities by self-employed or employed, involving effective competition with ICO. Furthermore, it is required not be linked to credit institutions, financial credit establishments, investment firms, collective investment schemes, venture capital entities, as well as to its subsidiaries and group to which they belong or are associated.

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

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

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

ICO has also the following functions:

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

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

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

1. Direct credit and mediation activities, modalities that count with a wide catalogue of products through which ICO contributes to granting financing to feasible business projects, favouring the growth of companies, their long-term investments, and international activity, in order to promote the sustainable growth, employment generation, and wealth distribution.

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

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

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

4. Companies Internationalisation Fund (FIEM for its initials in Spanish). This Fund was established in 2010 under Act 11/2010. Its activity consists on providing reimbursable financing for projects, under concessions or market terms, tied to the acquisition of Spanish goods and services and to the execution of Spanish investment projects or those of national interest. ICO acts as a Government agent and the structuring, administration and accounting for these transactions is kept separate from all other operations, in independent accounts maintained by ICO and for what ICO is reimbursed for the cost of management in accordance with the General State Budget for each year.

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

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

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

8. ICO COVID-19 surety lines, established and regulated by RD Law 8/2020, of 17 March, RD Law 25/2020, of 3 July, RD Law 11/2020, of 31 March, and RD Law 34/2020, of 17 November. This regulation, developed through the corresponding Agreements of the Council of Ministers, approved the establishment of several State surety lines, for an amount up to 140,000 million Euros, in order to ease the maintenance of employment and palliate the economic effects of the health crisis caused by the COVID-19. Sureties are granted to financing granted by financial entities to ease the access to credit and liquidity for businesses and employers (liquidity surety lines), as well as to face the financial needs derived from the performance of new investments (investment surety lines). Sureties have a term of up to 8 years. Also, a surety line is contemplated for lessees, in the modality of liquidity loans, guaranteed and subsidised by the State to face the lease of the families' main residences (for an amount of up to 1,200 million Euros). In this activity, ICO acts on behalf of the State, exercising management and administration functions, for which ICO accrues the corresponding commissions, registered as income in the income statement.

Except for the direct and mediation credit activity, which is included in ICO's accounts, the remaining functions are management operations of public funds, performed by ICO as State's Financial Agency, and therefore are not included in ICO's accounts, by virtue of regulations applicable to them.

## 1.2 Bases of presentation of the consolidated annual accounts

The Group presents its consolidated annual accounts according to the International Financial Reporting Standards adopted by the European Union (hereinafter, IFRS-EU), taking into account accounting principles and standards established by Circular 4/2017, of 27 November (hereinafter, Circular 4/2017), of Bank of Spain, on public and reserved information standards and models of financial statements. This Circular 4/2017 is compulsorily applicable to individual annual accounts of the Spanish Credit Institutions.

Accordingly, the preparation of the accompanying consolidated annual accounts has been based on the Group Companies' accounting records and in agreement with the International Financial Reporting Standards (IFRS) adopted by the European Union (IFRS-EU) and Circular 4/2017 of Bank of Spain, and subsequent amendments, and with the Commercial Code, Capital Corporations Act or other applicable Spanish regulations, to show the true and fair view of the Group's consolidated equity and consolidated financial situation at December 31, 2020 and results from its operations, changes in consolidated equity and consolidated cash flows corresponding to the year therein ended.

The information contained on in these consolidated annual accounts corresponding to 2019 is solely and exclusively presented for comparison purposes with information related to 2020 and, accordingly, does not constitute the Group's annual accounts of 2019.

Note 2 summarises the most significant accounting principles, policies and valuation criteria, applied in the preparation of the Group's annual accounts corresponding to the year ended at December 31, 2020.

***Main regulatory changes during the period from January 1 to December 31, 2020***

***Circular 2/2020, of 11 June (modification Circular Banco de España (CBE) 4/2017)***

This standard updates a series of statements to be reported to the Regulator, related to solvency. The Group has adapted its systems to duly elaborate the new report.

***Circular 3/2020, of 11 June (modification CBE 4/2017)***

This standard modifies Annex IX of CBE 4/2017, in relation to restructured, refinanced or refinancing operations, within the framework of the exceptional health emergency situation. The Group is applying the standard since it entered into force.

***RD Law 8/2020, of 17 March, RD Law 25/2020, of 3 July, RD Law 11/2020, of 31 March and RD Law 34/2020, of 17 November, of regulation of surety lines COVID-19 managed by ICO on behalf of the Ministry of Economic Affairs and Digital Transformation.***

These standards develop the regulation applicable to ICO, as parent company, as manager and administrator of the different COVID-19 surety lines for liquidity and investment operations granted by Spanish financial entities, within the current global health crisis.

As in the case of ICO's remaining functions as State's Financial Agency, the management of these Public Funds is performed on behalf of the State; therefore, they are not integrated in ICO's accounts, except for generated cash flows (periodic collections of commissions of sureties from financial entities, and payments to them, where applicable, for defaults of operations, in conditions established for it), and registration of commissions accrued in favour of ICO for management and administration services.

This activity implies an unprecedented public-private collaboration model between Administration, financial entities, and private companies and employers, making available an amount above 140,000 million Euros in sureties with terms from 5 to 8 years.

RD Law 34/2020, inter alia, extends the period to apply for sureties (until June 1, 2021), extends the maximum term of unreleased sureties (up to 8 years), and establishes the possibility to extend maturities and grace periods for operations formalised before 18/11/20, guaranteed by the State under RD Law 8/2020, of 17 March and RD Law 25/2020, of 3 July.

Standards and interpretations published until the date of formulation of the Group's financial statements that are not yet in force are included below. The Group intends to adopt these standards, if applicable, as soon as they become effective:

**IFRS 17: "Insurance contracts"**

IFRS 17 establishes the principles of registration, valuation, presentation and disclosure of insurance contracts. Its objective is to ensure that an entity provides relevant information, fairly representing such contracts. IFRS 17 substitutes IFRS 4 on insurance contracts and will enter into force for years beginning from January 1, 2023.

**Modifications of IAS 1: "Presentation of financial statements"**

It introduces clarifications on requirements to be applied in the classification of liabilities as current or non-current, and will enter into force in years beginning from January 1, 2023.

**Modifications of IFRS 3: “Business combinations”**

Modifications are made on references to the Conceptual Framework for Financial Information contained in the standard. It will enter into force for years beginning from January 1, 2022.

**Modifications of IAS 16 “Property, plant and equipment”**

Elimination that an entity deducts from the cost of a tangible asset net amounts from the sale of any element before the asset is available for use. It will enter into force for years beginning from January 1, 2022.

**Modifications of IAS 37 “Provisions, contingent liabilities and contingent assets”**

It specifies components that must be included by an entity in the determination of the cost for complying with the contract’s clauses for the purpose of assessing its onerous nature. It will enter into force for years beginning from January 1, 2022.

**Annual project of “Improvements of IFRS” (cycle 2018-2020)**

It will enter into force for years beginning from January 1, 2022, allowing early application. Improvements included in this cycle affect the following standards:

- IFRS 1 “First-time adoption of International Financial Reporting Standards”. For those subsidiaries that have adopted the IFRS at a date subsequent to the parent company’s adoption, they are allowed to measure accumulated conversion differences using amounts used by their parent company, preventing the need to maintain two parallel accounting registrations.

- IFRS 9 “Financial instruments”. The modification clarifies which costs or fees must be included by an entity for the purpose of performing the quantitative test of 10% to write off a financial liability. In this sense, the entity should only include as costs or fees those paid or received between the lender and borrower.

- IFRS 16 “Leases”. Modification of the illustrative example 13, attached to the standard, in order to avoid a possible confusion on the accounting treatment of lease incentives.

- IAS 41 “Agriculture”. Elimination of the requirement to exclude cash flows for taxes when measuring the fair value according to the IAS 41.

All compulsory accounting principles and standards with a significant effect have been applied in their preparation, including on Note 2 a summary of accounting principles and standards and the most significant valuation criteria applied on the present consolidated annual accounts. The Chairman of the Group’s Parent Company is responsible for the information contained on the present consolidated annual accounts.

The Group's consolidated annual accounts of 2020 have been formulated by the Parent Company's Chairman on March 30, 2021, awaiting approval by ICO's General Board, Group's Parent Company, expecting their approval without significant changes. The present consolidated annual accounts, unless otherwise indicated, are presented in thousands of Euros.

### 1.3 Responsibility for information and estimates.

The information contained in the Group's consolidated annual accounts for the year ended at December 31, 2020 and the accompanying consolidated Notes are responsibility of ICO's Chairman. In the preparation of these annual accounts, some estimates have been made by the Group to quantify certain assets, liabilities, income, expenses, and commitments included in those statements. These estimates basically refer to the following:

- Impairment losses of financial assets (Note 2.7).
- Assumptions used in actuarial calculations of liabilities and commitments related to post-employment benefits and other long-term commitments with employees (Note 2.10.2).
- Useful life of fixed assets and intangible assets (Notes 2.12 and 2.13).
- Losses on future obligations derived from granted contingent commitments (Note 2.14).
- The fair value of certain unlisted assets (Note 2.2.3).
- Recoverability of tax assets (Note 2.11).

Although these estimates were made based on the best information available at December 31, 2020 in relation to the analysed facts, future events could lead significant adjustments to be made (upward or downward) in coming years. These changes would be made prospectively, to recognise the impact of the change in the estimate of the consolidated profit and loss account for the specific years.

### 1.4 Transfer of assets and liabilities from the former Argentaria

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

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

Furthermore, on March 25, 1993, a management contract was signed with the relevant banks, regarding the assets and liabilities transferred, including its administration as well as its correct accounting in accordance of the current banking legislation.

On January 2019, both the management, and the administration and bookkeeping of transferred assets and liabilities was assumed by ICO. At December 31, 2020, the balance of net assets was of 29 thousand Euros and the amount of results generated in the year was of 161 thousand Euros (57 thousand Euros of net assets and 154 thousand Euros of results at December 31, 2019).

## 1.5 Presentation of individual annual accounts

In accordance with Article 42nd of the Spanish Code of Commerce, ICO has formulated, at the same date as the present consolidated annual accounts, individual annual accounts, prepared in accordance with the same accounting principles and standards and valuation criteria applied on the Group's present consolidated annual accounts. The consolidation effect on the accompanying balance sheet at December 31, 2020 and 2019, the profit and loss account, the statement of total changes in equity, the statement of recognised income and expenses, and the statement of cash flows of 2020 and 2019, implies the following differences:

| | Thousands of Euros | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | Individual | Consolidated | Individual | Consolidated |
| Assets | 34 386 075 | 34 406 884 | 31 822 825 | 31 841 654 |
| Equity | 5 202 375 | 5 240 946 | 5 343 779 | 5 373 581 |
| Profit/(loss) for the period | 70 188 | 79 092 | 106 941 | 109 378 |
| Total income and expenses recognised in equity | ( 34 634) | ( 25 730) | 143 630 | 146 067 |
| Net increase / (Decrease) of cash and cash equivalents | 1 944 929 | 1 945 026 | ( 885 030) | ( 884 882) |

## 1.6 Environmental impact and greenhouse gas emission rights

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

Also, the Group considers that appropriate environmental protection and improvement measures have been taken, and to minimise, when possible, the environmental impact following rules regarding this matter. In 2020 and 2019, the Group has not carried out significant environmental investments and has not considered it necessary to register any provision for environmental risks and charges. Furthermore, ICO has not considered any significant contingencies in relation to environmental protection and improvement, and has not had greenhouse gas emission rights.

## 1.7 Minimum coefficients

### 1.7.1 Minimum equity ratio

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

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

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

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

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

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

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

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

    - Requirement of credit institutions to calculate a leverage ratio, defined as Tier 1 capital divided by total exposure unadjusted for risk. The disclosure requirement will be applicable from 2016 onwards and the final definition was established in 2017 by supervisors.

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

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

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

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

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

From the period 2015, according with Circular 2/2014 of Bank of Spain, capital buffers established in this standard are applicable. To date, no amount has been established for the specific countercyclical capital buffer by the Banking Supervisor this year. ICO is not an entity of global systemic importance (EISM for its initials in Spanish) nor is it considered as a systemically important entity (EIS for its initials in Spanish).

In 2019, Regulation EU 2019/876, of 20 May, was approved, amending Regulation (EU) 575/2013 (CRR II) of Credit Entities' solvency. Although the standard will enter into force, in general, from June 28, 2021, certain provisions entered into force on June 27, 2019 (field of application, supervision powers, definitions, equity and admissible liabilities and definitions of the leverage ratio). These provisions did not affect ICO.

In 2020, Regulation EU 2020/873, of 24 June, was approved, amending Regulations EU 575/2013 and EU 2019/876 concerning certain adaptations made in response to the COVID-19 pandemic (including, among other measures, the extension of transitory provisions in relation to the effect of the IFRS 9 on provisions, for the purpose of solvency, establishment of new temporary prudential filters, and advancement of the new treatment for certain exposures, and application of the support factor to SMEs and Infrastructures). This standard's provisions have had a scarce impact in ICO.

At December 31, 2020 and 2019, the Group's computable capital is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Common Equity Tier 1 (*) | 5 024 167 | 5 067 939 |
| Capital | 4 314 204 | 4 314 033 |
| Reserves and prudential filters (**) | 709 963 | 753 906 |
| Tier 2 | - | - |
| Other reserves (**) | - | - |
| Generic insolvency risk hedging | - | - |
| Total computable capital | 5 024 167 | 5 067 939 |
| Total minimum capital (***) | 2 153 568 | 2 139 560 |

(*) The Group has no additional Tier 1.

(**) The total reserves used for the calculation of capital of the Group computable differ from those recorded in the consolidated balance sheet because in the calculation of capital are given: adjustments for intangible assets and adjustments for reserves.

(***) Calculated as 15.95% of risk-weighted assets (RWA), established by Bank of Spain for the Group for 2020 (17.34% for 2019)

At December 31, 2020 and 2019, the most important data of the minimal capital of the Group are (in thousands of Euros):

| | Thousands of Euros | |
|---|---|---|
| | **2020** | **2019** |
| Tier 1 | 5 024 167 | 5 067 939 |
| Risk-weighted assets (RWA) | 13 501 994 | 12 338 868 |
| Tier 1 ratio (%) | 37.21% | 41.07% |
| Computable total Capital | 5 024 167 | 5 067 939 |
| Computable total Capital ratio (%) | 37.21% | 41.07% |
| Minimum computable capital ratio (%) (*) | 15.95% | 17.34% |

*(*) The total minimum capital ratio from 01/01/20, established by Bank of Spain for the ICO Group, is 15.95%, considering both the requirements established by the Regulation EU 575/2013 (8%), and additional capital needs to cover concentration and business risks and other risks included in the Capital Self-Assessment Report (5.45%) and capital buffers (2.5% from 1/1/19).*

At December 31, 2020 and 2019, the Group's computable capital, calculated on a consolidated basis, exceeds minimum requirements required by applicable regulations in 2,870,599 thousand Euros and 2,928,379 thousand Euros, respectively.

### 1.7.2 Minimum reserves ratio

ICO must maintain a minimum level of funds deposited in a central bank of a Euro country to cover the minimum reserve requirements. At December 31, 2020, this level was 2% of computable liabilities. On November 24, 2011, Regulation (EU) No 1358/2011 came into effect, requiring 1% for additional computable liabilities (time deposits of over two years drawable subject to a notice period of more than two years, sales under repurchase agreements and securities other than shares with maturities of over two years). This amendment was applied following the maintenance period that started on January 18, 2012.

At December 2020 and 2019, and throughout 2020 and 2019, ICO complied with minimum ratios required by applicable Spanish regulations.

### 1.7.3 Capital management

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

In this sense, regulatory capital requirements are incorporated directly in the management, thereof in order to maintain at all times a solvency ratio not below the minimum established for the entity by Bank of Spain. This objective is met through a proper capital planning.

### 1.8 Post-balance sheet events

In accordance with Additional Provision of Law 24/2001, of 27 December, on Tax, Administrative and Social Security measures, amended by aforementioned Law 42/2006, the amounts recovered following the repayment by Central Government of the debts incurred with ICO as a result of certain credit and guarantee facilities granted by the former Entidades Oficiales de Crédito and ICO itself, will form part of ICO's equity. The amount estimated for 2020 totals 160 thousand Euros, which will be registered in 2021.

In 2021, the Instituto de Crédito Oficial, as a State Financial Agency, has capitalised by government order new credit lines for businesses and individuals in order to provide more liquidity to the Spanish credit system and to address other needs within the framework of ICO's objectives. The main lines approved are the following:

- ICO Companies and Entrepreneurs Facility 2021: this ICO line provides finance to freelances and companies performing its investments within the country and that need to fulfil their liquidity needs. Individuals and landlord communities can also take advantage of this line for housing restoration.

- ICO SGR/SAECA Guarantee Facility2021: this ICO line provides finance to freelances and Spanish or mixed companies, which resources are mainly located in Spain, within a Reciprocal Guarantee Company (SGR for its initials in Spanish) or the state-owned corporation of Caución Agraria (SAECA for its initials in Spanish).

- ICO Commercial Facility 2021: this ICO line provides finance to freelances and Spanish or mixed companies established in Spain, to obtain liquidity through the advance of the amount of invoices from their commercial business within the national territory.

- ICO Red.es Acelera Facility 2021: Financing of projects for which the granting of aids by Red.es is approved, for the experimental development and promotion of digital technologies.

- ICO International Facility 2021: this ICO line provides finance to freelances and Spanish or mixed companies with resources mainly Spanish performing productive investments overseas and/or that need to fulfil its liquidity needs.

- ICO Exporters Facility 2021: this ICO line provides finance to freelances and Spanish companies that have a need of liquidity, and help them though advances in bills coming from its export activity.

- ICO International Channel Facility 2021: Financing to support the internationalisation process for self-employed professionals and companies. The main difference between this product and ICO International Facility and ICO Exporters Facility is that the loans are applied for at local banks or international institutions that have a central office in the country where the investment projects or export activities are carried out.

As every year, during January 2021, ICO and credit institutions that submitted the application for membership of these credit lines handled the contracts' drafting and signatures.

Royal Decree-law 5/2021 of 12 March, on extraordinary measures of support to the business solvency in response to the COVID-19 pandemic has articulated a set of measures to mobilise a public investment of up to 11,000 million Euros, with the creation of three new funds to finance direct aids, restructure the COVID financial debt, and recapitalise businesses. With a view to ease the implementation of flexibilization measures of loans allocated with public surety, a line is enabled for the restructuring of the COVID financial debt, of 3,000 million Euros, which terms and conditions must be approved by Council of Ministers' Approval.

No significant events other than those described in the previous paragraphs have occurred since the end of the reporting period (December 31, 2020) until the date these consolidated annual accounts were issued (March 31, 2021).

### 1.9 Information per business segment

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

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

### 1.10 'ICO Direct' lending activities

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

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

The balance at December 31, 2020 of total net assets was of 383 thousand Euros (1,028 thousand Euros at December 31, 2019). Results generated in 2020 have amounted to 3,763 thousand Euros (3,498 thousand Euros in 2019).

### 1.11 ICO local corporation lending activity in 2011

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

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

ICO-Local Corporation Facility was in operation from July 2011 to November 2011. During this time, the facility enabled 1,029 local, regional and inter-island town councils through Spain to settle 222,975 outstanding invoices, accounting a total amount of 967 million Euros for supplies, constructions and services provided by 38,338 self-employed individuals and SMEs during 2011. The formalisation and administration of the 2011 ICO-Local Corporation Facility operation is carried out through several EECC added to the project.

At December 31, 2020, the balance of these assets (classified as doubtful assets) has been of 3,458 thousand Euros (3,669 thousand Euros at December 31, 2019).

This line is guaranteed to ICO with the Participation in State Income (PTE for its initials in Spanish) of the borrowing EELL. The reduction in the outstanding balance of this line, from the beginning of it and until December 31, 2020, under the PTE, is 61.89 million Euros (61.68 million Euros at December 31, 2019). Out of the 1,029 hosted entities to December 31, 2020, a total of 409 entities have had to resort to the PTE. At December 31, 2020, PTE deductions are still being claimed to 9 EELL, for an outstanding amount of 3.5 million Euros.

## 2. ACCOUNTING PRINCIPLES, POLICIES AND VALUATION METHODS APPLIED

During the development of the Group's consolidated annual accounts for the year ended at December 31, 2020, the following accounting principles, policies and valuation methods have been applied:

a) Going concern principle

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

b) Accruals principle

The present annual accounts, except in relation to the statements of cash flows, have been elaborated based on the current flow of goods and services, regardless of their date of payment or collection.

c) Other general principles

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

### 2.1 Shareholdings

#### 2.1.1 Group Companies

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

Consideration as subsidiaries requires:

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

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

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

These subsidiaries' annual accounts are consolidated with ICO's in application of the global integration method, as defined on the regulation. Consequently, all balances derived from transactions between significant companies consolidated through this method have been eliminated in the consolidation process. ICO, the Group's parent company, represents 99% of it.

Furthermore, shareholding by third parties, if any, in:

- The Group's equity is presented on caption "Minority shareholders" of the consolidated balance sheet, there not being any balance at December 31, 2020 and 2019.

- Consolidated results of the year are presented on caption "Results attributed to minority shareholders" of the consolidated profit and loss account, there not being any balance at December 31, 2020 and 2019.

  The consolidation of results generated by subsidiaries acquired on a year only takes into account those related to the period comprised from the acquisition date and the year's closing date.

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

### 2.1.2 Associates

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

Shareholdings in associates are presented in these consolidated annual accounts under the heading "Investments in subsidiaries, joint ventures and associates – Associates" in the consolidated balance sheet and are valued at acquisition costs, adjusted impairment that they may have undergone.

Results generated from operations between the associate and Group Companies are written off from the percentage represented by the Group's shareholding on the associate.

Results obtained in the year by the associate, after the abovementioned write-off, increase or reduce, as applicable, the value of the investment on the consolidated annual accounts. The amount of these results is registered on the caption of "Profit/(loss) in entities valued through the equity method" of the consolidated profit and loss account (Note 27).

Variations in the associate's valuation adjustments, following the acquisition date, are registered as increase or decrease of the investment value. The amount of these variations has been registered on caption "Other accumulated comprehensive income" as valuation adjustments of the consolidated equity.

Annex I provides relevant information on these entities.

## 2.2 Financial instruments

### 2.2.1 Initial recognition of financial instruments

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

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

### 2.2.2 Transfers and disposal of financial instruments

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

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

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

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

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

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

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

Similarly, financial liabilities are only removed off the balance sheet when generated obligations have been extinguished or when they are purchased with the purpose of being cancelled or repositioned again.

### 2.2.3 Fair value and amortised cost of financial instruments

Financial assets

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

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

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

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

Amortised cost is the acquisition cost of a financial asset or adjusted liability (upward or downward) for capital and interest repayments and, when applicable, for the (higher or lower) portion (recognised in the profit and loss account applying the effective interest method) of the difference between the initial amount and the repayment value of the financial instruments. The amortised cost of financial assets also includes impairment adjustments that may have occurred.

The effective interest rate is the discount rate that brings the initial value of a financial instrument exactly into line with total estimated cash flows through its residual life. In the case of fixed-income financial instruments, the effective interest rate is equal to the contractual rate defined on acquisition, adjusted for commissions and transaction costs that, in accordance with the provisions of Bank of Spain Circular 4/2017, must be included in the calculation of the effective interest rate The effective interest rate for variable-rate financial instruments is estimated in the same way as for fixed-income transactions, and is recalculated at each interest review date stated in the contract, taking into consideration changes in the transaction's future cash flows.

Other entities' shareholdings, whose fair value cannot be determined objectively and financial derivatives that have this instrument as its underlying assets and are settled by their delivery, are kept at cost, adjusted, where appropriate, by impairment losses experienced.

Variations in financial assets amounts are registered, in general, with a counterpart in the profit and loss account, differentiating the ones that are caused by the accrual of interest and similar items that are recorded in the heading of "Interest and similar income", and those corresponding to other causes that are recorded by the net amount under the heading of "Gains or losses on financial assets and liabilities" of the profit and loss account.

However, changes in instruments' value included under the portfolio of financial assets valued at fair value through other comprehensive income are temporarily recorded on caption "Other accumulated comprehensive income", unless they come from exchange differences. Amounts on caption "Other accumulated comprehensive income" for changes in the fair value of these financial instruments remain part of net equity until they are removed from balance sheet's assets where they are originated, moment when they are registered against a profit and loss account, unless they are financial instruments which valuation changes are never reclassified to the profit and loss account.

Also, value changes of the items included under the heading "Non-current assets held for sale" are recorded under "Other accumulated comprehensive income" as valuation adjustments in consolidated equity.

Related to financial instruments, valuations at fair value reflected in the annual accounts are classified using the following fair value ranking:

i) Level I: reasonable values are obtained from quoted prices (not adjusted) in active markets for the same instrument.

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

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

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

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

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

- In cash flow hedges, the valuation differences arising on the effective hedging of the hedging items are temporarily registered under the heading of ‘Other accumulated comprehensive income’ as adjustment in net equity.

- In net foreign investments hedging, valuation differences arising on the effective hedging of the hedging items are temporarily registered under the heading of ‘Other accumulated comprehensive income’ as adjustment in net equity.

In the last two cases, valuation differences are not included in results until hedged item’s gains or losses are recorded in the profit and loss account or until the hedged item’s expiration date.

In interest rate risk’s fair value hedges of a financial instruments portfolio, gains or losses that arise when assessing the hedging instruments are recognised directly in the profit and loss account, whereas the gains or losses in the amount covered fair value changes, regarding the hedged risk, are recognised in “Other accumulated comprehensive income” as adjustment in financial assets by macro hedging.

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

Financial liabilities

Financial liabilities are recorded at amortised cost, as defined for financial assets in the note above, except in the following cases:

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

- Financial derivatives whose underlying assets are equity instruments whose fair value cannot be determined in a sufficiently objective and be settled by delivery of these contracts are valued at cost.

Financial liabilities amount's variations are recorded, in general, offset by the profit and loss account, differentiating between those that are caused by interest accrual and similar items that are recorded in the heading of "Interest and similar income", and those corresponding to other causes, which are recorded under the heading 'Gains or losses on financial assets and liabilities measured at fair value through profit or loss' of the consolidated profit and loss account.

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

### 2.2.4 Classification and valuation of financial assets and liabilities

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

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

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

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

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

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

    - Financial assets that, not being included in the Trading portfolio, are considered as hybrid financial assets and are valued at fair value, and those that are jointly managed with Liabilities under insurance contracts valued at their fair value or with financial derivatives whose purpose and effect is to reduce its exposure to fluctuations in fair value or which are jointly managed with financial liabilities and derivatives in order to reduce the overall exposure to interest rate risk.

    - Financial liabilities designated at its initial recognition by the entity or when recognising them more relevant information is obtained because:

        - With it, inconsistencies in the recognition or appreciation arising from the asset or liabilities valuation or recognising the gains and losses will be deleted or significantly reduced, using different criteria.

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

- Assets valued at amortised cost. This category includes the following:

    - Debt securities with fixed maturities and cash flows of a determined or determinable amount. Debt securities included in this category are initially valued at fair value, adjusted for transaction costs directly attributable to the acquisition of the financial asset, which are recognised in the profit and loss account using the effective interest method, defined in applicable accounting legislation as of Bank of Spain, 4/2019. They are subsequently valuated at amortised cost, based on the effective interest ratios.

    - Loans and receivables: this category includes financing provided to third parties arising from the ordinary credit and loan activities carried out by ICO and debts incurred by asset buyers and by service users. It also includes financial lease transactions in which entities act as lessors.

    Financial assets included in this category are initially carried at fair value, adjusted for commissions and transaction costs directly attributable to the acquisition of the financial asset and which, under applicable accounting legislation as of Bank of Spain, 4/2019, must be recognised in the profit and loss account using the effective interest rate method. Once these assets are acquired, they are valued at amortised cost.

Assets acquired at discount are registered for the amount paid and the difference between the repayment value and that cash amount is recognised as a financial income, applying the effective interest rate method until maturity.

The accrued interest for assets included in this category, calculated using the effective interest rate method, is recognised in the caption "Interest and similar income" in the profit and loss account. Exchange differences on securities denominated in foreign currency, other than the euro included in this portfolio, are accounted as it is mentioned in Note 2.4. Possible impairment losses on these securities are recorded as indicated in Note 2.7. Debt securities included in fair-value hedging are recorded as mentioned in Note 2.3.

- Financial assets at fair value through other comprehensive income: this category includes debt securities not classified as instruments at amortised cost or at fair value through profit or loss, owned by ICO, as well as equity instruments owned by ICO corresponding to entities which are not subsidiaries, joint ventures or associated entities, which have not been classified as at fair value through profit or loss.

  Instruments included in this category are initially measured at fair value, adjusted for transaction costs directly related to the acquisition of the financial asset, which are recognised in the profit and loss account using the effective interest rate method defined in applicable accounting legislation as of Bank of Spain, 4/2019, to maturity, unless the financial assets have no fixed maturities. In such cases, they are taken to the profit and loss account, when they become impaired or are written off the balance sheet. Subsequently, financial assets included in this category are valued at fair value.

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

  Products corresponding to interests or dividends accrued from these financial assets are registered with counterpart on captions "Interests and similar income" (calculated using the effective interest rate method) and "Dividends income" in the profit and loss account, respectively. Impairment losses on these instruments are recorded as mentioned in Note 2.7. Exchange differences on financial assets denominated in foreign currency other than the euro are accounted as mentioned in Note 2.4. Changes in fair value of financial assets covered by fair-value hedges are stated as mentioned in Note 2.3.

  The remaining changes in the fair value of financial assets from acquisition are registered with counterpart in ICO's equity under caption "Other accumulated comprehensive income" as valuation adjustments, until the financial asset is written off, moment at which the balance registered on such caption is booked on the profit and loss account under caption “Profit and loss for write-off of financial assets and liabilities valued at fair value through profit or loss”.

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

  Financial liabilities included in this category are initially carried at fair value, adjusted for transaction costs directly attributable to the issue of the financial liability, which will be recognised in the profit and loss account using the effective interest rate method, defined in applicable accounting legislation (Bank of Spain Circular 4/2017) to maturity. Subsequently they are measured at amortised cost, calculated by applying the effective interest rate method defined in applicable accounting legislation (Bank of Spain Circular 4/2017).

  The interest accrued on these assets, calculated using the effective interest rate method, is recognised in the caption “Interest and similar charges” in the profit and loss account. Exchange differences on securities denominated in foreign currency, other than the euro included in this portfolio, are accounted as mentioned in Note 2.4. Financial liabilities included in fair-value hedging are recorded as mentioned in Note 2.3.

Nevertheless, those financial instruments that must be classified as non-current assets held for sale, in accordance with the provisions of Rule Thirty-Four of Circular 4/2017, Bank of Spain, are included in the annual accounts as explained in Note 2.16.

The classification of financial instruments in these categories will be based in two elements: (i) the entity’s business model to manage financial assets; (ii) the characteristics of financial assets’ contractual cash flows:

- A financial asset is classified on the portfolio of financial assets at amortised cost when two conditions are met: (i) it is managed with a business model which objective is to hold financial assets to perceive contractual cash flows; and (ii) contractual conditions lead to cash flows at specified dates, which always are payments of principal and interests on the amount of the outstanding principal;

- A financial asset is classified on the portfolio of financial assets at fair value through other comprehensive income when the two following conditions are met: (i) it is managed with a business model which objective combines the perception of the financial assets’ contractual cash flows and the sale; (ii) contractual conditions lead to cash flows at specified dates, which always are payments of principal and interests on the amount of the outstanding principal;

- A financial asset is classified on the portfolio of financial assets held for trading or financial assets obligatorily at fair value through profit or loss, as long as, due to the entity's business model for their management or to the characteristics of its contractual cash flows, it cannot be classified in any of the portfolios above.

  Nonetheless, the entity shall opt, at initial recognition and in an irrevocable manner, for including on the portfolio of financial assets at fair value through other comprehensive income investments in equity instruments which should not be classified as held for trading and which would be classified as financial assets obligatorily at fair value through profit or loss. This option will be exercised on an instrument basis.

  Also, the entity shall opt, at initial recognition and in an irrevocable manner, for designating any financial asset at fair value through profit or loss if thus valuation or recognition incoherencies are eliminated or significantly reduced (also called «accounting asymmetry») which would otherwise derive from the valuation of assets or liabilities, or recognition of profit or loss, on different bases. When there are accounting asymmetries, this option shall be exercised regardless of the entity's business model for its management and the characteristics of the contractual cash flows.

  Additionally, and regardless of the above, the entity shall opt, at initial recognition or subsequently, for designating any financial asset as belonging to the portfolio of financial assets at fair value through profit or loss, as long as requirements established on Circular 4/2017 are met.

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

- When an entity changes its business model for the management of financial assets, it will reclassify all financial assets according to the following sections. Such reclassification will be prospectively performed from the reclassification date, not requiring a restatement of previously recognised profit, loss or interests. In general, changes in the business model are rare.

- If the entity reclassifies a debt instrument from the portfolio of amortised cost into fair value through profit or loss, the entity must estimate its fair value at reclassification date. Any profit or loss generated for the difference between the previous amortised cost and the fair value will be recognised on the profit and loss account. If the entity reclassifies a debt instrument from the portfolio of fair value through profit or loss into amortised cost, the asset's fair value at reclassification date will be its new gross carrying amount.

- If the entity reclassifies a debt instrument from the portfolio of amortised cost into fair value through other comprehensive income, the entity must estimate its fair value at reclassification date. Any loss or profit generated for differences between the prior amortised cost and the fair value will be recognised in other comprehensive income. The effective interest rate and the estimate of expected credit losses will not be adjusted as a consequence of the reclassification.

- If a debt instrument is reclassified from the portfolio of fair value through other comprehensive income into amortised cost, the financial asset will be reclassified at the fair value at reclassification date. The accumulated profit or loss at reclassification date in other accumulated comprehensive income of equity will be cancelled using as counterpart the asset's carrying amount at reclassification date. Thus, the debt instrument will be valued at reclassification date as if it had been valued at amortised cost. The effective interest rate and the estimate of expected credit losses will not be adjusted as a result of the reclassification.

- If the entity reclassifies a debt instrument from the portfolio of fair value through profit or loss to fair value through other comprehensive income, the financial asset will continue being valued at fair value, without modification of the registration of previously registered value changes.

- If the entity reclassifies a debt instrument from the portfolio of fair value through other comprehensive income into fair value through profit or loss, the financial asset will continue being valued at fair value. The profit or loss previously accumulated in «other accumulated comprehensive income» of equity will be transferred to profit or loss of the period at reclassification date.

- When the investment in a subsidiary, joint venture or associate is no longer classified as such, the retained investment, if any, will be measured at its fair value at reclassification date, recognising all profits or losses generated for the difference between its carrying amount prior to the reclassification and such fair value in profit or loss or in other comprehensive income, as applicable, based on the subsequent valuation of the retained investment.

- The investment in an entity prior to its qualification as subsidiary, joint venture or associate will be valued at fair value until the date when control, joint control or significant influence is obtained. At this last date, the entity must estimate the fair value of the prior investment, recognising any profit or loss generated for the difference between its carrying amount prior to the reclassification and such fair value, in profit or loss or in other comprehensive income, as applicable. Where applicable, the accumulated profit or loss in other accumulated comprehensive income of equity will be maintained until the investment is written off from the balance sheet, moment at which it will be reclassified into an item of reserves.

- The entity will not reclassify any financial liability.

- For the purpose of sections above, changes derived from the following circumstances are not considered as reclassifications:

  - When an element that previously was a designated and efficient hedging instrument in a cash flow hedging or net investment hedging in a foreign business ceases complying with requirements to be considered as such.
  - When an element becomes a designated and efficient hedging instrument in a cash flow hedging or net investment hedging in a foreign business.
  - When there are changes in the valuation of financial instruments because they are designated, or cease being designated, at fair value through profit or loss.

There has been no reclassification during 2020 or 2019.

### 2.3 Financial derivatives

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

The Group uses financial derivatives as part of its strategy to reduce its exposure to interest rate, foreign and market exchange rate, among others. When these operations meet certain requirements of the Rules Thirty-first and thirty-second of Circular 4/2017, Bank of Spain such operations are considered as “hedging”.

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

The Group only applies hedge accounting for hedges that are considered highly effective over their entire lives. A Hedge is considered highly effective if during the envisaged term any changes in fair value or cash flows attributed to the risk covered in the hedging of the financial instrument or instruments hedged, are virtually fully offset by the changes in fair value or cash flows, as appropriate, of the hedging instrument or instruments.

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

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

- Fair-value hedges: They cover the exposure to changes in the fair value of financial assets and liabilities or firm commitments, or an identified portion of these assets, liabilities or commitments, attributable to a specific risk, provided that they affect the consolidated profit and loss account.
- Cash-flow hedges: they cover changes in cash-flow that are attributable to a specific risk associated with a financial asset or liability or a highly-probable planned transaction, which may affect the consolidated profit and loss account.

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

- Fair-value hedges: They cover the exposure to changes in the fair value of financial assets and liabilities or firm commitments, or an identified portion of these assets, liabilities or commitments, attributable to a specific risk, provided that they affect the consolidated profit and loss account.
- Cash flows hedges: valuation differences arisen on the efficient hedging portion of hedging elements are transitorily registered on caption “Other accumulated comprehensive income” as valuation adjustments for cash flows hedged. Hedged financial instruments in this kind of hedging operations are registered according to criteria explained on Note 2.2 without any modification for the fact of being considered as such hedged instruments.

In the last case, measurement differences are not recognised as results until the gains or losses on the hedged item are recorded in the profit and loss account, or until maturity.

Differences in the valuation of the hedge instrument, corresponding to the inefficient part of the hedging cash flow operations, are directly registered as “Gains or losses on financial assets and liabilities measured at fair value” in the consolidated profit and loss account.

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

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

In the situations in which a cash-flow hedge transaction is interrupted, the accumulated gain or loss from the hedge is registered under the heading "Other accumulated comprehensive income" in the balance sheet and it will remain under this heading until the planned hedge transaction takes place, time at which it will be taken to the consolidated profit and loss account, or the cost of acquiring the asset or liability to be recorded will be adjusted, in the event that the hedged component is a planned transaction that culminates with the recording of a financial asset or liability. In the event of planned transactions, when expected not to take place, the entry made under "Other accumulated comprehensive income" relating to that transaction is immediately recognised in the profit and loss account.

## 2.4 Foreign currency transactions and functional currency

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

Set out below are the financial assets and liabilities denominated in foreign currency held by ICO, as Group's parent company, at December 31, 2020 and 2019 (in thousands of Euros):

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Pounds Sterling | 336 569 | 817 178 | 194 026 | 183 298 |
| US Dollars | 2 177 825 | 6 973 144 | 1 873 858 | 6 210 184 |
| Swiss Francs | 33 | 281 764 | 20 | 280 405 |
| Japanese Yens | 850 | 269 398 | 909 | 279 051 |
| Other currencies | 147 376 | 214 903 | 183 589 | 46 766 |
| | 2 662 653 | 8 556 387 | 2 252 402 | 6 999 704 |

The equivalent value in Euros of assets and liabilities denominated in foreign currency (in thousands of Euros), classified by nature, recorded by ICO, at December 31, 2020 and 2019 is as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Loans to Credit Institutions | 1 161 169 | - | 793 094 | - |
| Loans to Customers | 1 486 498 | - | 1 458 254 | - |
| Other financial assets | 14 986 | - | 1 053 | - |
| Deposits in Credit Institutions | - | 2 090 789 | - | 1 667 163 |
| Debt securities issued | - | 6 464 716 | - | 5 841 744 |
| Other financial liabilities | - | 882 | - | 651 |
| | 2 662 653 | 8 556 387 | 2 252 401 | 7 509 558 |

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

i) Monetary assets and liabilities are translated at the year-end exchange rate, understood as the average spot exchange rate at the date to which the annual accounts refer.
ii) Non-monetary items valued at historic cost are translated at the exchange rate on the date of acquisition.
iii) Non-monetary items measured at fair value are converted to the exchange rate on the date its fair value is determined.
iv) Income and expenses are converted by applying the exchange rate existing on the transaction date. Nonetheless, the average exchange rate for the period is used for all transactions carried out in that period, unless there have been significant fluctuations. Depreciation/ amortisation are translated at the exchange rate applied to the relevant asset.

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

Exchange rates used by the Group to convert balances denominated in the main foreign currencies in which it operates are the market rates at December 31, 2020 and 2019 published by the European Central Bank at each of those dates.

The net amount of exchange differences arising from the conversion of receivables and payables denominated in foreign currency arises up to 7,852 thousand Euros losses at December 31, 2020 (4,928 thousand Euros profit at December 31, 2019).

### 2.5 Recognition of income and expenses

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

#### 2.5.1 Interest income and expense, dividends and similar items

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

#### 2.5.2 Commissions, fees and similar items

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

- Amounts associated with the acquisition of financial assets and liabilities carried at fair value through profit or loss are recognised in the profit and loss account at the payment date.
- Amounts arising from long-term transactions or services are recognised in the profit and loss account over the term of the transactions or services.
- Amounts relating to a one-off event are recorded in the profit and loss account when that event takes place.

#### 2.5.3 Non-financial income and expenses

These amounts are accounted on an accruals basis.

#### 2.5.4 Deferred collections and payments

They are registered on accounts by the amount resulting from financially updating at market rates expected cash flows.

## 2.6 Offsetting of balances

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

## 2.7 Impairment of financial assets

The carrying value of financial assets is generally adjusted against the consolidated profit and loss account when there is objective evidence that there are impairment losses. This is the case where:

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

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

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

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

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

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

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

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

- Debt instruments are included in groups with similar credit risk characteristics, indicative of debtor ability to pay all amounts, principal and interest, in accordance with contractual terms. The characteristics of credit risk, which are taken into account in order to group together assets, are, for example, the type of instrument, the debtor's sector of activity, the geographic area of activity, type of guarantee, age of amounts overdue and any other factor that may be relevant when estimating future cash flows.
- Future cash flows in each group of debt instruments are estimated based on the Group's experience of historical losses for instruments with similar credit risk characteristics to those of the respective group, following the necessary adjustments to adapt historical data to current market conditions.
- Impairment losses in each group are the difference between the carrying value of all the group's debt instruments and the present value of its estimated future cash flows.

Debt instruments not measured at fair value through changes in the consolidated profit and loss account, contingent risks and commitments, are classified based on the insolvency risk attributable to the client or the transaction, in the categories defined by the Annex IX from the Bank of Spain's Circular 4/2017. For debt instruments not classified as normal risk, estimates are made regarding the specific impairment hedges necessary based on the criteria established in the above mentioned regulation, bearing in mind the age of the unpaid amounts, the guarantees provided and the client's financial situation and, if appropriate, the guarantors.

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

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

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

In general, impairment of debt instruments is calculated by applying the following percentages to the outstanding risk not covered by the amount to be recovered from the effective collateral, based on the risk segment to which the operation belongs and the seniority of past due amounts:

| | From 90 days to 6 months | From 6 to 9 months | From 9 months to 1 year | From 1 year to 15 months | From 15 to 18 months | From 18 to 21 months | More than 21 months |
|---|---|---|---|---|---|---|---|
| **Non-credit institutions and individual entrepreneurs** | | | | | | | |
| Special Financing | | | | | | | |
| Construc. and property develop. | 60 | 70 | 80 | 85 | 90 | 100 | 100 |
| Construc. civil work | 55 | 65 | 70 | 75 | 85 | 90 | 100 |
| Other espec. financing | 50 | 60 | 70 | 85 | 90 | 100 | 100 |
| Non-special Financing | | | | | | | |
| Large companies | 50 | 60 | 70 | 85 | 90 | 100 | 100 |
| SMEs | 55 | 65 | 70 | 80 | 85 | 90 | 100 |
| Individual entrepreneurs | 30 | 40 | 50 | 60 | 75 | 90 | 100 |
| **Houses** | | | | | | | |
| House purchase | | | | | | | |
| Main residence unpaid (LTV) <80% guarantee | 40 | 45 | 55 | 65 | 75 | 90 | 100 |
| Main residence unpaid (LTV) >80% guarantee | 40 | 45 | 55 | 65 | 75 | 90 | 100 |
| Secondary residence | 40 | 45 | 55 | 65 | 75 | 90 | 100 |
| Consumer credit (inc. credit card debts) | 50 | 60 | 70 | 80 | 90 | 95 | 100 |
| Other | 50 | 60 | 70 | 80 | 90 | 95 | 100 |

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

| | Normal risk | Normal risk in watch-list |
|---|---|---|
| **Non-credit institutions and individual entrepreneurs** | | |
| Special Financing | | |
| Construc. and property develop. | 1.9 | 27.6 |
| Construc. civil work | 1.9 | 18.8 |
| Other especial financing | 0.5 | 7.5 |
| Non-special Financing | | |
| Large companies | 0.5 | 7.5 |
| SMEs | 0.9 | 12.7 |
| Individual entrepreneurs | 1.1 | 11.6 |
| **Home** | | |
| Home purchase | | |
| Main home unpaid (LTV) <80% guarantee | 0.6 | 13.0 |
| Main home unpaid (LTV) >80% guarantee | 0.6 | 13.0 |
| Secondary residence | 0.6 | 13.0 |
| Consumer credit | 1.5 | 16.0 |
| Which from: credit card debts | 0.8 | 9.0 |
| Other | 1.5 | 16.0 |

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

| TYPE OF REAL GUARANTEE | Discount over reference value (%) |
|---|---|
| **Mortgage guarantees (first charge)** | |
| Buildings and finished building elements | |
| Homes | 30 |
| Offices, commercial premises and warehouses | 40 |
| Other | 45 |
| Urban and developable land ordered | 40 |
| Other immovable property | 45 |
| **Posted collateral of financial instruments** | |
| Money deposits | 0 |
| Other marketable financial instruments | 10 |
| Other non-marketable financial instruments | 20 |
| **Other real guarantees (for example. second mortgages, movable assets)** | 50 |

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

| TYPE OF FORECLOSED PROPERTIES | Discount over reference value (%) |
|---|---|
| **Buildings and finished building elements** | |
| Homes | 25 |
| Offices, commercial premises and warehouses | 27 |
| Other | 30 |
| **Urban and developable land ordered** | 30 |
| **Other immovable property** | 35 |

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

The amount of impairment losses incurred in debt securities and equity instruments included under Financial assets at fair value through other comprehensive income is equal to the positive difference between their acquisition costs, adjusted to any repayment of the principal, and their fair value less any impairment loss previously recognised in the profit and loss account.

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

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

For shareholdings in Associates, joint ventures and subsidiaries, ICO estimates impairment losses by comparing the recoverable amount with their carrying value. Such impairment losses are recorded in the profit and loss account for the period in which they arise while subsequent recoveries are recorded in the profit and loss account for the recovery period.

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

## 2.8 Financial guarantees and related provisions

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

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

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

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

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

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

## 2.9 Accounting for leases

### 2.9.1 Financial leases

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

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

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

In both cases, the financial income and expense on financial leases is credited and charged, respectively, to the consolidated profit and loss account captions “Interest and similar income” and “Interest and similar charges”, applying the effective interest rate method on the lease to estimate its accrual, calculated according to the applicable regulations.

### 2.9.2 Operating leases

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

Where consolidated companies act as the lessor in operating lease agreements, the acquisition cost of the leased asset is registered under “Property, plant and equipment” in “Property investments” or “Other assets assigned under operating lease”, depending on the nature of the leased assets. Such assets are depreciated in accordance with the policies adopted for similar property, plant and equipment for own use. The income from lease contracts is recognised in the consolidated profit and loss account on a straight-line basis in the caption “Other operating income”.

When ICO acts as lessee in operating lease agreements, a lease liability is included at the current value of payments to be performed (fixed, variable, exercise of call option, and others), as the contract’s initial valuation, and a right-of-use asset valued at cost.

## 2.10 Personnel costs

### 2.10.1 Short-term remunerations

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

### 2.10.2 Post-employment commitments

Pension commitments entered into by the Group, referring to those acquired by ICO with regard to employees, are reflected in the collective wage agreement in force and correspond to defined contribution commitments.

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

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

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

Amounts to be contributed are those approved in the General State Budget for each year. Under the heading "Personnel costs" of the consolidated profit and loss account, there is no cost registered for this year at December 31, 2020 and neither for the previous one at December 31, 2019.

### 2.10.3 Death and disability benefits and retirement bonuses

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

At December 31, 2020 a provision was recorded by the Group for post-employment commitments amounting to 656 thousand Euros (579 thousand Euros at December 31, 2019).

### 2.10.4 Severances

Severances are recorded under the heading “Personnel costs” and the accompanying consolidated profit and loss account crediting the accounts “Provisions for pensions and similar obligations” under the heading “Provisions” in the accompanying consolidated balance sheet, only when the Group is demonstrably committed to terminating an employee or group of employees before their normal retirement date, or to pay remuneration as a result of an offer made as an incentive for the voluntary rescission of the employees.

At December 31, 2020 and 2019, the Group has not recorded any provisions regarding this aspect as there is no plan or agreement that would require such an allocation.

## 2.11 Corporate Income Tax

Corporate income tax is considered as an expense and is recorded under the heading of “Income tax” of the consolidated profit and loss account.

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

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

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

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

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

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

- Deferred tax assets are only recognised in the case that the Group considers it likely to have enough future taxable against which they may be offset.
- In the case of deferred tax assets deriving from tax losses, they have arisen from identified causes that are unlikely to be repeated.

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

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

## 2.12 Property, plant and equipment

### 2.12.1 Property, plant and equipment for own use

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

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

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

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

Annual allocations to depreciation of property, plant and equipment are charged against the heading “Depreciation-Property, plant and equipment” in the consolidated profit and loss account and basically equals the following depreciation rates (calculated based on the estimated average useful life of the assets concerned):

| | Annual percentage |
|---|---|
| Buildings | 2% |
| Plant | 4 to 15% |
| Furnishings and office equipment | 10% |
| Data – processing equipment | 25% |
| Transport elements | 16% |

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

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

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

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

### 2.12.2 Property investments

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

Criteria applied for recognising the acquisition cost of property investments for depreciation, for the estimate of their respective useful lives and for recording any possible impairment losses, match with those described with regard to property, plant and equipment for own use (Note 2.12.1).

## 2.13 Intangible assets

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

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

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

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

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

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

## 2.14 Provisions and contingent liabilities

When preparing the consolidated annual accounts the Group differentiates between:

- Provisions: creditor balances that cover obligations that exist in the balance sheet date, deriving from past events that could give rise to financial losses for the entities. Although such losses are regarded as probable and are specific in nature, their amount and/or settlement date cannot be determined.
- Contingent liabilities: possible obligations deriving from past events which may materialise subject to one or more future events beyond the Group's control.

The Group's annual accounts include all significant provisions for obligations classified as probable. Contingent liabilities are not recognised in the consolidated annual accounts, but information is provided in accordance with requirements of Circular 4/2017 of Bank of Spain (Note 19).

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

At the 2020 and 2019 year end, a number of legal procedures and claims had been initiated against the Group, arising in the ordinary course of business. The Group's legal advisors and its directors understand that the finalisation of these proceedings and claims will not have a significant effect other than that provided for, if appropriate, in the consolidated annual accounts for the years in which they finalise.

Accounting provisions that are considered necessary, as stated in the previous criteria, are charged or credited to the consolidated profit and loss account caption "Provisions expense or reversal of provisions".

## 2.15 Statements of cash flows

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

- Cash flows: Inflows and outflows of cash and cash equivalents, understood as short-term investments which are highly liquid and involve a low risk of changes in value.
- Operating activities: typical credit institution activities and other activities that may not be classified as investing or financing activities.
- Investing activities: acquisition, sale or disposal through other means of noncurrent assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that cause changes in the size and composition of equity and liabilities and do not form part of operating activities.

## 2.16 Non-current assets held for sale and associated liabilities

The caption of “Non-current assets held for sale” of the consolidated balance sheet includes the carrying value of individual items which sale is highly likely, under these assets’ current conditions, within the term of one year to be counted from the date of the annual accounts.

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

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

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

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

Non-current assets held for sale are generally measured at the lower of their carrying amount when they are recognised as such and their fair value, adjusted for estimated cost of sales. While included in this category, property, plant and equipment, and intangible assets, subject to depreciation and amortisation by nature, are not depreciated nor amortised.

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

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

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

## 3. CUSTOMER SERVICE

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

In 2020 a total of 1,493 complaints were received (136 in 2019), of which were addressed within an average of 2.25 working days (below 2019). 87% of the total are related to credit transactions in the COVID-19 Surety Lines, and were therefore passed on to the relevant credit institutions. Another 8% were related to Mediation Lines and the remaining 5% were related to other issues, unrelated to products or services managed by the Group.

## 4. DISTRIBUTION OF RESULTS

The distribution of 2020 results of the Group's Parent Company, at the date of formulation of these consolidated annual accounts, has not been established by the Ministry of Economic Affairs and Digital Transformation. Such distribution will adjust to the Bylaws.

## 5. RISK EXPOSURE AND OTHER INFORMATION ON ICO, AS GROUP'S PARENT COMPANY

### 5.1. Risk – General aspects

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

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

- Liquidity risk: The risk incurred as a result of an absence of sufficient liquid resources to comply with obligations. This situation could be thanks to the inadequate assets and liabilities maturity structure, or due to the exceptional market crisis situation.
- Market risk: Covers the influence on the profit and loss account and equity exercised by adverse changes in relevant financial variables, such as domestic or foreign currency interest rates, exchange rates, share prices, etc. This risk may be subdivided into two large groups: Balance sheet or structural market risk and market risk affecting trading portfolios.
- Credit risk: This one refers to the risk of not fully recovering the principal and interests related to our investments within the estimated periods. This risk may also be subdivided into two broad groups: Counterparty risks with banking institutions and credit risk regarding investment transactions.
- Operating risk: Incurred as a result of administrative, internal, accounting, computer, legal or external errors due to unforeseen circumstances.

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

### 5.2. Risks – Organisational structure

In order to cover the entire risk spectrum, within its organisational structure, ICO (according to Presidential Organisational Circular 3/2020 of 19 October), has created specialised units under the Directorate for Risk, which reports to the General Directorate for Risk and Finance.

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

The specialised Risk areas are Methodology and Acceptance department, the Global Risks Control area, and the Follow-up and Recovery Department, each one with specific duties.

The primary duties of the Global Risk Control area are the following:

- Preparing, proposing and controlling financial risk measurement methodologies applied by ICO.
- Overseeing the correct compliance of the limits of financial risks and policies previously approved.
- Analyse, monitor and review periodically credit counterparty lines, analyse them, and monitor levels with the mediating entities and counterparts.
- Defining and reviewing measurement, back-testing and stress-testing systems.
- Proposing criteria for market valuation of new financial products, establishing methodologies, risk measurement and potential risk (Add-on).
- Analysing the adaptation of national and international legislation regarding risks within its competency.
- Value at market price new products and structures and their potential risk (Add-on).
- Supervise the correct application of approved methodologies risks.
- Analysis of credit risk in Liquidity Lines Securitisation Funds operations.
- Propose new Liquidity, Market, Credit and New Products risk limits.
- Reporting and diagnosis of the risk situation for Assets and Liabilities Committee, Operations Committee, Monitoring Committee and General Council.
- Report statements of interest rate risk, liquidity, large risks and Basel ratios for Bank of Spain.
- Update and maintain the Risk Adjusted Profitability tool (RAR).
- Update and maintain ICO Price Control tool in RORAC.
- Risk Appetite Framework (MAR).
- Analyse, study and report on Securitisations.

The Methodology and Acceptance department, from which the Risk Methodology and Policies Area depends, has the following functions, among others:

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

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

- Analyse and evaluate risks assumed by ICO, under any proposed modification to transactions already formalised, which require the approval of decision-making bodies.

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

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

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

- Elaborate and update Country Risk reports related to financing operations as required.

- Reports with comparable economic financial data of the analysed client with regard to other companies in the same sector.

- Develop methodologies, elaborate application manuals and maintain tools related to the credit valuation in project financing.

- Development of tools to automate processes, as far as possible and necessary.

- Analysis of risks for direct financing operations under the ICO COVID-19 Surety Lines, including, together with the assessment of the company's risk profile, a specific analysis of the financing needs at the short term, the liquidity position, and action leverages available in the company to mitigate the impact derived from the health crisis.

- Analysis of risk of issuers in the Fixed Income Alternative Market (MARF), as alternative corporate financing instrument, through the subscription, by ICO, of the different debt issues.

The Monitoring and Recovery Department, from which the Wholesale Monitoring and Recovery Area and Retail Monitoring and Recovery Area depend, has the following among its functions:

The Wholesale Monitoring and Recovery Area:

- Control and follow the risk of direct financing operations, promote recoveries of balances derived from doubtful operations, resolved and failed, and supervise the compliance with the portfolio conditions of lines in force or products in the case of distribution of risks, and the monitoring and control of the recovery of COVID-19 surety lines.

- Analyse and value, from ICO's credit risk point of view, proposals of mediation lines.

- Control and verify the compliance with non-financial conditions stipulated for ICO's mediation lines in case of risk sharing.

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

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

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

- Propose the allocation/reversal of provisions, based on regulations in force.

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

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

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

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

The Retail Monitoring and Recovery Area:

- Control and monitor the risk of direct operations to retailers, propose refinancing operations or perform the necessary actions to recover balances derived from defaulting and failed operations in this segment, as well as monitor and control recoveries of the COVID-19 surety lines.

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

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

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

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

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

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

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

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

## 5.3 Liquidity risk at ICO

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

- Directive 2013/36/EU of 26 June, related to the access to the activity of credit institutions and to the prudential supervision of credit institutions and investment companies.
- Regulation (EU) No. 575/2013 of 26 June, on prudential requirements of credit institutions and investment services companies, part six.
- Implementing Regulation 680/2014 of 16 April, establishing the technical implementing rules in accordance with Regulation No. 575/2013, chapters 7, 7 bis and 7 ter.
- Law 10/2014 of 28 June, on the management, supervision and solvency of credit institutions, Articles 41, 42 and Additional Provision Eighth.
- RD 84/2015 of 13 February, which develops Law 10/2014, Article 53.
- Delegated Regulation (EU) 2015/61 of the Commission from October 10, 2014, completing Regulation 575/2013 with regard to the Liquidity Hedging Requirement (LCR).
- Circular 2/2016 of 2 February, which establishes accounting standards, annual accounts, public annual accounts and reserved statistical information of securitisation funds that replaces Circular 3/2008 of 22 May (repealed), rule 51, DT6 and Annex VII.
- Execution Regulation (EU) 2016/322 of the Commission from 16 February, amending Execution Regulation (EU) 680/2014, which establishes technical execution standards in relation to the communication of information for supervision purposes by Entities on the Liquidity Coverage requirement (LCR).
- Execution Regulation (EU) 2016/313 of the Commission, of 1 March, amending the Execution Regulation (EU) 680/2014 with regard to Additional Control parameters for the purpose of information on liquidity (ALMM).
- Execution Regulation (EU) 2017/2114, of 9 November, amending Regulation (EU) 680/2014 and 2016-31 with regard to templates and technical instructions on the regulatory statements of additional parameters of control for the purpose of information on the liquidity risk (ALMM).
- Circular 4/2017 of 27 November, standards 59 and 60.
- Execution Regulation (EU) 2018/634 of 24 April, updating the list of ECAI authorised by the UE, as well as the homogenisation per credit quality levels of the different qualifications in each ECAI.
- Delegated Regulation (EU) 2018/1620 of 13 July, amending several Articles of the Delegated Regulation (EU) 2015/61, concerning definitions of requirements on qualifications of liquidity levels and liquid assets
- Delegated Regulation (EU) 2019/0876 of 20 May, amending Regulation (EU) 575/2013 in several aspects, among others, definitively regulating the NSFR liquidity risk requirement.
- Execution Regulation (EU) 2020/429 of 14 February, substantially amending Execution Regulation (EU) 2016/322, concerning technical execution standards concerning the communication of information for supervision purposes on the Liquidity Coverage requirement (LCR), and also amending Execution Regulation (EU) 2017/2114, concerning

templates and technical instructions on regulatory statements of additional control parameters for the purpose of information on the liquidity risk (ALMM).

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

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

In this sense, on January 17, 2015 the Delegate Regulation 2015/61 was published, amending Regulation CRR 575/2013 of the European Parliament and of the Council is complete with regard to this ratio (LCR) and by calendar that starts on October 1, 2015 with an obligatory 60%, 70% as of January 1, 2016, 80% as of January 1, 2017, and which entered fully in effect (100%) from January 1, 2018.

In January 2014, “Basel III: Net Stable Financing Ratio” (NSFR) consultation document was published for the definition and calculation of the ratio of long-term liquidity, which after a consultation phase, which lasted until April 11, 2014, led to the publication of the final document in October 2014. As a result it is necessary to calculate a minimum net stable financing ratio. Published on June 2019, Regulation 876/2019, and until new templates are published to report the ratio, it will be applicable from the end of June 2021.

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

Furthermore, prospectively throughout 2015 and in following years, based on the document published by the BIS “Basel III: the Net Stable Financing Ratio” of October 2014 and with definitions and criteria in force at each moment, the results have been calculated quarterly, which provide ICO balance with the introduction of different scenarios handled one year ahead (2021), in relation to the NSFR ratio.

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

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

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

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

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

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

Likewise, approved by the General Board on February 27, 2018, there is a liquidity Contingency Plan that establishes a priority order as reference when resorting to financing sources in stress scenarios.

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

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

Due to this new situation, decisions were taken throughout 2020, as done previously, to adapt ICO to the new circumstances in order to ensure the liquidity needed to meet its payment commitments on time and to achieve its strategic operating, investment and growth targets. Thanks to these measures, ICO's management also does not anticipate any liquidity shortages in 2021.

**Maturity Analysis of trading and hedging derivatives denominated in Euros**

The following table shows, by notional, the contractual maturities for euro-denominated derivatives, recognised as financial assets and financial liabilities at December 31, 2020 and 2019 (except for embedded derivatives in hybrid financial instruments) and loan commitments considered financial derivatives as they can be settled, by adjusting, in cash or with another financial asset, in which the maturities are deemed essential for understanding ICO's cash flow projections:

At 31 December 2020:

| | Thousands of Euros | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 year | From 1 to 5 years | From 6 to 10 years | From 11 to 15 years | From 16 to 20 years | **Total** |
| **Derivatives held for trading** | 71,188 | 136,813 | 248,553 | 0 | 0 | **456,554** |
| -Of which: credit commitments considered as derivatives | | | | | | |
| **Hedging derivatives** | 8,468,088 | 2,981,508 | 1,911,208 | 200,000 | 69,554 | **13,630,358** |
| | **8,539,276** | **3,118,321** | **2,159,761** | **200,000** | **69,554** | **14,086,912** |

At 31 December 2019:

| | Thousands of Euros | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 year | From 1 to 5 years | From 6 to 10 years | From 11 to 15 years | From 16 to 20 years | **Total** |
| **Derivatives held for trading** | 259 464 | 230 384 | 315 133 | - | - | **804 981** |
| -Of which: credit commitments considered as derivatives | | | | | | |
| **Hedging derivatives** | 4 525 140 | 6 413 078 | 1 008 134 | 241 004 | 18 623 | **12 205 979** |
| | **4 784 604** | **6 643 462** | **1 323 267** | **241 004** | **18 623** | **13 010 960** |

Regarding the information presented in the tables above, the following should be highlighted:

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

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

- For derivatives with a non-stated contractual amount at the reporting date, e.g. because they depend on the performance of an index, the residual maturity, considered for classification purposes in the preceding tables, was determined based on prevailing conditions at December 31, 2020 and 2019, respectively.

**Liquidity GAP analysis**

The purpose of the liquidity management is to ensure that the entity maintains appropriate liquidity levels to cover its needs, both at the short and long terms, optimising the impact of its cost in the profit and loss account.

On a daily basis, the liquidity profile on the balance is monitored for the purpose of control, information to management, and analysis of funds' needs for at least the following twelve months, additionally incorporating scenarios with the analysis of funds' needs to cover the activity foreseen for such period.

As explained above, ICO's liquidity management is based on the analysis of the difference between inflows and outflows generated by contractual maturities of operations of its balance (liquidity gap). This analysis provides the necessary information on the volume of funds that will be necessary to gain, resorting to different financing sources available for the entity.

Moreover, ICO maintains a buffer of high-quality liquid assets that will allow, where necessary, obtaining liquidity immediately through its discount on the European Central Bank. The balance of assets that may be used by ICO as liquidity reserve has sufficient capacity to cover its negative liquidity gaps, for two purposes:

- Contribute flexibility when planning the volume and timing of the gaining of necessary funds to cover liquidity gaps.
- Security buffer to face possible tensions or crisis situations in markets.

The tables below compare liquidity inflows and outflows at different maturities (partial and accumulated liquidity gaps). Inflows and outflows in foreign currency are shown at their equivalent value in such currency.

Additionally, the evolution of the balance of liquid assets and their level of coverage over liquidity gaps are incorporated for the different terms.

### At 31 December 2020:

| | Thousands of Euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | Up to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | From 1 to 2 years | From 2 to 5 years | More than 5 years |
| **Inflows equivalent value Euros** | 5,862,401 | 2,194,084 | 4,752,066 | 5,722,815 | 8,973,232 | 16,220,140 | 10,679,896 |
| **Outflows equivalent value Euros** | -4,059,266 | -7,706,136 | -5,543,916 | -3,941,886 | -6,424,758 | -14,842,788 | -4,669,308 |
| **Partial liquidity gaps** | 1,803,135 | -5,512,052 | -791,850 | 1,780,929 | 2,548,473 | 1,377,352 | 6,010,588 |
| **Accumulated liquidity gaps** | 1,803,135 | -3,708,917 | -4,500,767 | -2,719,837 | -171,364 | 1,205,988 | 7,216,576 |
| **Buffer of highly-liquid assets** | 5,563,981 | 5,792,810 | 5,453,151 | 4,484,647 | 2,374,360 | 480,097 | - |
| **Difference between buffer of liquid assets and accumulated liquidity gaps** | n.a. | 2,083,893 | 952,385 | 1,764,810 | 2,202,996 | n.a. | n.a. |
| **% Coverage of buffer of liquid assets on accumulated negative liquidity gaps** | n.a. | 156% | 121% | 165% | 1,386% | n.a. | n.a. |

### At 31 December 2019:

| | Thousands of Euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | Up to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | From 1 to 2 years | From 2 to 5 years | More than 5 years |
| **Inflows equivalent value Euros** | 3,178,013 | 2,700,315 | 4,255,728 | 5,066,752 | 6,894,136 | 11,432,780 | 6,907,400 |
| **Outflows equivalent value Euros** | -3,684,756 | -4,377,907 | -4,139,032 | -4,163,049 | -7,417,998 | -7,252,399 | -2,844,975 |
| **Partial liquidity gaps** | -506,743 | -1,677,592 | 116,696 | 903,703 | -523,862 | 4,180,381 | 4,062,425 |
| **Accumulated liquidity gaps** | -506,743 | -2,184,335 | -2,067,639 | -1,163,936 | -1,687,798 | 2,492,583 | 6,555,008 |
| **Buffer of highly-liquid assets** | 6,025,462 | 6,107,588 | 6,110,296 | 5,532,135 | 4,011,824 | 111,532 | - |
| **Difference between buffer of liquid assets and accumulated liquidity gaps** | 5,518,719 | 3,923,253 | 4,042,657 | 4,368,199 | 2,324,026 | 2,381,051 | 6,555,008 |
| **% Coverage of buffer of liquid assets on accumulated negative liquidity gaps** | 1,189% | 280% | 296% | 475% | 238% | n.a. | n.a. |

As it may be seen in these charts, negative accumulated liquidity gaps are covered by the available buffer of liquid assets.

Additionally, there is another series of eligible pledged assets in the ECB policy which discount would allow obtaining liquidity at the very short term. The potential liquidity that could be obtained, with data at December 31, 2020, would amount to 3,200,000 thousand Euros (1,234,136 thousand Euros at December 2019).

Currently, the policy's amount used as hedge of provisions for funds in TLTRO III operations is of 3,177,000 thousand Euros.

### 5.4. Market risk at ICO

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

1) There are two basic **criteria** through which exposure to changes in interest and exchange rates is revealed: Profitability and Solvency:
   Profitability: At ICO, this mainly derives from the profit and loss account and therefore the relevant variable here is the Interest Margin or Financial Margin.
   Solvency: A company's equity is the primary guarantee for lenders. The value of this capital or equity is the main criterion for measuring solvency.
   Using these considerations, ICO has implemented a system for measuring market risk based on three pillars: a) Calculation of the sensitivity of the annual Financial Margin. b) Calculation of the sensitivity of equity and c) Calculation of hypothetical trading portfolios' "Value at Risk", if any exist.

2) **Methodology.** In order to measure balance sheet risks relating to the Financial Margin, the weighted partial maturity gap method was used before 2015, calculated as the difference between asset and liability volume and off-balance sheet transactions that mature or renew interest rates within the following 12 months, weighted by the period affecting the Margin.
   In order to measure the sensitivity of Equity, the duration gap method was used before 2015. The duration gap is obtained as the difference between the duration of assets and liabilities, and once the difference is obtained, the sensitivity gap may be calculated.
   Both methods were replaced in mid-2014 by other simulations based on Interest Income and Net Asset.
   Regarding the Value at Risk, the methodology to be used will be determined by the type of portfolio involved and may be based on parametric, historical simulation or Monte Carlo methodology.

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

   For the purpose of assessing a sensitivity limit of the Financial Margin, it will be estimated based on implicit rates, calculated on the basis of the market curve and on the one on which increases or decreases are applied by +/- 200 bps, applying in the decreasing scenario a floor in -1%. The difference between both calculations, in absolute value, will be the estimated sensitivity, which amount cannot imply a decrease of the simulated Financial Margin above -35 million Euros.

In order to determine the sensitivity of the Financial Margin for variations of the exchange rate in currencies Euro/US Dollar and Euro/Pound Sterling, variations of +/- 10% will be assumed.

The exchange rate risk shall not exceed, in any case, 25% of the global limit established for the Financial Margin.

As a result of applying these movements of +/- 200 bps, with these shifts in interest rates, the sensitivity of the balance of ICO to December 31, 2020 was -7,412 million Euros in total, distributed as follows: -4,535 million Euros for the balance in Euros, -587 thousand Euros of the balance in US Dollars, and -82 thousand Euros of the balance in British Pounds. Exchange rate (with movements of +/- 10% on changes in USD / EUR and GBP / EUR) was -1,941 thousand Euros in Dollars and -268 thousand Euros in Pounds.

For the purpose of establishing a limit in the sensitivity of the net asset value, current values of our balance will be calculated through a market curve and another to which increases or decreases are applied by +/- 200 bps with a floor, in the scenario of decrease of rates, by -1% for immediate maturities, which floor will increase in 5 bps per year, until 0% is reached for maturities in 20 or more years. Such absolute floor is displacement. The difference between both values will be considered as the sensitivity of the net asset value of our balance in absolute value. The percentage (%) implied by this variation on the net asset value shall not represent a decrease above 10% of the estimated net asset value.

In order to determine the sensitivity of the net asset value for exchange rate variations in currencies Euro/US Dollar and Euros/Pound Sterling, movements of +/- 10% will be assumed.

At December 31, 2020 the values of the sensitivity of ICO Net Asset reached -5.65% in value added with a distribution on balances as follows: -5.20% for Euro interest rate, -0.18% in US Dollar and -0.02% in British Pound. Exchange rate for Dollars presented a sensitivity of -0.22% and -0.03% for Pounds.

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

The main currencies used by ICO to present its balance sheet at December 31, 2020 are the Euro, US Dollar and Pound Sterling, which account for a 94.59% of the total balance sheet liabilities, out of which approximately 71% are in Euros, and almost 24% in US Dollars.

If we look at the assets of the balance sheet, the Euro concentrates approximately 92.11% of the total, the US Dollar being of 6.23%, while other currencies distribute the remaining amount.

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

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

### 5.5. Credit risk at ICO

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

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

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

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

Transactions involving derivatives contracted by ICO have counterparties with high credit ratings, so that a very high percentage of these, almost 100%, maintain an Agency rating investment grade. These counterparty institutions operate at the national and international level.

ICO's activities with credit institutions, in the area of both second-floor and direct facilities, are carried out with counterparties that, in almost 95% of cases, have an investment grade rating.

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

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

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

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

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

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

## 5.6. Operating risk at ICO

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

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

## 5.7 Outstanding credit risk with companies

### 5.7.1 Classification per sector

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

| | Million Euros | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | Amount | % s/total | Amount | % s/total |
| **Property investment** | **504** | **4%** | **561** | **5%** |
| Construction of social housing for sale | 7 | 0% | 7 | 0% |
| Construction of social housing for rent | 355 | 3% | 379 | 3% |
| Acquisition and development of land | 140 | 1% | 175 | 2% |
| Others | 2 | 0% | - | - |
| **Investment property, plant and equipment** | **8 520** | **70%** | **8 042** | **73%** |
| Renewable energies | 1 340 | 11% | 1 545 | 14% |
| Water infrastructures | 144 | 1% | 172 | 2% |
| Electricity infrastructures | 1 272 | 10% | 958 | 9% |
| Gas and fossil fuel infrastructures | 1 172 | 10% | 855 | 8% |
| Transport infrastructures | 3 511 | 29% | 3 520 | 32% |
| Tourism and leisure | 119 | 1% | 35 | 0% |
| Social-health infrastructures | 87 | 1% | 112 | 1% |
| Telecommunications | 100 | 1% | 50 | 0% |
| Audio-visual production and exhibition | 22 | 0% | 22 | 0% |
| Business parks and other constructions | 9 | 0% | 10 | 0% |
| Other | 601 | 5% | 745 | 7% |
| Research and Development material investment | 141 | 1% | 18 | 0% |
| ICO Finance lines AA.CC. Agencies | - | - | - | - |
| **Acquisitions of companies** | **694** | **6%** | **340** | **3%** |
| **General corporate needs** | **524** | **4%** | **132** | **1%** |
| **Restructuring of liabilities** | **1 048** | **9%** | **1 150** | **10%** |
| **General State Budgets** | **919** | **8%** | **840** | **8%** |
| **Financial intermediary services** | **-** | **-** | **-** | **-** |
| | 12 208 | 100% | 11 065 | 100% |

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

At December 31, 2020 and 2019 the total exposure is mainly concentrated in three sectors: "Investment property, plant and equipment", which account for 70% of total risk in 2020 (73% in 2019); the sector of "Restructuring of liabilities", with 9% of total risk in 2020 (10% in 2019) and "General State Budgets" for 8% of total risk in 2020 (8% in 2019).

Within the "Investment property, plant and equipment" sector, it is important to highlight the impact of the sub-sector named "Transport Infrastructures" on the sector, with a weight of 29% of total risk in 2020 (32% in 2019).

### 5.7.2 Classification by geographic location of financial investments

The total risk at December 31, 2020 is distributed as follows: 76% in operations' financing in Spain, amounting to 9,233 million Euros (79% at 2019 with 8,796 million Euros) and 24% in operations aimed at financing investment projects in other countries.

The risk distribution for investment projects in the national territory per Autonomous Communities in 2020 is the following: Catalonia with 7%, Valencia with 6%, Madrid and Andalusia with 5%, and Extremadura with 3% (5%, 7%, 6%, 7% and 4% in 2019, respectively).

Operations in the international market at December 31, 2020 and 2019 are distributed as follows in accordance with the active foreign risk:

| | Millions of Euros | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | **Amount** | **Percentage** | **Amount** | **Percentage** |
| European Economic Community | 1,148 | 38% | 588 | 26% |
| Latin America | 743 | 25% | 628 | 28% |
| United States | 117 | 4% | 122 | 5% |
| Rest of Europe (not EU) | 30 | 1% | 30 | 1% |
| Other | 937 | 32% | 901 | 40% |
| | 2,975 | 100% | 2 269 | 100% |

### 5.8 Information on payment deferrals to suppliers

In compliance with Law 15/2010 of 5 July, amending Law 3/2004 of 29 December, establishing measures against late payment in commercial transactions, developed by the Resolution of January 29, 2019 of the Spanish Audit and Accounting Institute (ICAC) on information concerning late payment to suppliers in commercial transactions to be included in the Notes to annual accounts, we should point out the following:

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

- Regarding the information required by Law 15/2010, of 5 July corresponding to the Institution's commercial and service suppliers and considering what it is included in the Article 6 of ICAC Resolution of January 29, 2019, presented below, with the scope defined in the preceding paragraph, the information required by those regulations:

| | 2020 | 2019 |
|---|---|---|
| (in days) | | |
| Ratio of paid operations | 7 | 7 |
| Ratio of operations payable | 3.5 | 3.5 |
| **Average payment period to suppliers** | 6.75 | 6.75 |
| (in thousands of Euros) | | |
| Total amount of settled payments | 25 471 | 22 575 |
| Total amount of outstanding payments | 1 376 | 701 |

When elaborating the information above, payments corresponding to credits and debits between Group companies have been excluded.

### 5.9 Risk concentration and other specific regulations of ICO

At December 31, 2020 and 2019, the Group is exempt from the limits on large exposures set out in the applicable regulations (Part IV of EU Regulation 575/2013 and Circular 3/2008 of the Bank of Spain, respectively), according the provisions of the bylaws of ICO.

Royal Decree-Law 12/2012, of March 31, 2012, established the treatment in ICO of exposures to credit institutions resident in EU Member States.

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

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

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

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

Information on construction and property development finance is as follows:

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

| | Thousands of Euros | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | Gross amount | Excess over value of collateral | Specific allowance | Gross amount | Excess over value of collateral | Specific allowance |
| Property financing | 502 379 | - | 216 384 | 544 338 | - | 230 547 |
| - Out of which doubtful | 117 174 | - | 114 470 | 120 529 | - | 118 200 |
| Memorandum item | | | | | | |
| Defaulted loans | - | - | - | - | - | - |

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Memorandum item: | | |
| Total loans to clients, excluding regional governments | 8 907 878 | 7 569 310 |
| Total assets | 34 386 075 | 31 822 825 |
| Total allowance for normal risk | 86 998 | 31 190 |

Total finance for construction and property development at December 31, 2020 represents 1.46% of the total balance sheet (1.71% at December 31, 2019).

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

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| **1 Without mortgage collateral** | **140 578** | **157 454** |
| **2 With mortgage collateral** | **361 800** | **386 884** |
| 2.1 Finished buildings | 352 301 | 376 739 |
| 2.1.1 Homes | 352 301 | 376 739 |
| 2.1.2 Other | - | - |
| 2.2 Buildings under constructions | 9 499 | 10 145 |
| 2.2.1 Homes | 9 499 | 10 145 |
| 2.2.2 Other | - | - |
| 2.3 Land | - | - |
| 2.3.1 Developed land | - | - |
| 2.3.2 Other land | - | - |
| **TOTAL** | **502 378** | **544 338** |

- Home purchase loans:

| | Thousands of Euros | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | Gross amount | Of which: doubtful | Gross amount | Of which: doubtful |
| Home loans | 12 648 | - | 13 727 | - |
| Without mortgage collateral | 11 528 | - | 13 123 | - |
| With mortgage collateral | 1 120 | - | 604 | - |

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

At 31 December 2020:

| | Thousands of Euros | | | | |
|---|---|---|---|---|---|
| | LTV<40% | 40%<LTV<60% | 60%<LTV<80% | 80%<LTV<100% | LTV>100% |
| Gross amount | 917 | - | 203 | - | - |
| - Of which: doubtful | | | | | |

At 31 December 2019:

| | Thousands of Euros | | | | |
|---|---|---|---|---|---|
| | **LTV<40%** | **40%<LTV<60%** | **60%<LTV<80%** | **80%<LTV<100%** | **LTV>100%** |
| Gross amount | 453 | 55 | 96 | - | - |
| - Of which: doubtful | | | | | |

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

## 5.11 Information related to ICO's refinanced and restructured operations

Presented in the next table, there is the detailed information related to those refinanced and restructured operations as of December 31, 2020 and 2019 (gross amounts), as requirement of Bank of Spain 6/2013 Circular, about financial public and reserved information rules:

At 31 December 2020 (gross amounts, in thousands of Euros):

| | **With real guarantee** | **No real guarantee** | **TOTAL amounts** | **TOTAL hedging** |
|---|---|---|---|---|
| Public Administrations | - | 154 716 | 154 716 | 69 251 |
| Doubtful | | 42 894 | 42 894 | 42 894 |
| Finance companies (finance assets) | - | - | - | - |
| Doubtful | | | | |
| Non Finance companies and Industrial Business | 612 121 | 20 333 | 632 454 | 254 964 |
| Doubtful | 241 577 | 16 096 | 257 673 | 249 064 |
| Non-doubtful | 4 109 | - | 4 109 | - |
| Property doubtful | 3 016 | - | 3 016 | 3 016 |
| Rest of individuals | 370 | 3 | 373 | - |
| **TOTALS** | **612 491** | **175 052** | **787 543** | **324 215** |

At 31 December 2019 (gross amounts, in thousands of Euros):

| | With real guarantee | No real guarantee | TOTAL amounts | TOTAL hedging |
|---|---|---|---|---|
| Public Administrations | 1 473 | 183 605 | 185 078 | 73 987 |
| Doubtful | - | 43 738 | 43 738 | 43 738 |
| Finance companies (finance assets) | | | | |
| Doubtful | | | | |
| Non Finance companies and Industrial Business | 738 996 | 101 341 | 840 337 | 291 075 |
| Doubtful | 275 580 | 19 718 | 295 298 | 265 949 |
| Non-doubtful | 7 789 | - | 7 789 | 4 613 |
| Property doubtful | 3 529 | - | 3 529 | 3 437 |
| Rest of individuals | 459 | 6 | 465 | - |
| **TOTALS** | **740 928** | **284 952** | **1 025 880** | **365 062** |

## 6. CASH, DEPOSITS AT CENTRAL BANKS AND DEMAND DEPOSITS

The composition of this caption of the consolidated balance sheet at December 31, 2020 and 2019 is the following:

| | Thousands of Euros | |
|---|---|---|
| | **2020** | **2019** |
| Cash at hand | 10 | 13 |
| Cash in Bank of Spain | 2 704 007 | 709 633 |
| Mandatory to comply with minimum reserve ratios | 2 704 007 | 709 633 |
| Other demand deposits | 25 613 | 74 958 |
| | 2 729 630 | 784 604 |

## 7. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

The total balance under this heading in the consolidated balance sheets at December 31, 2020 and 2019 is made up of trading derivatives.

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

Below, there is a breakdown classified by type of derivative, of the fair value of the Group's trading derivatives and their notional value (amount on which future payments and collections of these derivatives are based) at December 31, 2020 and 2019:

| | Thousands of Euros | | | | | |
|---|---|---|---|---|---|---|
| | Notional | | Assets | | Liabilities | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| **By type of market** | | | | | | |
| Organised markets | - | - | - | - | - | - |
| Non – organised markets | 456 554 | 804 981 | 61 724 | 69 407 | 60 824 | 69 313 |
| | **456 554** | **804 981** | **61 724** | **69 407** | **60 824** | **69 313** |
| **By type of product** | | | | | | |
| Swaps | 456 554 | 804 981 | 61 724 | 69 407 | 60 824 | 69 313 |
| | **456 554** | **804 981** | **61 724** | **69 407** | **60 824** | **69 313** |
| **By counterparty** | | | | | | |
| Credit institutions | 263 751 | 532 075 | - | - | 60 824 | 69 313 |
| Other credit institutions | - | - | - | - | - | - |
| Other sectors | 192 803 | 272 906 | 61 724 | 69 407 | - | - |
| | **456 554** | **804 981** | **61 724** | **69 407** | **60 824** | **69 313** |
| **By type of risk** | | | | | | |
| Exchange risk | 417 137 | 753 346 | 59 521 | 65 526 | 58 687 | 65 550 |
| Interest rate risk | 39 417 | 51 635 | 2 203 | 3 881 | 2 137 | 3 763 |
| | **456 554** | **804 981** | **61 724** | **69 407** | **60 824** | **69 313** |

The fair value has been calculated for the 100% of the cases, both in 2020 and 2019, taking the implicit curve of the money markets and the public debt as a reference.

At December 31, 2020 and 2019 the trading portfolio classification, stated at fair value and taking the hierarchical order into account as shown in Note 2.2.3, is as follows:

| | Thousands of Euros | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | Level I | Level II | Level III | Level I | Level II | Level III |
| Derivatives held for trading of assets | - | 61 724 | - | - | 69 407 | - |
| Derivatives held for trading of liabilities | - | 60 824 | - | - | 69 313 | - |

The following chart shows amounts registered on profit and loss accounts of 2020 and 2019 (Note 30) for variations in the fair value of ICO's financial instruments included on the trading portfolio, corresponding to unrealised capital gains and losses, distinguishing between financial instruments which fair value is determined by taking as reference listings published in active markets (Level 1), is estimated using a valuation technique which variables are obtained from data observable in the market (Level 2) and others (Level 3):

| | Thousands of Euros | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | Profit | Loss | Net | Profit | Loss | Net |
| Level 1 | - | - | - | - | - | - |
| Level 2 | 111 925 | 108 540 | 3 385 | 110 436 | 109 845 | 591 |
| Level 3 | - | - | - | - | - | - |

In 2020 and 2019, changes in the fair value of derivatives classified as level 2 were solely the result of purchase, sales and changes in fair value arising from the application of the valuation techniques described, with no reclassifications between levels.

## 8. FINANCIAL ASSETS NOT HELD FOR TRADING OBLIGATORILY VALUED AT FAIR VALUE THROUGH PROFIT OR LOSS

The breakdown of the amount included in this chapter, in the balance sheet at December 31, 2020 and 2019, is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Equity instruments | - | - |
| Debt securities | - | - |

At December 31, 2020 and 2019, this caption includes a debt instrument, classified as doubtful risk, with accounting hedging of 100% (amount of 40,167 thousand Euros); therefore, it is fully recorded as provision in both years.

In 2020, no results have been registered for the fair value valuation in the Profit and Loss Account of an amount for this concept (profits of 1,984 thousand Euros in 2019) (Note 31).

## 9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The detail of this caption of the consolidated balance sheet at December 31, 2020 and 2019, per investment, is the following:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| **Equity instruments:** | | |
| FONDICO Pyme (1) | 82 747 | 82 159 |
| FONDICO Infraestructuras II (2) | 102 239 | 74 222 |
| FONDICO Global (3) | 634 960 | 570 688 |
| FONS MEDITERRANEA Fondo de Capital Riesgo (4) | 6 444 | 9 345 |
| FONDO MARGUERITTE MEH (5) | 58 953 | 67 716 |
| FEI Fondo Europeo de Inversiones (6) | 13 079 | 13 141 |
| SWIFT (7) | - | 4 |
| EDW (8) | 170 | 238 |
| FONDO AFS CESCE (9) | 7 044 | 10 038 |
| PARTICIPACIONES GRUPO QUABIT (10) | - | - |
| | 905 636 | 827 551 |
| **Debt securities (11)** | 713 358 | 998 586 |
| | 1 618 994 | 1 826 137 |

The balance, net of the tax effect, of caption “Other accumulated comprehensive income” as changes in the fair value of these financial instruments at December 31, 2020 and 2019, is the following (Note 21):

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Debt instruments | 4 707 | 2 777 |
| Equity instruments | 72 925 | 36 916 |
| | 77 632 | 39 693 |

Variations, during 2020 and 2019, in the caption of financial assets at fair value through other comprehensive income are shown below:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Initial balance | 1 826 137 | 1 671 294 |
| Purchase additions | 672 325 | 203 780 |
| Sales and amortisations | ( 918 197) | ( 66 677) |
| Variations for changes in fair value (Note 21) | 37 939 | 23 440 |
| Allocation impairment provision | - | ( 5 700) |
| Variations for impairment losses (application) | 790 | - |
| Closing balance | 1 618 994 | 1 826 137 |

(1) FONDICO Pyme. Venture capital fund constituted on May 1993 and in which ICO is the sole participant, managed by Axis Participaciones Empresariales. There is no variation with regard to contributions or returns during 2020 and 2019.

(2) FONDICO Infraestructuras II. New venture capital fund constituted on 2019, fully invested by ICO and managed by Axis Participaciones Empresariales. In 2020 ICO's contributions amounted to 21,000 thousand Euros (74,763 thousand Euros in 2019).

(3) FONDICO Global. Venture capital fund created in 2014, fully invested by ICO and managed by Axis Participaciones Empresariales. In 2020, ICO's contributions amounted to 140,000 thousand Euros (120,000 thousand Euros in 2019). In 2020 the Fund has decreased equity through refund of contributions by 124,000 thousand Euros (25,000 thousand Euros in 2019). The amount committed by ICO and to be reimbursed amounts to 583,000 thousand Euros at December 31, 2020 (528,000 thousand Euros at December 31, 2019).

(4) FONS MEDITERRANEA. Fund constituted on October 2005 and in which ICO participates with other public and private entities. The Fund was created to invest in projects developed by Spanish companies in the African Maghreb. The allocations for this fund have a provision hedging of 30% of the total real capital (without including fair value changes) amounting 1,270 thousand Euros at December 31, 2020 (1,270 thousand Euros at December 31, 2019).

(5) FONDO MARGUERITTE MEH. With the participation of leading European public credit institutions, this is a European equity fund which seeks to promote investment in infrastructures, in order to implement the key policies of the European Union in the fight against climate change, with the aim of combining the principle of return to investors based on market policies and the objectives set by public policies. The Fund is managed by ICO, although the final result from its eventual liquidation would not affect ICO's balance sheet, since it is fully guaranteed by the Spanish Ministry of Tax,

which provides funds to finance the Fund. In 2020, new contributions were performed by 285 thousand Euros (3,317 thousand Euros in 2019). In 2020 returns of participations were registered for an amount of 6,549 thousand Euros (1,268 thousand Euros in 2019).

(6) FEI. Participation equal to 0.72% of the total of the European Investment Fund, at December 31, 2020 (0.72% at December 31, 2019). There have not been any contributions at 2020 or at 2019. At December 31, 2020 an amount remained payable by 24,000 thousand Euros (24,000 thousands of Euros at December 31, 2019).

(7) SWIFT. Participation of ICO in 1 share of this entity as a full member of the same from 2008.

(8) EDW. A 3.57% participation in European Datawarehouse GmbHG, from March 2012.

(9) FONDO AFS CESCE. Participation of 13.16% in Fondo AFS Sicav, which main activity is the discount of commercial invoices with guarantee CESCE. In 2020, ICO has not made any contribution (none in 2019). In 2020, there has been a return of contributions by 1,500 thousand Euros (no returns in 2019).

(10) PARTICIPACIONES GRUPO QUABIT. In 2019, as payment for several loan operations, ICO foreclosed several shares of QUABIT group, for a foreclosure amount of 5,700 thousand Euros. These shares are fully covered by accounting provisions, and therefore their net value is null.

(11) As part of its liquidity management policy and business models, ICO is able to invest in debt instruments, classified as financial assets at fair value through other comprehensive income. In general, they are fixed income securities, issued by Spanish credit institutions and Public Debt.

The detail of these assets per maturities is the following:

| | Thousands of Euros | |
|---|---|---|
| | **2020** | **2019** |
| Maturity up to 1 year | 250 514 | 998 586 |
| Maturity from 1 to 2 years | - | - |
| Maturity from 2 to 3 years | 462 844 | - |
| Maturity over 3 years | - | - |
| | 713 358 | 998 586 |

At December 31, 2020 and 2019, the classification of financial assets at fair value through other comprehensive income, taking the hierarchical level into account as shown in Note 2.2.3., is as follows:

| | Thousands of Euros | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | Level I | Level II | Level III | Level I | Level II | Level III |
| Debt securities | 713 358 | | | 998 586 | | |
| Equity instruments | | 905 636 | | | 827 551 | |

During 2020, ICO has not registered on the profit and loss account results from the write-off of financial assets at fair value through other comprehensive income as a consequence of the sale of equity instruments (none in 2019) (Note 29).

## 10. FINANCIAL ASSETS AT AMORTISED COST

The composition of this caption on the consolidated balance sheets at December 31, 2020 and 2019 is the following (including impairment losses and other valuation adjustments):

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Debt securities (Note 10.1) | 7 347 498 | 7 843 423 |
| Loans and advances: | 21 996 205 | 20 626 023 |
| Credit institutions (Note 10.2) | 10 562 681 | 10 215 054 |
| Customers (Note 10.3) | 11 433 524 | 10 410 969 |
| | 29 343 703 | 28 469 446 |

The variation of impairment losses registered for the credit risk coverage and their accumulated amount at the beginning and closing of 2020 and 2019 of the portfolio of financial assets at amortised cost has been the following:

| | Thousands of Euros | | | |
|---|---|---|---|---|
| | Provision for country risk | Provision for doubtful risk and normal risk under special surveillance | Provision for normal risk | Total |
| **Balance at 1 January 2019** | 2 888 | 818 160 | 31 087 | 852 135 |
| Allocations charged to results | 1 765 | 15 173 | 2 304 | 19 242 |
| Recoveries against results | ( 265) | ( 107 950) | ( 2 194) | ( 110 409) |
| Application of funds | - | ( 108 895) | - | ( 108 895) |
| Other variations | - | - | - | - |
| Adjustments for exchange differences | 35 | ( 314) | ( 7) | ( 286) |
| **Balance at 31 December 2019** | 4 423 | 616 174 | 31 190 | 651 787 |
| Allocations charged to results | 162 | 51 190 | 66 244 | 117 596 |
| Recoveries against results | ( 1 496) | ( 81 980) | ( 434) | ( 83 910) |
| Application of funds | - | ( 4 160) | - | ( 4 160) |
| Other variations | - | - | - | - |
| Adjustments for exchange differences | ( 241) | 290 | ( 170) | ( 121) |
| **Balance at 31 December 2020** | 2 848 | 581 514 | 96 830 | 681 192 |

The following table details provisions for doubtful risks and normal risks in watch-list based on determination criteria:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Provision for doubtful risks (with defaults): | 423 634 | 438 868 |
| Default | 113 043 | 108 867 |
| Other than default | 310 591 | 330 001 |
| Provision for normal risk in watch-list | 157 880 | 177 306 |
| **TOTALS** | 581 514 | 616 174 |

The provision for normal risk in watch-list corresponds to credit assets for an amount of 975,677 thousand Euros at December 31, 2020 (1,202,721 thousand Euros at December 31, 2019).

The table below provides a breakdown of financial assets classified as loans and receivables considered impaired due to their credit risk at December 31, 2020 and 2019, by counterparty and period elapsed from the amount unpaid at said dates and the age of the risk. Impaired assets guaranteed by the State are disclosed in Note 10.3.

**Impaired assets at 31 December 2020**

| | Thousands of Euros | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Without delay | 3-6 months | 6-9 months | 9-12 months | 12-15 months | 15-18 months | 18-21 months | More than 21 months | TOTAL |
| **By counterparty category -** | | | | | | | | | |
| Non-financial companies | 368 108 | 40 384 | 10 503 | - | - | - | - | 54 473 | 473 468 |

**Impaired assets at 31 December 2019**

| | Thousands of Euros | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Without delay | 3-6 months | 6-9 months | 9-12 months | 12-15 months | 15-18 months | 18-21 months | More than 21 months | TOTAL |
| **By counterparty category -** | | | | | | | | | |
| Non-financial companies | 378 815 | - | - | - | - | 21 410 | 730 | 86 727 | 487 682 |

As of December 31, 2020 there is a balance of assets impaired by country risk of 169,656 thousand Euros, with a hedging per country risk of 2,848 thousand Euros (212,406 thousand Euros at December 31, 2019 with a hedging of 4,423 thousand Euros).

The amount of non-impaired past due assets for 2020 and 2019 has been of 178,274 thousand Euros and 16,967 thousand Euros, respectively, with an age in both years of between one and three months.

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

| | Thousands of Euros | |
|---|---|---|
| | **2020** | **2019** |
| Opening balance | 1 678 116 | 1 661 991 |
| Additions: | 6 193 | 69 708 |
| Remote recoveries | - | 66 707 |
| Other causes | 6 193 | 3 001 |
| Recoveries: | ( 22 818) | ( 54 266) |
| Cash collection without additional financing | ( 10 735) | ( 766) |
| Asset allocation | | |
| Others | ( 12 083) | ( 53 500) |
| Definitive write-offs: other causes | - | - |
| Net variation for exchange difference | ( 3 061) | 683 |
| Closing balance | 1 658 430 | 1 678 116 |

The net amount included on the accompanying consolidated profit and loss account of 2020 and 2019 as a consequence of the variation of assets which recovery is deemed remote (failed assets) amounts to profits by 10,734 thousand Euros and 16,610 thousand Euros, respectively (caption “Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss” and “Financial assets at amortised cost (Notes 10)”).

## 10.1 Debt securities

The caption “Debt securities” includes the amount of financial assets valued at amortised cost, of fixed income and supported with securities, tradable or non-tradable.

At the end of 2013, ICO’s Operations Committee approved the document Annex V to ICO Contract Mediation lines framework 2015, to regulate the conditions and operations to which the conversion operation is subject to the conversion to bonds of loans made by Entities in ICO lines in 2015. Such approval included the general specifications for conversion susceptible lines, amounts, interest accruals, eligible entities, schedule and compensation to credit institutions were included. Debt securities resulting from the conversion of loans mediation are also included in the heading “Debt securities”.

The composition of this caption of the consolidated balance sheet at December 31, 2020 and 2019, based on the counterparty category, is the following:

| | Thousands of Euros | |
|---|---|---|
| | **2020** | **2019** |
| **Per counterparty category -** | | |
| Resident Public Administrations | 6 259 098 | 7 115 605 |
| Resident Credit Institutions | 13 082 | 320 883 |
| Other resident sectors | 965 139 | 346 254 |
| Other non-resident sectors | 110 179 | 60 681 |
| | 7 347 498 | 7 843 423 |

The detail per maturity terms at December 31, 2020 and 2019 is the following:

| | Thousands of Euros | |
|---|---|---|
| | **2020** | **2019** |
| **Per maturity** | | |
| Up to 1 year | 2 176 833 | 1 930 549 |
| From 1 to 2 years | 2 713 883 | 1 757 506 |
| From 2 to 3 years | 1 010 498 | 2 761 383 |
| From 3 to 4 years | 223 598 | 981 509 |
| From 4 to 5 years | 295 639 | 240 687 |
| More than 5 years | 927 047 | 171 789 |
| | 7 347 498 | 7 843 423 |

At December 31, 2020 these assets, accrued an annual interest rate of 0.53% (0.51% at December 31, 2019).

Interest accrued by these assets in 2020 and 2019 amounted to 43,857 thousand Euros and 43,640 thousand Euros, respectively, included under caption “Interests and similar income” of the consolidated profit and loss account (Note 24).

The Group has coverage for credit risk (normal risk) of 9,312 thousand Euros for these assets (2,039 thousand Euros at December 31, 2019).

Variations undergone during 2020 and 2019 in caption of Debt securities at amortised cost are the following:

| | Thousands of Euros | |
|---|---|---|
| | **2020** | **2019** |
| Opening balance | 7 843 423 | 9 503 883 |
| Additions for purchases | 4 423 291 | 3 470 279 |
| Variations for impairment losses | ( 7 273) | ( 1 740) |
| Amortisations and sales | ( 4 911 943) | ( 5 128 999) |
| Closing balance | 7 347 498 | 7 843 423 |

At December 31, 2020, 23 thousand Euros have been registered in the consolidated income statement for financial operations derived from the write-off of assets included in the caption of “Debt securities” (profit of 10,365 thousand Euros at December 31, 2019) (Note 29).

## 10.2 Loans and advances to Credit Institutions

The composition of this caption of the consolidated balance sheet at December 31, 2020 and 2019 is the following:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| **By nature -** | | |
| Deposits in credit institutions (Note 10.2.1) | 1 288 841 | 44 509 |
| National mediation loans (Note 10.2.2) | 8 355 157 | 9 431 246 |
| International mediation loans (Note 10.2.3) | 920 584 | 729 460 |
| Other loans to credit institutions (Note 10.2.4) | 12 435 | 22 780 |
| | 10 577 017 | 10 227 995 |
| Impairment losses | ( 5 307) | ( 4 170) |
| Other valuation adjustments (*) | ( 9 029) | ( 8 771) |
| | 10 562 681 | 10 215 054 |

*(*) Valuation adjustments mainly correspond to the accrual of interests and similar revenues, as well as a correction for financial commissions.*

### 10.2.1 Deposits in credit institutions

The following table details the balance of “Deposits in credit institutions”, grouped by maturity, at December 31, 2020 and 2019:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Up to 1 year | 1 288 841 | 44 509 |
| From 1 to 2 years | - | - |
| From 2 to 3 years | - | - |
| From 3 to 4 years | - | - |
| From 4 to 5 years | - | - |
| More than 5 years | - | - |
| | 1 288 841 | 44 509 |

During 2020, the caption “Deposits in credit institutions” accrued an average annual interest of -0.33% (-0.21% during 2019). All deposits included are time deposits as of December 31, 2020 and 2019.

(Negative) interests accrued during 2020 and 2019 for these loans have amounted a total of (5,357) and (3,968) thousand Euros, respectively, which are included under the heading

“Interest and similar charges” of the consolidated profit and loss account (Note 25).

### 10.2.2 National mediation loans

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

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

Inside mediation lines implemented between 2009 and 2012 are certain ICO lines with liquidity risk, for SMEs (no exposure at December 31, 2020 and 2019), where ICO assumes a generic and comprehensive risk presented by the failed mediators credit institutions, up to 5% of the amount of the provisions made for lines granted in 2009 and 2010, while for the lines granted in 2011 and 2012, the maximum risk assumed is the average default of credit institutions sector excluding real estate finance transactions. During 2020 and 2019, no new lines have been approved in which ICO assumes risk.

For all ICO risk mediation lines, the Group has not established provisions at December 31, 2020 (92,477 thousand Euros at December 31, 2019) (Note 19). The allowances had as initial reference the interest income generated for the Group by these lines of mediation, adjusting exceptionally as expected developments failed to take by ICO. In the event that finally recognised provisions are insufficient to cover the failed submitted, the difference was directly charged to the RDL Fund 12/95, without generating any losses for the Group.

The detail of the balance of national mediation loans at December 31, 2020 and 2019 per years of maturity is the following:

| | Thousands of Euros | |
|---|---|---|
| | **2020** | **2019** |
| Up to 1 year | 2 557 113 | 3 103 269 |
| From 1 to 2 years | 1 979 546 | 2 134 945 |
| From 2 to 3 years | 1 296 858 | 1 454 810 |
| From 3 to 4 years | 908 461 | 907 508 |
| From 4 to 5 years | 508 234 | 587 615 |
| More than 5 years | 1 104 945 | 1 243 099 |
| | 8 355 157 | 9 431 246 |

At December 31, 2020 and 2019, mediation loans accrued an annual average interest rate of 0.80% and 1.18%, respectively.

Interests accrued during 2020 and 2019 for national mediation loans have amounted to 61,706 thousand Euros and 97,846 thousand Euros, respectively, included on caption “Interests and similar income” of the consolidated profit and loss account (Note 24).

### 10.2.3 International mediation loans

International mediation loans are a new activity in the Group, launched in 2018, in order to support the internationalisation of the Spanish company through financing banks, instead of through investment.

The detail of the balance of international mediation loans at December 31, 2020 and 2019 detailed per years of maturity is the following:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Up to 1 year | 172 588 | 67 016 |
| From 1 to 2 years | 147 988 | 131 192 |
| From 2 to 3 years | 117 835 | 117 624 |
| From 3 to 4 years | 121 465 | 82 018 |
| From 4 to 5 years | 91 361 | 80 339 |
| More than 5 years | 269 347 | 251 271 |
| | 920 584 | 729 460 |

At December 31, 2020 and 2019, international mediation loans accrued an annual average interest rate of 0.80% and 1.18%, respectively.

Interests accrued during 2020 and 2019 by international mediation loans have amounted to 17,954 thousand Euros and 21,490 thousand Euros, respectively, which are included in the caption " Interests and similar income” of the consolidated profit and loss account (Note 24).

This caption includes an amount of impairment losses, for risk of bad debt (normal credit risk and country risk), for a total amount of 5,307 thousand Euros (4,170 thousand Euros at December 31, 2019) (Note 10).

### 10.2.4 Other loans to credit institutions

This caption includes balances for direct loan operations (without mediation) to credit institutions, residents and non-residents.

The detail of the balance of these loans at December 31, 2020 and 2019 detailed per years of maturity is the following:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Up to 1 year | 4 739 | 6 448 |
| From 1 to 2 years | 4 144 | 6 171 |
| From 2 to 3 years | 2 361 | 6 448 |
| From 3 to 4 years | 1 191 | 2 468 |
| From 4 to 5 years | - | 1 245 |
| More than 5 years | - | - |
| | 12 435 | 22 780 |

At December 31, 2020 and 2019, loans to credit institutions accrued an annual average interest rate of -0.33% and -0.21%, respectively.

Interests accrued during 2020 and 2019 by these loans have amounted to 61 thousand Euros and 506 thousand Euros, respectively, included on caption “Interests and similar income” of the consolidated profit and loss account (Note 24).

### 10.3 Customer loans and advances

The composition of this caption of the consolidated balance sheet at December 31, 2020 and 2019, based on the counterparty category, is the following:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| **By counterparty category -** | | |
| Resident Public Administrations | 2 448 796 | 2 772 946 |
| Non-resident Public Administrations | 163 085 | 158 943 |
| Other resident sectors | 8 216 224 | 6 978 818 |
| Other non-resident sectors | 1 158 612 | 995 302 |
| Other financial assets | 4 050 | 28 909 |
| | 11 990 767 | 10 934 918 |
| Impairment losses | ( 666 573) | ( 645 578) |
| Other valuation adjustments (*) | 109 330 | 121 629 |
| | 11 433 524 | 10 410 969 |

(*) *Valuation adjustments mainly correspond to the accrual of interests and similar revenues, as well as to corrections for financial commissions.*

The value of certain investments in some Economic Interest Groupings is included in “Other resident sectors” (10,908 thousand Euros at December 31, 2020 and 1,002 thousand Euros at December 31, 2019) considering that are assured-return structures. Profitability of these shares has a fiscal-financial component due to the fact that these entities negative taxable bases are included in ICO's taxable base. In order to adjust the fiscal-financial profits obtained along with the final result determined for the investment, a provision is registered annually on the Income tax heading in the consolidated profit and loss account (Notes 19 and 23).

Interests accrued, during 2020 and 2019, for these loans have amounted to 137,927 thousand Euros and 158,866 thousand Euros, respectively, which are included on caption "Interests and similar income" of the consolidated profit and loss account (Note 24).

Out of the above balances, some information is provided below regarding the transactions guaranteed by the Public Sector, set out by counterparty and type of instrument, included under "Other resident sectors" and "Resident Public Administrations", which are classified under the heading 'Customer loans and advances' at December 31, 2020 and 2019:

| | Thousands of Euros | |
|---|---|---|
| | **2020** | **2019** |
| **Balances included under "Resident Public Administrations"** | | |
| Loans to the national government | 1 506 308 | 1 547 921 |
| Loans to regional governments | 942 487 | 1 225 025 |
| Valuation adjustments | ( 115 216) | ( 119 451) |
| | 2 333 579 | 2 653 496 |
| **Balances included under "Other resident sectors"** | | |
| Doubtful assets | 68 162 | 23 159 |
| Loans to other public entities | 2 650 668 | 2 329 563 |
| Loans to other sectors | 161 340 | 199 263 |
| | 2 880 170 | 2 551 985 |
| **Total operations guaranteed by the State** | 5 213 749 | 5 205 481 |

The breakdown of "Loans to the national government", excluding valuation adjustments, is as follows at December 31, 2020 and 2019:

| | Thousands of Euros | |
|---|---|---|
| | **2020** | **2019** |
| Loans to the State and its Autonomous Entities | 1 504 367 | 1 545 772 |
| Accounts receivable from the Public Treasury | 1 941 | 2 149 |
| | 1 506 308 | 1 547 921 |

The caption of "Accounts receivable from the Public Treasury" includes amounts liquidated by the Group to the Public Treasury, pending from being effective under the concept of Subsidiaries, for the adjustment of interest rates differentials in mediation loans. These accounts, which are carried at their nominal value, do not accrue any interest.

Interest and similar income contributed to the profit and loss by public sector entities for 2020 and 2019 (Note 24) are the following:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Central government | 5 928 | 4 408 |
| Regional governments | 5 538 | 11 550 |
| Other public sector entities | 19 834 | 20 805 |
| | 31 300 | 36 763 |

The breakdown of the principal amounts of loans included under the heading 'Customer loans and advances', including measurement adjustments, and set out by maturity date at December 31, 2020 and 2019, is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| **By maturity** | | |
| Up to 1 year | 1 626 524 | 1 192 265 |
| From 1 to 2 years | 972 749 | 824 422 |
| From 2 to 3 years | 1 405 203 | 1 659 035 |
| From 3 to 4 years | 1 303 005 | 1 145 859 |
| From 4 to 5 years | 1 632 090 | 1 082 018 |
| More than 5 years | 5 160 526 | 5 152 948 |
| | 12 100 097 | 11 056 547 |

At December 31, 2020 and 2019, loans to clients accrued an annual average interest rate of 1.18% and 1.45%, respectively.

At December 31, 2020, ICO has not registered profits or losses on the consolidated profit and loss account for financial operations derived from the write-off of assets included on caption "Loans and receivables" (neither at December 31, 2019) (Note 29).

## 11. HEDGING DERIVATIVES

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

Derivatives contracted and the hedged items were fundamentally the following:

- Interest-rate swaps, which hedge financial instruments remunerated at a rate other than the Euribor, mainly issues from the Group.
- Exchange hedges, which cover changes in fair value and cash flows relating to several financial instruments.

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

Total notional values of derivatives and fair values of financial derivatives designated as “Hedging derivatives” at December 31, 2020 and 2019, by counterparty and risk (all contracted in non-organised OTC markets), are as follows:

| | Thousands of Euros | | | | | |
|---|---|---|---|---|---|---|
| | Notional | | Assets | | Liabilities | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| **By type of hedging** | | | | | | |
| Fair value hedges | 10 493 915 | 8 835 564 | 253 887 | 363 635 | 279 891 | 197 810 |
| Cash flow hedges | 3 136 443 | 3 370 415 | 31 438 | 29 718 | 320 879 | 42 435 |
| | **13 630 358** | **12 205 979** | **285 325** | **393 353** | **600 770** | **240 245** |
| **By type of product** | | | | | | |
| Swaps | 13 630 358 | 12 205 979 | 285 325 | 393 353 | 600 770 | 240 245 |
| | **13 630 358** | **12 205 979** | **285 325** | **393 353** | **600 770** | **240 245** |
| **By counterparty** | | | | | | |
| Credit institutions | 13 630 358 | 12 205 979 | 285 325 | 393 353 | 600 770 | 240 245 |
| Other credit institutions | - | - | - | - | - | - |
| Other sectors | - | - | - | - | - | - |
| | **13 630 358** | **12 205 979** | **285 325** | **393 353** | **600 770** | **240 245** |
| **By type of risk** | | | | | | |
| Risk of exchange | 6 418 380 | 5 699 100 | 172 198 | 225 919 | 498 632 | 197 810 |
| Interest rate risk | 7 211 978 | 6 506 879 | 113 127 | 167 434 | 102 138 | 42 435 |
| | **13 630 358** | **12 205 979** | **285 325** | **393 353** | **600 770** | **240 245** |

At December 31, 2020 and 2019, the classification of hedging derivatives, valued at fair value, based on level hierarchies established on Note 2.2.3., is the following:

| | Thousands of Euros | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | Level I | Level II | Level III | Level I | Level II | Level III |
| Hedge derivatives of assets | - | 285 325 | - | - | 393 353 | - |
| Hedge derivatives of liabilities | - | 600 770 | - | - | 240 245 | - |

The fair value of these items has been calculated in 100% of the cases, both in 2020 and in 2019, taking as reference the implicit curves of the money.

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

## 12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

The variation of this caption of the consolidated balance sheets during 2020 and 2019 is the following:

| | **Thousands of Euros** |
|---|---|
| | **Associates** |
| **Balance at 1 January *2019*** | **60 858** |
| Additions | - |
| Withdrawals | ( 2) |
| Other variations | 4 203 |
| Impairment | - |
| **Balance at 31 December *2019*** | **65 059** |
| Additions | 2 426 |
| Withdrawals | - |
| Other variations | 1 861 |
| Impairment | - |
| **Balance at 31 December 2020** | **69 346** |

Annex I contains a breakdown of shareholdings, as well as the most relevant information regarding these interests at December 31, 2020 and 2019.

The caption “Other variations” includes consolidation adjustments.

## 13. PROPERTY, PLANT AND EQUIPMENT

The variation during 2020 and 2019 in accounts of property, plant and equipment and their corresponding accumulated amortisation, has been the following:

| | Thousands of Euros | | | |
|---|---|---|---|---|
| | Buildings of own use | Furniture, vehicle and other assets | Property investments | Total |
| **Cost** | | | | |
| **Balances at 1 January 2020** | 114 586 | 16 100 | | 130 686 |
| Additions | 19 | 373 | | 392 |
| Disposals and other write-offs | | | | |
| **Balances at 31 December 2020** | 114 605 | 16 473 | | 131 078 |
| **Accumulated amortisation -** | | | | |
| **Balances at 1 January 2020** | 34 962 | 8 100 | | 43 062 |
| Allocations | 1 740 | 235 | | 1 975 |
| Transfers and other variations | | | | |
| **Balances at 31 December 2020** | 36 702 | 8 335 | | 45 037 |
| **Impairment losses** | | | | |
| At 31 December 2020 | | 651 | | 651 |
| **Net property, plant and equipment** | | | | |
| Balances at 31 December 2020 | 77 903 | 7 487 | | 85 390 |
| **Cost** | | | | |
| **Balances at 1 January 2019** | 114 071 | 15 970 | - | 130 041 |
| Additions | 515 | 363 | | 878 |
| Disposals and other write-offs | - | ( 233) | | ( 233) |
| **Balances at 31 December 2019** | 114 586 | 16 100 | | 130 686 |
| **Accumulated amortisation -** | | | | |
| **Balances at 1 January 2019** | 33 147 | 8 134 | - | 41 281 |
| Allocations | 1 815 | 199 | | 2 014 |
| Transfers and other variations | | ( 233) | | ( 233) |
| **Balances at 31 December 2019** | 34 962 | 8 100 | | 43 062 |
| **Impairment losses** | | | | |
| At 31 December 2019 | | 651 | | 651 |
| **Net property, plant and equipment** | | | | |
| Balances at 31 December 2019 | 79 624 | 7 359 | | 86 973 |

At December 31, 2020 there are fully-depreciated property, plant and equipment for own use for a gross amount of approximately 18,826 thousand Euros (18,489 thousand Euros at December 31, 2019).

In compliance with ICO's policy, as the Group's parent company, all property, plant and equipment is insured at December 31, 2020 and 2019.

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

The revaluation reserve at December 31, 2020 amounted to 19,948 thousand Euros (20,858 thousand Euros at December 31, 2019) (Note 20).

The table below presents the fair value of certain items of the Group's property, plant and equipment at December 31, 2020 and 2019 by category, along with the related carrying amounts at those dates:

| | | | | **Thousands of Euros** |
|---|---|---|---|---|
| | **2020** | **2020** | **2019** | **2019** |
| | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** |
| Property, plant and equipment for own use | 85 390 | 109 042 | 86 973 | 108 474 |
| Buildings | 77 903 | 101 164 | 79 624 | 101 164 |
| Other | 7 487 | 7 450 | 7 359 | 7 310 |
| Property investments | - | - | - | - |
| Property under construction | 428 | 428 | - | - |

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

- For those assets for which an updated appraisal by a Bank of Spain-approved value is not available, fair value was determined based on estimates made by the entity using market data relating to trends in prices of similar assets.
- For those assets for which an updated appraisal by a Bank of Spain-approved value is available, fair value was determined based on the appraisal as provided for in the Ministerial Order 805/2003.

All properties for own use were appraised by a Bank of Spain approved appraiser using the comparison approach, at December 31, 2020 and 2019.

## 14. INTANGIBLE ASSETS

The breakdown of Intangible assets in the consolidated balance sheet at December 31, 2020 and 2019 relates exclusively to the account named ‘other intangible assets’.

| | Estimated useful life | Thousands of Euros 2020 | 2019 |
|---|---|---|---|
| With indefinite useful life | - | - | - |
| With defined useful life | 3 to 10 years | 46 299 | 43 790 |
| Gross total | | 46 299 | 43 790 |
| Of which: | | | |
| Internal developments | 3 years | 40 638 | 38 341 |
| Remainder | 10 years | 5 661 | 5 449 |
| Accumulated depreciation | | ( 37 252) | ( 34 731) |
| Impairment losses | | ( 2 137) | ( 2 137) |
| | | 6 910 | 6 922 |

All intangible assets at December 31, 2020 and 2019 related to computer software. Fully amortised intangible assets at December 31, 2020 amounted to 36,221 thousand Euros (31,002 thousand Euros a 31 December 2019).

## 15. TAX ASSETS AND LIABILITIES

The detail of Tax Assets and Liabilities at December 31, 2020 and 2019 is the following:

| | Thousands of Euros | | | |
|---|---|---|---|---|
| | Assets | | Liabilities | |
| | 2020 | 2019 | 2020 | 2019 |
| Current taxes: | 32 290 | 8 557 | 1 098 | 1 005 |
| Corporate income tax (Note 23) | 32 258 | 8 510 | - | - |
| VAT | 32 | 47 | 26 | 183 |
| Personal income tax withholdings | - | - | 724 | 479 |
| Social Security contributions | - | - | 348 | 343 |
| Deferred taxes: | 148 123 | 95 053 | 49 203 | 32 943 |
| Impairment losses on credits, loans and discounts | 61 146 | 69 259 | - | - |
| Measurement of cash-flow hedges (Note 21) | 86 977 | 25 794 | - | - |
| Restatement of property | - | - | 15 932 | 15 932 |
| Restatement of financial assets held for sale (Note 21) | - | - | 33 271 | 17 011 |
| | 180 413 | 103 610 | 50 301 | 33 948 |

Variations undergone, during 2020 and 2019, on balances of deferred tax assets and liabilities are shown below:

| | Thousands of Euros | | | |
|---|---|---|---|---|
| | Assets | | Liabilities | |
| | 2020 | 2019 | 2020 | 2019 |
| Opening balance | 95 053 | 98 001 | 32 943 | 22 897 |
| Impairment losses on credits, loans and discounts | ( 8 113) | 2 730 | - | - |
| Valuation of cash flow hedges (Note 21) | 61 183 | ( 5 678) | - | - |
| Restatement of property | - | - | - | - |
| Restatement of financial assets held for sale (Note 21) | - | - | 16 260 | 10 046 |
| Closing balance | 148 123 | 95 053 | 49 203 | 32 943 |

## 16. OTHER ASSETS AND OTHER LIABILITIES

The composition of this caption in the consolidated balance sheet at December 31, 2020 and 2019 is the following:

| OTHER ASSETS | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Other assets | 500 | 5 344 |
| Accruals | 24 949 | 30 799 |
| | 25 449 | 36 143 |

The heading "Accruals" includes, among other items, the accrual of fees receivable by ICO, for the Management of Operational mechanisms Fund for the Financing of Payments to Suppliers and operational management of Autonomous Region Liquidity Fund and for the operational management of the Financing Fund to Autonomous Communities (Note 1.1). In 2020, the overall amount of these fees receivable for ICO is 15 million Euros per year (25 million Euros at December 31, 2019), also recorded in the consolidated profit and loss account for these amounts within the section of "Fee and commission income" (Note 28).

This caption also includes commissions accrued in favour of ICO for the management and administration of COVID surety lines (3,104 thousand Euros at December 31, 2020, no amount in 2019), also booked in the consolidated profit and loss account within of the section of "Fee and commission income" (Note 28).

The composition of the balance of “Other liabilities” of the balance sheet at December 31, 2020 and 2019 is the following:

| OTHER LIABILITIES | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Other liabilities | 1 008 | 560 |
| Accruals | 6 334 | 7 277 |
| | 7 342 | 7 837 |

The heading “Accruals” includes the amounts accrued and unpaid, for commissions to be paid to credit institutions by the concepts of “rappel 2020 lines of mediation” by 1,668 thousand Euros (3,206 thousand Euros in 2019).

## 17. NON-CURRENT ASSETS HELD FOR SALE

The entire amount in the heading “Non-current assets held for sale” includes assets awarded in foreclosed. None of these foreclosed assets recorded on this heading at December 31, 2020 and December 31, 2019 comes from any funding related neither to Property development land nor to any other property development business.

Movements for years 2020 and 2019 in the balances under this balance sheet heading are shown below:

| | Thousands of Euros | | |
|---|---|---|---|
| | Cost | Impairment | Total |
| **Balance at 1 January 2019** | 72 323 | ( 72 323) | - |
| Additions | 934 | - | 934 |
| Withdrawals/Applications | ( 5 572) | ( 4 638) | ( 934) |
| Transfers | - | - | - |
| **Balance at 31 December 2019** | 67 685 | ( 67 685) | - |
| Additions | 695 | - | 695 |
| Withdrawals/Applications | ( 2 464) | 1 769 | ( 695) |
| Transfers | - | - | - |
| **Balance at 31 December 2020** | 65 916 | ( 65 916) | - |

Over the total amount of “Non-current assets held for sale” at December 31, 2020 and 2019, 48,678 thousand Euros corresponds to a single asset, which is fully provisioned.

In 2020, impairment allocations have been registered for these non-financial assets, for an amount of 96 thousand Euros (316 thousand Euros in 2019).

In 2020, results from the sale of non-current assets held for sale have been registered, for an amount of 755 thousand Euros (profits of 2,910 thousand Euros in 2019).

ICO's Board of Directors body gives its approval annually to the Disinvestment Plan referred to these assets.

Pursuant to standard 60th of Circular 4/2017 of the Bank of Spain, non-current assets held for sale are classified into broad categories: soil, urban and urbanising splitting rustic and constructions, distinguishing between residential, industrial and commercial uses. On the following chart are included Appraisal Companies, its methodology to appraise the assets and the amount given to each of it (company/agency):

**INDUSTRIAL USE BUILDINGS**

| Thousands of € last appraisal | Appraiser | Appraisal methodology |
|---|---|---|
| 882 | EUROVALORACIONES | COST AND COMPARISON |
| **882** | | |

**RESIDENTIAL USE BUILDINGS**

| Thousands of € last appraisal | Appraiser | Appraisal methodology |
|---|---|---|
| 20 | JUDICIAL | COMPARISON |
| 85 | ALIA TASACIONES | COST AND COMPARISON |
| 598 | EUROVALORACIONES | COMPARISON |
| 66 | EUROVALORACIONES | COST |
| 47 | GRUPO TASVALOR | COMPARISON |
| 194 | GRUPO TASVALOR | COST AND COMPARISON |
| 382 | GRUPO TASVALOR | OTHERS |
| **1 392** | | |

**TERTIARY USE BUILDINGS**

| Thousands of € last appraisal | Appraiser | Appraisal methodology |
|---|---|---|
| 815 | EUROVALORACIONES | COMPARISON |
| 81 | EUROVALORACIONES | COST |
| 30 | EUROVALORACIONES | DYNAMIC RESIDUAL |
| **926** | | |

**RUSTIC LANDS**

| Thousands of € last appraisal | Appraiser | Appraisal methodology |
|---|---|---|
| 45 | EUROVALORACIONES | COMPARISON |
| 59 | EUROVALORACIONES | RENT UPDATE |
| 42 | ALIA TASACIONES | COMPARISON |
| 17 | GRUPO TASVALOR | COMPARISON |
| 25 | GRUPO TASVALOR | COST AND COMPARISON |
| 38 | GRUPO TASVALOR | RENT UPDATE |

| | | |
|---|---|---|
| 6 | GRUPO TASVALOR | OTHERS |
| 185 | JUDICIAL | OTHERS |
| **417** | | |

| | | **URBAN AND DEVELOPABLE LANDS** |
|---|---|---|
| **Thousands of € last appraisal** | **Appraiser** | **Appraisal methodology** |
| 2 718 | EUROVALORACIONES | DYNAMIC RESIDUAL |
| 7 316 | GRUPO TASVALOR | DYNAMIC RESIDUAL |
| 50 | GRUPO TASVALOR | OTHERS |
| **10 084** | | |
| **TOTAL** | | |
| **13 701** | | |

## 18. FINANCIAL LIABILITIES AT AMORTISED COST

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

| | **Thousands of Euros** | |
|---|---|---|
| | **2020** | **2019** |
| **By counterparty categories** | | |
| Deposits in Central Banks (Note 18.1) | 3 155 040 | 499 902 |
| Deposits in credit institutions (Note 18.2) | 7 597 761 | 8 477 599 |
| Customers' deposits(Note 18.3) | 1 414 024 | 699 313 |
| Issued debt securities (Note 18.4) | 15 294 101 | 15 734 424 |
| Other financial liabilities (Note 18.5) | 299 030 | 401 952 |
| | 27 759 956 | 25 813 190 |

### 18.1 Deposits in Central Banks

In 2019 and 2020, ICO, as parent company, responded to several LTRO and TLTRO calls from the European Central Bank. The amount of this caption corresponds to such operations.

## 18.2 Deposits in credit institutions

The composition of this caption of the balance sheets at December 31, 2020 and 2019 based on the nature of operations is the following:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| **By nature:** | | |
| Loans from the European Investment Bank | 6 139 758 | 7 295 224 |
| Interbank loans | 36 041 | 89 463 |
| Loans from other credit institutions | 1 365 965 | 1 020 921 |
| Valuation adjustments – accruals | 55 997 | 71 991 |
| | 7 597 761 | 8 477 599 |

Interbank deposits fall due within less than one year from December 31, 2020 and 2019, respectively.

Loans from the European Investment Bank present the following final repayment schedule:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Up to 1 year | 1 811 832 | 1 863 362 |
| From 1 to 2 years | 1 360 465 | 1 815 493 |
| From 2 to 3 years | 789 688 | 1 379 171 |
| From 3 to 4 years | 563 001 | 606 633 |
| From 4 to 5 years | 744 035 | 581 375 |
| More than 5 years | 870 737 | 1 049 190 |
| | 6 139 758 | 7 295 224 |

The breakdown by maturity date of “Loans from other credit institutions” is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Up to 1 year | 338 073 | 193 410 |
| From 1 to 2 years | 652 691 | 322 914 |
| From 2 to 3 years | 78 878 | 142 490 |
| From 3 to 4 years | 78 878 | 78 824 |
| From 4 to 5 years | 78 878 | 78 824 |
| More than 5 years | 138 567 | 204 459 |
| | 1 365 965 | 1 020 921 |

## 18.3 Customers' deposits

The composition of this caption of the consolidated balance sheets at December 31, 2020 and 2019 based on the sector is the following:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| **By counterparty category** | | |
| Public Administrations | 1 337 519 | 626 974 |
| Other resident sector (1) | 76 480 | 72 329 |
| Other non-resident sectors | - | - |
| Valuation adjustments – accruals | 25 | 10 |
| | 1 414 024 | 699 313 |

*(1) Out of which, at December 31, 2020 and 2019, 62,980 thousand Euros and 58,699 thousand Euros, respectively, were demand accounts*

At December 31, 2020 and 2019, the detail by nature of the balance registered on "Public Administrations" is the following:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Reciprocal Interest Adjustment Agreement (C.A.R.I.) | 19 301 | 3 563 |
| Public Administration Current Accounts and other items | 1 318 218 | 623 411 |
| | 1 337 519 | 626 974 |

## 18.4 Issued debt securities

The detail of this caption at December 31, 2020 and 2019 is the following:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Bonds and debentures issued | 15 049 917 | 15 499 902 |
| Valuation adjustments (*) | 244 184 | 234 522 |
| | 15 294 101 | 15 734 424 |

*(*) Including transaction costs and value corrections for accounting hedging*

Variations of this caption, during 2020 and 2019, have been the following:

| | Thousands of Euros | |
|---|---|---|
| | **2020** | **2019** |
| Opening balance | 15 499 902 | 18 724 473 |
| Issues | 14 806 982 | 23 787 604 |
| Amortisations and depreciations | ( 14 766 684) | ( 27 071 203) |
| Exchange differences | ( 490 283) | 59 028 |
| Closing balance | 15 049 917 | 15 499 902 |

Set out below are the main characteristics of the debenture issues outstanding at December 31, 2020 and 2019, grouped together by currency together with the relevant interest rates and maximum redemption dates:

| Number of issues | | | | | Thousands of Euros | |
|---|---|---|---|---|---|---|
| **2020** | **2019** | **Currency** | **Redemption date** | **Annual interest rate** | **2020** | **2019** |
| 1 | 1 | Norwegian Krone | Until 2021 | From 4.28 to 5.36 | 47 754 | 50 690 |
| 0 | 1 | Canada Dollar | Until 2020 | From 4.53 to 5.00 | - | 171 256 |
| 36 | 52 | US Dollar | Until 2022 | Several rates | 5 316 541 | 4 895 865 |
| 48 | 55 | Euro | Until 2032 | Several rates | 8 601 856 | 9 717 570 |
| 2 | 2 | Swiss Franc | Until 2024 | From 2 to 3.25 | 277 703 | 276 373 |
| 1 | 2 | Australia Dollar | Until 2021 | 1.95 | 44 021 | 236 053 |
| 1 | 1 | Sweden Krone | Until 2022 | 0.963 | 49 829 | 47 862 |
| 3 | 0 | Pound Sterling | Until 2021 | Several rates | 611 730 | - |
| 3 | 3 | Yen | Until 2030 | From 0.52 to 2.9 | 100 483 | 104 233 |
| | | | | | 15 049 917 | 15 499 902 |

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

In 2020 the total financial cost of debenture loans in both Euros and foreign currency recorded under the heading 'Interest and similar charges' in the consolidated profit and loss account was 305,270 thousand Euros, which is an average annual interest rate of 2.66% (1.45% with accounting hedges). In 2019, financial costs amounted 544,513 thousand Euros, which was an average annual interest rate of 2.63% (1.31% with accounting hedges) (Note 25).

As of 2020, results have been recorded for financial operations derived from the repurchase of certain financial liabilities at amortised cost (bonds and debentures issued by ICO), with profits by 139 thousand Euros (no results in 2019), included in the caption of 'Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net' (Note 29).

## 18.5 Other financial liabilities

The composition of this caption of the consolidated balance sheets at December 31, 2020 and 2019 is the following:

| | Thousands of Euros | |
|---|---|---|
| | **2020** | **2019** |
| Treasury Funds | 286 497 | 368 533 |
| Other concepts | 12 533 | 33 419 |
| | 299 030 | 401 952 |

"Treasury funds" include funds received by the Group and repayable under the attaching terms of each. Detailed information on the lines associated with each of these funds can be found on ICO's website www.ico.es .

Funds associated with the most important lines are the following:

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

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

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

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

Balances at December 31, 2020 and 2019 of such funds are shown below:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| FOMIT – Renove Turismo | 86 068 | 118 485 |
| Préstamos Renta Universidad | 110 657 | 120 585 |
| Futur E | 10 333 | 18 074 |
| Others | 91 972 | 144 808 |
| | 299 030 | 401 952 |

## 19. PROVISIONS

At December 31, 2020 and 2019 the detail of this caption of the accompanying consolidated balance sheet is the following:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Provisions for pensions and similar obligations | 656 | 579 |
| Provisions for contingent risks and commitments | 27 855 | 7 778 |
| Other provisions | 658 234 | 295 183 |
| | 686 745 | 303 540 |

The composition of the caption of “Other provisions” of the consolidated balance sheets at December 31, 2020 and 2019 is the following:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Fund Royal Decree – Law 12/1995 | 626 471 | 182 610 |
| Provision for Special Loan Liquidity Line (Note 10.2.2) | - | 92 477 |
| Fund for amounts recovered from BBVA | 160 | 218 |
| Fund Prestige Facility | 8 304 | 8 934 |
| Fund to compensate AIE shareholdings results (Note 10.3) | 21 773 | 9 515 |
| Other funds | 1 526 | 1 429 |
| | 658 234 | 295 183 |

<u>Fund Royal Decree Law 12/1995</u>

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

Those loans or transactions that, in view of the relevant terms and conditions, require the application of this Fund are provided for by charge to the same. The Group’s profit and loss account is therefore not affected.

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

The Fund is credited, in addition to the initial allocation, with future allocations that Instituto de Crédito Oficial makes out of profits obtained and any made or authorised by the State when assuming or offsetting losses, or through any other appropriate system . Similarly, the Fund is credited with the amounts of an recoveries obtained from loans for which provisions have been recorded or any that have been declared to be in default and charged against the fund, that in 2020 and 2019 amounted to 644 thousand Euros and 4,388 thousand Euros, respectively and the income obtained on the management of the funds assigned to the Fund itself, in 2020 and 2019, amounted to (1,416) thousand Euros and (377) thousand Euros, respectively.

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

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

As a consequence of the COVID-19 health crisis and of the implementation of the State’s surety lines to support the private sector’s financing, the financial entities pay surety commissions to ICO which, by virtue of procedures established for such purpose, are registered as direct credits to the Fund RDL 12/95. Also, costs for the necessary contracts entered into by ICO to manage this activity are also charged to the Fund RDL 12/95. The purpose of these allocations is to face future defaults that may derive from the execution of granted sureties and which, in any case, shall not affect ICO’s equity (in case of insufficiency of funds, the State shall directly provide the Group with the necessary amounts).

This fund's variations in 2020 and 2019 included on caption of "Other provisions" of the balance sheet at December 31, 2020 and 2019 are the following:

| | Thousands of Euros |
|---|---|
| Balance at 1 January 2019 | 175 583 |
| Capitalisation of interests | ( 377) |
| Contributions by the State | - |
| Application ICO results 2018 | 3 136 |
| Loan recoveries (principal and interests) | 4 388 |
| Applications | ( 120) |
| Balance at 31 December 2019 | 182 610 |
| Capitalisation of interests | ( 1 416) |
| Contributions by the State | - |
| Application ICO results 2019 | 81 941 |
| Loan recoveries (principal and interests) | 644 |
| Applications | - |
| Credits commissions COVID lines (net of contracting expenses) | 362 692 |
| Balance at 31 December 2020 | 626 471 |

In 2020, an extraordinary contribution to the Fund has been registered, for an amount of 81,941 thousand Euros, as part of ICO's net profits from 2019.

Fund for amounts recovered from BBVA

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

Nonetheless, the management of the transactions affected by the cancellation process has meant that ICO continues receiving collections pertaining to these loans, which, following the prudence accounting principle, are not generally registered as income in the profit and loss account. For those accounted as income, in 2020, there is a provision by 160 thousand Euros (218 thousand Euros at December 31, 2019).

Prestige Line Fund

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

Fund to offset results AIE shareholding results

Heading Fund to offset AIE shareholdings includes the provision in order to adjust its profit to the transactions performance conducted through the Economic Interest Groupings (Note 10.3). This provision has been recognised under the rubric of corporate income tax of the income account for an amount of 12,258 thousand Euros and 8,626 thousand Euros, respectively in the years 2020 and 2019 (Note 23).

The following chart shows variations of the caption of Provisions in 2020 and 2019:

| | Thousands of Euros | | | | |
|---|---|---|---|---|---|
| | **Provision for taxes** | **Fund for pensions and similar obligations** | **Provisions for risks and contingent commitments** | **Other provisions** | **Total** |
| Balances at 1 January 2019 | - | 919 | 1 442 | 277 834 | 280 195 |
| Allocations (1) | - | - | 6 963 | 281 | 7 244 |
| Recoveries (1) | - | ( 340) | ( 623) | ( 377) | ( 1 340) |
| Application of funds | - | - | - | ( 87) | ( 87) |
| Transfers and other variations (2) | - | - | - | 17 532 | 17 532 |
| Exchange profit/(loss) | - | - | ( 4) | - | ( 4) |
| Balances at 31 December 2019 | - | 579 | 7 778 | 295 183 | 303 540 |
| Allocations (1) | - | 77 | 24 416 | 201 | 24 694 |
| Recoveries (1) | - | - | ( 3 810) | ( 93 734) | ( 97 544) |
| Application of funds | - | - | | ( 306) | ( 306) |
| Transfers and other variations (2) | - | - | | 456 890 | 456 890 |
| Exchange profit/(loss) | - | - | ( 529) | - | ( 529) |
| Balances at 31 December 2020 | - | 656 | 27 855 | 658 234 | 686 745 |

*(1) Recoveries charged to results from 2020 include an amount of 92,318 thousand Euros for the recovery of the provision for liquidity mediation loans with ICO risk, having ended the term available for financial entities to file their claims.*

*(2) Transfers and other movements at December 31, 2020, mainly include credits to the Fund RDL 12/95 for the collection of commissions for COVID-19 sureties (362,692 thousand Euros) and for the provision to the Fund to offset results from investments in AIE (Note 23), for an amount of 12,258 thousand Euros.*

*At December 31, 2019, they mainly include recoveries of amounts from ICO risk mediation lines (Note 10.2.2) for an amount of 1,577 thousand Euros, for credits to the provision Fund RDL 12/95 for contributions and recoveries (Note 19), for an amount of 7,425 thousand Euros, and for the provision to Fund of compensation of results from investments in AIE (Note 23), for an amount of 8,625 thousand Euros.*

## 20. EQUITY

The reconciliation of the opening and closing carrying value in 2020 and 2019 of the heading "Equity" in the consolidated balance sheets is the following:

| | Thousands of Euros | | | | |
|---|---|---|---|---|---|
| | Share Capital | Restatement reserves | Other reserves | Profit/(loss) | Total |
| Balance at 1 January 2019 | 4 313 744 | 23 591 | 930 940 | 75 671 | 5 343 946 |
| Distribution of results | - | - | 28 608 | ( 75 671) | ( 47 063) |
| Other variations of reserves | - | ( 2 733) | ( 9 743) | - | ( 12 476) |
| Profit/(loss) for the period | - | - | - | 109 378 | 109 378 |
| Other variations | 289 | - | - | - | 289 |
| Balance at 31 December 2019 | 4 314 033 | 20 858 | 949 805 | 109 378 | 5 394 074 |
| Distribution of results | - | - | - | ( 109 378) | ( 109 378) |
| Other variations of reserves | - | ( 910) | 3 212 | - | 2 302 |
| Profit/(loss) for the period | - | - | - | 79 092 | 79 092 |
| Other variations | 171 | - | - | - | 171 |
| Balance at 31 December 2020 | 4 314 204 | 19 948 | 953 017 | 79 092 | 5 366 261 |

At December 31, 2020, the caption "Distribution of results" includes an amount of 81,941 thousand Euros (3,136 thousand Euros at December 31, 2019), as part of the distribution of previous years' profits, for contribution to the Fund RDL 12/95 (Note 19). At December 31, 2019, it also includes an amount of (14,789) thousand Euros, for results from the liquidation of a financial asset (equity instrument) (Note 9).

The caption of "other variations" mainly includes the annual contribution to equity, by virtue of Law 24/2001, of 27 December, for an amount of 171 thousand Euros in 2020 (289 thousand Euros in 2019). According to the Additional Eleventh Provision of such Law, amounts recovered after the cancellation of debts contracted by the State with ICO, as a consequence of certain credits and sureties granted by former Official Credit Entities and by ICO will become part of ICO's equity.

## 20.1 Reserves of fully or proportionally consolidated entities

The detail per consolidated companies of balances of the equity caption "Equity – Reserves – Accumulated reserves" of the consolidated balances sheets at December 31, 2020 and 2019, in the portion of such balance originated from the consolidation process and excluding revaluation reserves, detailed per fully or proportionally consolidated companies on the consolidated financial statements, is the following:

| | Thousands of Euros | |
|---|---|---|
| | **2020** | **2019** |
| AXIS Participaciones Empresariales, S.A. | 9 668 | 9 103 |
| Instituto de Crédito Oficial | 923 350 | 922 440 |
| | 933 018 | 931 543 |

## 20.2 Reserves of entities valued through the equity method

The detail per consolidated companies of balances of the equity caption "Equity – Reserves – Reserves of entities valued through the equity method" of the consolidated balance sheets at December 31, 2020 and 2019, in the portion of such balance revealed as part of the consolidation process, detailed per company valued through the equity method in the consolidated financial statements, is the following:

| | Thousands of Euros | |
|---|---|---|
| | **2020** | **2019** |
| COFIDES, Compañía Española de Financiación del Desarrollo, S.A. | 19 945 | 18 208 |
| CERSA, Compañía Española de Reafianzamiento, S.A. | 54 | 54 |
| Other entities | - | - |
| | 19 999 | 18 262 |

## 21. OTHER ACCUMULATED COMPREHENSIVE INCOME (valuation adjustments)

The balance of this caption detailed by gross and net amount of the tax effect is the following:

| | Thousands of Euros | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | Gross | Tax effect (Note 15) | Net | Gross | Tax effect (Note 15) | Net |
| Financial assets at fair value through other comprehensive income (Note 9) | 110 903 | ( 33 271) | 77 632 | 56 704 | ( 17 011) | 39 693 |
| Cash flows hedging of assets and liabilities | ( 289 924) | 86 977 | ( 202 947) | ( 85 980) | 25 794 | ( 60 186) |
| TOTAL | (179 021) | 53 706 | ( 125 315) | ( 29 276) | 8 783 | ( 20 493) |

The balance of this heading relates to the account "Available-for-sale financial assets" and "Valuation for cash flow hedge derivatives" in the accompanying balance sheets. The first account records the net amount of changes in the fair value of the assets classified as available for sale that, in accordance with Note 2.2.4, must be included as part of the Group's equity. The second account records the net amount of changes in the fair value of the cash flow hedge instruments.

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Opening balance | ( 20 493) | ( 57 182) |
| Change in fair value of financial assets at fair value through other comprehensive income (Note 9) | 37 939 | 23 440 |
| Reclassification to financial assets at fair value through profit or loss | - | - |
| Cash flow hedges | ( 142 761) | 13 249 |
| Closing balance | ( 125 315) | ( 20 493) |

## 22. GRANTED GUARANTEES AND CONTINGENT COMMITMENTS

These headings in the balance sheets record the amounts that Instituto de Crédito Oficial must pay on behalf of third parties in the event that the obligated parties do not do so, in response to commitments acquired during the normal course of its business (granted guarantees) and amounts available to third parties (contingent commitments).

The detail of this caption at December 31, 2020 and 2019 is the following:

| | Thousands of Euros | |
|---|---|---|
| | **2020** | **2019** |
| **Granted guarantees** | | |
| Financial guarantees | 414 937 | 449 279 |
| | 414 937 | 449 279 |
| **Granted contingent commitments** | | |
| Available by third parties: | | |
| Credit institutions | 720 415 | 269 436 |
| Public Administrations sector | 2 054 000 | 2 038 054 |
| Other resident sectors | 773 796 | 348 401 |
| Non-resident sector | 339 848 | 222 881 |
| Other contingent commitments | 92 694 | 101 081 |
| Subscribed values pending disbursement: | 607 000 | 552 000 |
| | 4 587 753 | 3 531 853 |
| | 5 002 690 | 3 981 132 |

Income obtained from guarantee instruments (guarantees and other sureties) are recorded under the heading “Commissions received” in the consolidated profit and loss account and are calculated by applying the rate established in the relevant contract to the nominal amount of the guarantee.

## 23. TAX POSITION

The consolidated balance sheet at December 31, 2020 and 2019 includes, within the caption “Tax liabilities”, the liability corresponding to applicable taxes.

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

The reconciliation of the accounting ICO's profit, as the Group's parent company, for 2020 and 2019 with the corporate income tax basis is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Accounting profit before income tax | 97 548 | 149 253 |
| Permanent differences | | |
| Foreign taxes paid | 806 | 704 |
| Accounting income / expenses not attributable | 3 232 | 3 233 |
| Tax losses carried forward attributable from investees | ( 49 216) | ( 37 109) |
| Deductible expenses corresponding to previous years | - | - |
| | 52 370 | 116 081 |
| Temporary differences: | | |
| Due to impairment losses and provision non-deductible | 92 694 | 37 598 |
| Due to the reversal of temporary differences arising in other years | ( 119 731) | ( 35 116) |
| | ( 27 037) | 2 482 |
| Tax assessment basis | 25 333 | 118 563 |
| Gross tax payable (30%) | 7 600 | 35 569 |
| Deductions and allowances | ( 609) | ( 577) |
| Withholdings and interim payments | ( 39 249) | ( 43 502) |
| Tax payable (Note 15) | ( 32 258) | ( 8 510) |
| Corporate income tax expense | 15 102 | 34 248 |
| Adjustments CIT expense for allocation investees' bases (Note 19) | 12 258 | 8 626 |
| Other adjustments | - | ( 562) |
| Corporate income tax expense in the year | 27 360 | 42 312 |

During the year, tax losses carried forward allocated of Economic Interest Groupings in which ICO has a differing proportional interest in capital are included: 49,216 thousand Euros at December 2020 (allocation of tax losses by 37,109 thousand Euros at December 2019). Losses are allocated on the basis of the information provided by the entities. It has been decided to allocate these items in the same period in which the balance sheets of the Economic Interest Groupings are closed.

There are no tax losses carried forward to be offset at 2020 closing.

No tax incentive deductions were applied in the year 2020 nor in 2019. There is an international double tax deduction (taxes borne) amounting to 609 thousand Euros and 577 thousand Euros, respectively. There are not international double taxation deductions at end 2020.

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

Taxes and other tax obligations applicable to ICO are open to inspection by the tax authorities during last four years.

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

## 24. INTERESTS AND SIMILAR INCOME

The detail of interests and similar income of 2020 and 2019, based on their origin, is the following:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Financial assets at fair value through other comprehensive income | 2 484 | 6 579 |
| Financial assets at amortised cost | 266 955 | 329 924 |
| Derivatives, hedge accounting | ( 10 408) | ( 9 470) |
| Other assets | 143 | 22 |
| Interests and similar income from liabilities | 31 675 | 20 047 |
| | 290 849 | 347 102 |

## 25. INTERESTS AND SIMILAR CHARGES

The detail of this caption of the profit and loss account during 2020 and 2019 is the following:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Financial liabilities at amortised cost | 396 153 | 670 126 |
| Derivatives, hedge accounting | ( 135 633) | ( 302 175) |
| Other liabilities | - | - |
| Interests and similar charges from assets | 8 540 | 7 207 |
| | 269 060 | 375 158 |

## 26. INCOME FROM DIVIDENDS

The totality of yields obtained for this concept corresponds to the portfolio of variable income, for an amount of 344 thousand Euros in 2020 (no amount in 2019).

## 27. PROFIT/(LOSS) IN ENTITIES VALUED THROUGH THE EQUITY METHOD

The totality of results from entities valued through the equity method, included on this caption of the consolidated profit and loss account, amounts in 2020 and 2019 to profits by 1,995 thousand Euros and profits by 2,266 thousand Euros, respectively. Annex I includes the detail of shareholdings, as well as their most relevant data at December 31, 2020 and 2019.

## 28. FEE AND COMMISSION INCOME AND EXPENSES

The detail of this caption of the consolidated profit and loss account is the following:

| | Thousands of Euros | |
|---|---|---|
| | **2020** | **2019** |
| **Commissions received** | | |
| Contingent risks | 4 041 | 2 015 |
| Availability commissions | 294 | 962 |
| Management commissions COVID sureties | 3 166 | - |
| Other commissions | 48 046 | 39 677 |
| | 55 547 | 55 507 |
| **Commissions paid** | | |
| Signature risk | ( 96) | ( 700) |
| Other commissions | ( 6 399) | ( 6 903) |
| | ( 6 495) | ( 7 603) |
| **Net Commissions for the year** | 49 052 | 47 904 |

The heading “Other commissions” of commissions income, at December 31, 2020, includes 15,000 thousand Euros related to commissions of the Autonomous Communities’ Financing Fund and of the Local Entities’ Financing Fund, for the management of both funds (25,000 thousand Euros at December 31, 2019) (Note 16).

## 29. GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET

The detail of this caption of the consolidated profit and loss account, based on the origin of its items is the following:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Financial assets at fair value through other comprehensive income (Note 9) | - | - |
| Financial assets at amortised cost, loans and receivables (Note 10.3) | - | - |
| Financial assets at amortised cost, debt securities (Note 10.1) | 23 | 10 365 |
| Financial liabilities at amortised cost (Note 18.4) | 139 | - |
| | 162 | 10 365 |

In 2019, the Group sold financial assets at amortised cost (Public Debt), as established on its Business Model (and with limits therein set), in order to achieve more balance in the structure of maturities and renewals of interest rates in the entity's Euro balance. The nominal amount disposed of was of 368 million Euros, generating results by 10,365 thousand Euros.

## 30. PROFIT OR LOSS ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING, NET

The detail of this caption of the consolidated profit and loss account, based on the origin of its items is the following:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Trading derivatives (Note 7) | 3 385 | 591 |
| | 3 385 | 591 |

Following the entry into force of IFRS 13 (January 1, 2013), the Group did not incorporate the corresponding adjustment for counterparty and equity credit risk (CVA-DVA) for the valuation of the derivative instruments. The adjustment made under this heading (including this caption) at December 31, 2020 amounts to profits by 1,836 thousand Euros (profit of 4,030 thousand Euros at December 31, 2019).

## 31. PROFIT OR LOSS FOR FINANCIAL ASSETS AND LIABILITIES OBLIGATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS, NET

The detail of this caption of the profit and loss account is the following:

| | Thousands of Euros | |
|---|---|---|
| | **2020** | **2019** |
| Equity instruments at fair value through profit or loss (Note 8) | - | 1 984 |
| | - | 1 984 |

## 32. PROFIT OR LOSS RESULTING FROM HEDGE ACCOUNTING, NET

The detail of this caption of the profit and loss account is the following:

| | Thousands of Euros | |
|---|---|---|
| | **2020** | **2019** |
| Hedging derivatives (Note 11) | 34 030 | 56 472 |
| | 34 030 | 56 472 |

This caption includes results from the variation of fair value both of hedging elements and of hedged elements.

## 33. OTHER OPERATING INCOME AND EXPENSES

The detail of this caption of the consolidated profit and loss account is the following:

| | Thousands of Euros | |
|---|---|---|
| **OTHER OPERATING INCOME** | **2020** | **2019** |
| Income from exploitation of estates | 506 | 750 |
| Other concepts (*) | 334 | 1 281 |
| | 840 | 2 031 |

*(*) It mainly includes expenses recovered from returns of supplies and advances performed for the management of assets by BBVA*

| OTHER OPERATING EXPENSES | Thousands of Euros 2020 | 2019 |
|---|---|---|
| Other concepts | - | ( 211) |
| | - | ( 211) |

## 34. PERSONNEL COSTS

The composition of this caption of the consolidated profit and loss account of 2020 and 2019 is the following:

| | Thousands of Euros 2020 | 2019 |
|---|---|---|
| Wages and salaries | 16 917 | 16 208 |
| Employee benefits expense | 4 284 | 3 746 |
| Other expenses | 1 379 | 1 592 |
| | 22 580 | 21 546 |

The number of the Group's employees at December 31, 2020 and 2019, distributed per professional categories and gender, has been the following:

| | Payroll's distribution | | | |
|---|---|---|---|---|
| | Men | | Women | |
| | 2020 | 2019 | 2020 | 2019 |
| Management | 14 | 15 | 15 | 14 |
| Managers and technicians | 114 | 113 | 151 | 140 |
| Administrative staff | 8 | 8 | 47 | 48 |
| | 136 | 136 | 213 | 202 |

The average number of the Group's employees in 2020 and 2019, distributed per professional categories and gender, has been the following:

| | Payroll's average distribution | | | |
|---|---|---|---|---|
| | Men | | Women | |
| | 2020 | 2019 | 2020 | 2019 |
| Management | 14 | 15 | 15 | 14 |
| Managers and technicians | 113 | 105 | 145 | 137 |
| Administrative staff | 8 | 8 | 47 | 49 |
| | 135 | 128 | 207 | 200 |

*NOTE: Since the signing of the Fifth Collective Agreement (published in the Official Gazette on October 24, 2008), general service staff is included under the heading of administrative professionals.*

The average number of the Group's employees, in 2020, with disability above 33% has been of 3 persons (as in 2019).

**Remunerations and other benefits for the General Board**

In 2020 and 2019 ICO recorded in the consolidated profit and loss account 137 thousand Euros and 137 thousand Euros (on the section of "Other administration expenses"), respectively, in respect of remuneration accrued by the members of the General Board in respect of wages, allowances and other remunerations. These were paid to the Treasury, according to the applicable regulation law, in the case of General Board members considered as Senior Positions in the Civil Service.

Remunerations perceived by the General Director/s of ICO and by other persons who exercise similar functions during 2020 and 2019 are the following:

<u>Year 2020:</u>

| | Salaries and wages Thousands of Euros | | | |
|---|---|---|---|---|
| **No. persons** | **Fixed** | **Variable** | **Other Remunerations Thousands of Euros** | **Total Thousands of Euros** |
| 5 | 603 | 82 | 2 | 687 |

<u>Year 2019:</u>

| | Salaries and wages Thousands of Euros | | | |
|---|---|---|---|---|
| **No. persons** | **Fixed** | **Variable** | **Other Remunerations Thousands of Euros** | **Total Thousands of Euros** |
| 5 | 583 | 65 | 2 | 650 |

At December 31, 2020 and 2019 there were no loans granted to the executive members of ICO's General Board. At December 31, 2020 loans granted under the Group's internal regulations on loans to staff, had an outstanding amount of 13,450 thousand Euros and the average interest rate was 2.51% (14,574 thousand Euros at December 31, 2019, with an average interest rate of 2.51%).

In addition, at such date, no pension or life insurance obligations had been acquired with regard to current or former members of the General Board.

## 35. OTHER ADMINISTRATION EXPENSES

The detail of this caption of the consolidated profit and loss account is the following:

| | Thousands of Euros | |
|---|---|---|
| | 2020 | 2019 |
| Buildings, installations and materials | 862 | 946 |
| Computers | 3 738 | 3 485 |
| Communications | 2 021 | 2 157 |
| Advertising and publicity | 1 433 | 1 344 |
| Rates and taxes | 1 761 | 1 604 |
| Other general administration expenses | 7 851 | 7 830 |
| | 17 666 | 17 366 |

### Audit expenses

The annual accounts audit has been made by the General Intervention of the State Administration (IGAE for its initials in Spanish). Consequently, there are no remunerations to auditors for this concept, as they are assumed by the General Intervention (Ministry of Treasury and Public Administrations).

The amount invoiced by Mazars Auditores S.L.P. for the audit of CERSA and COFIDES, Group's associates, of 2020 and 2019, which is attributable to the Group's consolidation (that is to say, fees accrued for the Group's shareholding percentage in CERSA) is of 12 thousand Euros in 2020 and 5 thousand Euros in 2019.

The amount invoiced by companies under the trademark of Mazars (which audit, by virtue of a contract formalised with the IGAE to deliver a collaboration service in the performance of the audit of the annual accounts of 2020 and 2019) for the delivery of services to ICO related to the audit have amounted to 10 thousand Euros. The amount invoiced for the delivery of non-audit services during 2020 has been of 37.5 thousand Euros, not including taxes (39.5 thousand Euros in 2019).

## 36. FAIR VALUE

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

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

Part of the assets registered under “loans and receivables” and liabilities registered under the heading “Financial Liabilities at amortised cost”, from the consolidated balance at December 31, 2020 and 2019, are accounted at variable rate, with an annual revision of that rate, so their fair value coming from movements of interest rates, it is not significantly different from the one registered in the consolidated balance. The fair value of these has been obtained using a weighted average maturity and a weighted average rate through which it has proceeded to calculate the fair value using discount flows. The fair value of total assets and liabilities in these captions, of ICO, as Group’s parent company, at December 31, 2020 and 2019, is as follows:

| | Thousands of Euros | | | |
|---|---|---|---|---|
| | Carrying value | | Fair value | |
| **ASSETS** | **2020** | **2019** | **2020** | **2019** |
| Financial assets at amortised cost | 29 343 703 | 28 469 446 | 29 871 708 | 28 697 087 |
| **LIABILITIES** | | | | |
| Financial liabilities at amortised cost | 27 778 726 | 25 824 723 | 27 944 499 | 26 077 492 |

Fair value has been calculated, in all cases, both in 2020 and in 2019, taking as reference implicit curves in monetary and Public Debt markets.

## 37. OPERATIONS WITH SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Balances at December 2020 and 2019 of the Company related to Joint Ventures and Associates are as follows:

CERSA

- Deposits to customers (financial liabilities at amortised cost): 13,995 thousand Euros at December 31, 2020 (13,995 thousand Euros at December 31, 2019).

**INSTITUTO DE CRÉDITO OFICIAL**

**MANAGEMENT REPORT**

**Financial environment and frame of action**

The evolution of the Spanish economy was scuttled when, from March 2020, the effects of the COVID-19 pandemic were intensively clear in Spain. In particular, the severe mobility restriction measures adopted, since mid-March, in order to contain the propagation of the virus and to prevent the collapse of the health system, had as collateral effect an unprecedented fall of the economic activity in the recent history of Spain. Thus, even if at the second half of the year, the activity started its recovery, once the health situation was maintained under certain control with less strict limitations to the activity, at the end of 2020, the main economic indicators, particularly the GDP and the employment, were still sensibly below their pre-COVID levels.

Indeed, since mid-March, in Spain, a ser of measures were adopted which, initially, implied a mobility restriction, including the remote employment for all posts that could apply it, the closing of the virtual totality of the commercial, hotel or leisure activity, and the approval of a home lockdown for the generality of the population. From May and June, these measures have been relaxed, although restrictions have continued being imposed on certain activities and to the mobility between territories, based on the evolution of health indicators. Also, in addition to Temporary Layoff Plans (*Expedientes de Regulación Temporal de Empleo,* ERTE), special budget items were approved for the acquisition of medical supplies or for the scientific research. Likewise, it is notable the approval of moratoriums for loans, both at mortgage level and for other credits. At economic level, apart from the ERTE, the most significant measure within the group of measures adopted at Spanish level was the implementation of wide programmes of sureties with State's guarantee, managed by ICO, that have covered loans granted to finance liquidity or investment in percentages of up to 80%, extending the guarantee to 90% for SMEs and employers from the tourist and hotel sector, and related activities. Amounts mobilised by these surety lines have been the highest among the main European countries, with an amount effectively used that, until January 2021, has represented 9.5% of the GDP (7.1% more than Italy, the second European country in the use of these guarantees in relation to the GDP).

In 2020, the Spanish economy, as in the case of other Eurozone economies, suffered a significant contraction. According to data published by the Spanish Statistics Institute (INE) and Eurostat, Spanish GDP fell more sharply in 2020 than in the Eurozone as a whole. This occurred against a backdrop of a global downturn in activity, with GDP falling both at the global aggregate level and in all the world's major economies, with the notable exception of China (which suffered a clear slowdown in growth, but did not move into falling territory). Thus, in Spain, GDP contracted by 11.0% in 2020, in contrast to the 2.0% growth recorded in 2019. The fall in GDP in 2020 occurred in a context of a fall in both domestic demand, which made a negative contribution of 9.0 percentage points (pp), and the foreign sector, with a negative contribution of 1.9 pp.

Thus, although in 2020 both domestic demand and the external sector made a negative contribution from the positive levels they had shown a year earlier, the external sector showed a smaller deterioration and, therefore, made a significantly less negative contribution to GDP than domestic demand. Within domestic demand, both consumer spending and gross capital showed negative rates of change in 2020, in a context of a sharp deterioration in the confidence of economic agents as a whole, although within consumer spending it was noteworthy that final consumption by public administrations expanded last year within the framework of the measures adopted to cushion the impact of the crisis (including, for example, the activation of the ERTE). Investment fell across the board, in 2020, including both intellectual property and gross fixed capital and, within the latter, all types of fixed assets (capital goods and construction).

In relation to the external sector, there was a deterioration in both exports and imports of goods and services, from growth in 2019 to double-digit declines in 2020, all against the backdrop of the sharp fall in world trade and services transactions (particularly tourism) over the past year. The decline in exports of goods and services in 2020 (-21.5%) was significantly larger than the fall in imports (-18.7%), leading to the aforementioned deterioration in the final contribution to the change in the external sector's GDP. The sharp decline in exports of goods and services was notably influenced by the strong fall in the number of international tourists arriving in Spain, which, in the context of international restrictions on mobility, fell from 83.7 million in 2019 to just 19 million in 2020. Despite the aforementioned difficulties, the Spanish economy was able to maintain a certain external financing capacity and current account surplus in 2020, although both positive balances were significantly reduced compared to 2019. Nonetheless, the continuation of positive external balances will allow the Net International Investment Position to continue to improve.

With regard to the labour market, the significant fall of activity led to an adjustment in employment during 2020 which, according to the Labour Force Survey (EPA), amounted to the destruction of 622,600 jobs. This drop is equivalent to an employment decline of 3.1%, which contrasts with the aforementioned 11% drop in overall activity. Thus, employment declined by much less than the overall fall in activity, in contrast to previous occasions when employment reacted with rates of decline even higher than those of GDP. This can largely be explained by the massive activation from March onwards of the ERTE, which allowed the Spanish economic fabric to adjust its effectively available workforce without having to resort to redundancies, as had been usual to date. In fact, in April a maximum of 3.5 million workers were covered by ERTE, with a progressive decrease in the number affected thereafter, reaching around 700,000 affected in the summer and autumn of 2020. In any event, the ERTE did not prevent the decline in employment and the corresponding increase in the number of unemployed, which led the unemployment rate to stand at 16.13% at the end of 2020, 2.35 pp above the rate at the end of the previous year.

The average annual inflation rate stood at -0.5% in 2020, 1.2 pp below the average inflation rate recorded in 2019. This sharp decline in inflation was largely due to the fall in energy products in 2020 relative to 2019, although there was a fall in prices beyond energy goods, as illustrated by the fact that core inflation also fell in 2020 to 0.1%, 0.8 pp below its average in 2019.

The public deficit remained below the 3% limit set by the Stability and Growth Pact (SGP) in 2019, so that Spain remained outside the Excessive Deficit Procedure for the second consecutive year. Specifically, the deficit stood at -2.9% of GDP in 2019. In 2020, after the strong decline in revenue resulting from the adjustment in activity and the increase in expenditure resulting from the measures approved to mitigate the impacts of the crisis, estimates suggest that the overall general government deficit will stand at around -11.3% of GDP. With this, public debt would also break its line of progressive decline and would rise from a level of 95.5% of GDP in 2019 to 117.1% of GDP in December 2020, according to the Bank of Spain. With regard to the aforementioned increase in the government deficit, it should be noted that in March 2020 the European institutions approved the activation of the general safeguard clause provided for in the SGP, which allows for "temporary deviations from normal requirements in a coordinated and orderly manner in situations of generalised crisis caused by a severe economic slowdown in the euro area or in the EU as a whole". This clause does not suspend the application of the SGP but leaves any possible actions that might be adopted at least during 2020 and 2021 inapplicable, so that the increase in the deficit that has occurred in Spain, as in all European countries, will not trigger the activation of the Excessive Deficit Procedure for the time being. In line with this flexibility adopted at the European level with respect to the Member States, the monitoring of the deficit targets applied to regional and local authorities has also been made more flexible at the Spanish level.

For its part, activity in the Eurozone contracted by 6.8% in 2020 (compared with growth of 1.3% in 2019). As in the Spanish case, the Eurozone as a whole has been affected by the deterioration in confidence suffered by economic agents as a whole, mainly from the end of February in Italy and March in the rest of the Eurozone. In a similar way to that observed for the Spanish case, domestic demand has been strongly affected, with declines in both consumption (with the exception of public consumption due to the stimulus measures adopted by the different countries) and investment. Likewise, there was a decline in the volume of both exports and imports in the area as a whole.

As for inflation, headline inflation in the Eurozone also moved to a negative rate of change, as seen for Spain. In the case of the Eurozone, headline inflation stood at -0.3% in 2020, compared with a rate of 1.3% in 2019. For its part, core inflation, although also moderating, did so to a lesser extent than the headline rate, reaching 0.4% in 2020 compared to 1.4% in 2019.

This situation caused the European Central Bank to intensify the expansionary policies it had already been applying during 2020. Thus, already in March 2020, foreseeing the deterioration looming over the European economies, the ECB announced an extension of its asset purchase programmes, announcing in subsequent meetings modifications to its policies, including a "recalibration" of its programmes in December 2020, with the aim of using all available instruments as effectively as possible in order to achieve its mandate. While interest rates remained unchanged during 2020 from 2019 levels, virtually all other instruments have been modified, most notably the introduction of an asset purchase programme specifically designed in response to the COVID-19 pandemic (the PEPP programme, endowed with €1.85 trillion until at least March 2022), which joins the previously existing APP (which continued at a pace of €20 billion per month plus an additional €120 billion in 2020 as a whole). In addition, new rounds of long-term refinancing operations (TLTRO-III) were announced and their conditions relaxed, while new specific refinancing operations (the PELTROs) were announced with the aim of providing additional liquidity to the system and helping to preserve monetary policy transmission by providing effective liquidity collateral. Finally, it should be noted that the ECB maintained its guidance on the period over which it expects interest rates to remain at current levels - or lower - with the wording indicating that these rates will be maintained until it sees a solid convergence of the inflation outlook to a level sufficiently close to, but below, 2% over its projection horizon, and this convergence has been consistently reflected in the evolution of underlying inflation.

Low interest rates, the expectation that they will be maintained and the ECB's purchases continued to put downward pressure on debt yields. Thus, Spanish 10-year benchmark debt began the year at around 0.47% and, although it rebounded after the first news of the impact of the pandemic which took it above 1% at some points in March and April, the ECB's policies and the progressive control of the health situation meant that from June onwards debt consolidated at lower levels than at the start of the year. From the summer onwards, bond yields maintained a clear downward trend that led to bonds trading in negative territory at some points in December, even on a daily average. At the end of 2020, the price of ten-year bonds stood at 0.06%. For its part, the spread between Spanish debt and the German benchmark began the year at around 65 bps, reached highs of up to 155 points after the first impacts of the pandemic in March and April, and gradually narrowed from the summer onwards, so that it ended 2020 at 63 bps, a level practically the same as at the beginning of the year.

The low interest rate environment in financial markets continued to be passed on to households and companies in the form of low lending rates. Thus, the interest rates applied to the smallest operations in Spain (less than 1 million, used as a proxy for loans to SMEs) ended 2020 at a level practically identical to that at the end of 2019 (1.78% in December 2020 compared with 1.76% in December 2019). Moreover, the interest rate on these loans in Spain was lower than the interest rate on these same loans in Germany for practically the entire year (only in January was the German rate lower), ending the year with a difference of 20 bps.

In relation to amounts, in 2020 there were setbacks in the volume of new operations, especially in the cumulative amount of operations of less than 250 thousand Euros, which fell by 8.95% compared to a year earlier, while the fall in operations of less than 1 million was 0.5% compared to 2019. Conversely, transactions of more than 1 million Euros grew by 5.5% in

2020 compared to 2019. Based on this performance of larger loans, the outstanding amount of bank credit to companies maintained an upward trend, with growth of 5.6% in December.

With regard to banks' asset quality, the doubtful assets ratio declined slightly during 2020 despite the economic uncertainty supported by measures adopted during the year. Specifically, this ratio stood at 4.5% in December 2020, slightly down from 4.6% in December 2019. This fall is explained by a reduction in credit classified as doubtful in parallel to the increase observed in total credit to households and companies.

On the other hand, with regard to the Bank Lending Survey published by the ECB in collaboration with the national central banks, it became clear that the COVID-19 crisis had a strong influence on the demand for credit. Indeed, the demand for new credit by Spanish SMEs started the year on a downward trend and then grew strongly in the second quarter of 2020, supported by the line of guarantees approved by the Spanish government to provide liquidity to companies in the face of the uncertainty of the new situation. After this large increase with the aim of securing the necessary liquidity, demand would have fallen during the second half of the year, in the context of the already observed drop in investment and activity in general. As for the trend for the coming quarters, based on this Bank Lending Survey, it is expected that this downward trend in demand will continue, at least in the immediate future.

At the institutional level, several major events took place at the European level during 2020. Firstly, the new Multiannual Financial Framework 2021-2027 (MFF 2021-2027) was approved, with a budget of slightly more than one trillion Euros (in line with the previous framework), which will be accompanied by a new instrument, the Next Generation EU (NGEU) programme, which will be endowed with 750 billion Euros and which will be mainly aimed at promoting the recovery of the European Union by laying the foundations for a transformation of the economic structures of the Member States that will strengthen them in the face of possible future crises. NGEU will also be financed by means of debt issued by the EU itself between 2021 and 2026, which will be repaid between 2026 and 2058 both by the repayment of the part of the loans that each state repays and by the general contributions to the EU made by the Member States. This is because the NGEU programme foresees that of the total amount, 360 billion will be granted via loans to the Member States and the remaining 390 billion will be granted via non-repayable direct transfers.

Under NGEU, Spain is expected to receive around 140 billion Euros over the entire period 2021-2027, of which approximately half will be direct transfers and the other half will be repayable loans. This amount means that Spain will receive a higher percentage of the total than its share in the EU as a whole, whether in terms of GDP or population. In order to receive the corresponding funds, each Member State must draw up the corresponding plans before April 2021 and have them approved by both the European Commission and the European Council. In this context, Spain has already presented a draft of this plan during the autumn of 2020 in which it presents the priorities for the use of these funds in line with what has been approved at European level.

Secondly, the EU and the United Kingdom (UK) reached a Cooperation and Trade Agreement to regulate their future relationship in the last days of 2020, when the transitional period in which EU rules basically remained in force was coming to an end. This agreement establishes the general principle of free trade without tariffs or other tariffs, covering also points such as state aid or respect for high environmental standards, thus promoting fair and balanced competition between the EU and the UK. It also establishes the rules that will regulate the relationship between the two blocs on issues such as security and police and judicial cooperation. Finally, safeguards and rules are included to ensure compliance with the agreement, including a body to resolve any disputes that may arise during its implementation.

On the other hand, both the MFF 2021-2027 and the NGEU programme provide instruments to deepen the European Green Deal initiative, which aims to progress along the path of a sustainable ecological transition that does not impede economic growth and prosperity. In this respect, this year it has been agreed to increase the reduction of emissions compared to 1990 levels to 55% by 2030, compared to the 40% reduction in force until this year. All of this while maintaining the objective of decarbonising the economy and achieving complete climate neutrality by 2050.

In addition, both the MFF 2021-2027 and the NGEU provide amounts for the InvestEU programme, which will bring together in a single structure the multitude of EU financial instruments currently available and extend the successful model of the Investment Plan for Europe, the "Juncker Plan". The final figures show that InvestEU will have more than €26 billion mobilising estimated investments of more than €372 billion through public-private partnerships across the EU. Investments will be made in eligible projects in four priority axes of action: sustainable infrastructure; research, innovation and digitisation; SMEs; and social investments and skills.

For its part, the European Banking Authority published its annual report on risks and vulnerabilities in the European banking sector in December 2020 in conjunction with the Transparency 2020 exercise, which provides detailed information for 129 banks across the EU. Overall, banks maintained strong capital and liquidity positions, recovering during 2020 in terms of the CET1 liquidity ratio from the impact of the COVID-19 pandemic during the first quarter of 2020. On the other hand, although the doubtful assets ratio remained on a downward trend during 2020, according to the report there are indications that asset quality could deteriorate over the coming quarters. Moreover, the report notes that the structural challenges faced by the sector before the pandemic will even intensify, as for example it points out that the period of low interest rates is expected to last even longer than previously estimated, while other challenges, such as the emergence of new technology-based competitors (FinTech’s), remain. Also, although initially planned for 2020, stress tests such as those periodically carried out to ensure that institutions are prepared to face adverse scenarios have been postponed to the beginning of 2021.

In summary, the Spanish economy suffered in 2020 from the impact of the COVID-19 pandemic, which, as in the economies as a whole, caused a severe contraction in activity.

Looking ahead to 2021, consensus forecasts anticipate a return to growth, with a recovery that is expected to be stronger in Spain than in the Eurozone as a whole. This growth will be supported by a context of favourable financial conditions, with monetary policy remaining expansionary.

**Activity**

In this complicated economic context, ICO, which plays a particularly important role in times of difficulty, has once again demonstrated, as it did in the previous economic and financial crisis, its outstanding support for Spain's productive fabric.

As mentioned above, one of the most important economic measures adopted in Spain to alleviate the effects of the health crisis on the economy was the implementation of extensive state-guaranteed guarantee programmes.

These programmes, managed by ICO on the basis of a public-private partnership unprecedented in Spain, have become a major player in mobilising resources for companies and the self-employed.

The rapid and effective implementation of the ICO-COVID guarantee lines approved by the Government to maintain liquidity and the flow of financing to companies, especially for SMEs and the self-employed, has been key to laying the foundations for economic recovery in 2021.

From the first moment of the health crisis, in March 2020, ICO promoted a specific mediation line (ICO Tourism Sector and related activities COVID 19/Thomas Cook) and initiated the management, on behalf of the Ministry of Economic Affairs and Digital Transformation, of a line of guarantees for granting liquidity to companies and the self-employed for up to 100,000 million Euros. This line also includes the guarantee of promissory notes of companies listed on the Alternative Fixed Income Market (MARF), where ICO has also played the role of financier through purchases of this paper. As a complement to the line of guarantees aimed at liquidity, a new line of guarantees was launched to cover the financing of investments with an endowment of up to 40,000 million Euros.

Since the launch of these lines, 89,000 million Euros have been guaranteed for more than 600,000 self-employed workers and companies, which have been granted financing of more than 117,000 million Euros.

In its role as the State's financial agency, the ICO also managed the line of guarantees for tenants in particularly vulnerable situations, endowed with up to 1.2 billion Euros by the Ministry of Transport, Mobility and the Urban Agenda.

In addition to the COVID-19 guarantees, in 2020, ICO continued to manage other funds and instruments on behalf of the State in three areas of action: promoting the internationalisation of Spanish companies through the Fund for the Internationalisation of Companies (FIEM) and the Reciprocal Interest Contract (CARI) on behalf of the Ministry of Industry, Trade and Tourism; financial cooperation for development, through the Fund for the Promotion of Development (FONPRODE) and the Water Fund (FCAS) on behalf of the Spanish Agency for International Development Cooperation (AECID); and the financing of the State's peripheral administration through the Territorial Funds of Autonomous Communities and Local Entities on behalf of the Ministry of Finance. At the end of the 2020 financial year, the total balance managed by the ICO corresponding to these funds amounted to 192,084 million Euros.

- The Autonomous Community Financing Fund, for which the ICO acts as financial manager, had an outstanding balance of 178,865 million Euros at the end of 2020.

- The Local Entities Financing Fund closed 2020 with a balance of 6,312 million Euros.

- The State Funds for internationalisation and financial cooperation for development (CARI, FIEM, FONPRODE and FCAS) have a combined balance of 6,907 million Euros at the end of 2020.

All this, while continuing to accompany and support Spanish companies with its own lines of financing, both through the mechanism for distributing funds in collaboration with the intermediary credit institutions operating in Spain (ICO Lines) and through the financing and guarantee programmes in which the ICO acts directly with customers.

The financing allocated by ICO to companies, entrepreneurs and territorial administrations during 2020 amounts to 6,642,941 thousand Euros, representing a growth of 3.7% compared to the previous year.

Specifically, 50.4% of this amount (3,347,674 thousand Euros) correspond to drawdowns made through the different ICO 2020 mediation lines, accumulating a total of 35,296 operations. Of these, 62.9% were targeted at micro-SMEs (companies with up to nine employees) and 42.5% corresponded to loans of 25,000 Euros or less.

In the mediation activity, there are two distinct areas of action:

- **National:** lines aimed to finance investment projects and liquidity needs of employers and companies, in Spain, implying 80.2% of the total amount applied to mediation lines in 2020.
    - Charged to the line ICO Companies and Emprendedores, 27,409 operations have been granted for an amount of 1,971,553 thousand Euros, 58.9% of the entire mediation activity.

      This line includes 4,724 operations corresponding to the ICO Tourist Sector Line and related activities – COVID 19/Thomas Cook, accumulating an amount of 400,000 thousand Euros.
    - Availabilities of the line ICO Crédito Comercial, mainly aimed to provide liquidity to

employers and companies by advancing invoices originated from the commercial activity within the national territory, have reached a volume of 30,344 thousand Euros in 880 operations.

- Under the line ICO Guarantee SGR/SAECA, 14 operations have been formalised, for a total amount disposed of by 828 thousand Euros.

- **International:** these lines are aimed to finance the internationalisation and exporting activity of Spanish companies.

  - Through the line ICO Exportadores, 891,933 thousand Euros have been formalised in loans to 6,844 employers and SMEs, to promote the Spanish companies' exporting activity.

  - In 2020, 416,592 thousand Euros have been disposed of in 6 operations of the line ICO Canal Internacional.

  - In order to promote external expansion projects, 36,424 thousand Euros have been disposed of, distributed in 143 operations through the line ICO International.

In terms of direct financing, during 2020 the ICO complemented its financing activity through loans and guarantees with purchases of bonds issued by Spanish companies to provide companies with the necessary financing to undertake their medium- and long-term investment plans (corporate bonds); through the acquisition of project bonds, as a financing instrument especially linked to large infrastructure operations; and with purchases of corporate bonds and promissory notes issued through the Alternative Fixed Income Market (MARF) to provide issuers (especially SMEs) with access to financing to cover their short and medium-term liquidity needs.

Through these direct financing modalities, during 2020, ICO has made available 3,295,268 thousand Euros, and has formalised guarantees for an amount of 197,847 thousand, thereby helping to meet the liquidity needs of companies as a result of the economic impact of COVID-19 and continuing to promote the development of major long-term investment projects both in Spain and abroad, always respecting the principle of complementarity with private initiative.

Overall, the balance of the total lending activity managed by the ICO (including the amounts guaranteed by the COVID-19 guarantee lines, the funds managed on behalf of the State and its own activity) amounted to 302,534 million Euros, 40.7% higher than in December 2019.

In terms of fundraising, medium- and long-term financing was raised in 2020 for 5,664,565 thousand Euros. In 2020, we highlight the issuance of a social bond and a green bond:

- A social bond was issued by 500,000 thousand Euros to finance operations of employers, SMEs and companies that contribute to mitigate the social and economic impact of the COVID-19. ICO is the first Spanish issuer that launches a public issue of social bonds aimed to mitigate the economic effects of the COVID-19.

- The issue of the green bond, second issue of this kind made by ICO, amounted to 500,000 thousand Euros. Funds will be applied to financing projects made by Spanish companies to contribute to the promotion of the ecologic transition, one of the axis of the Spanish Economy's Recovery, Transformation and Resilience Plan in the framework of the Next Generation EU programme.

By the end of 2020, ICO had issued nine sustainable bonds (seven social and two green), consolidating its position as one of the benchmark issuers in this market at European level with a total of 4,550 million Euros issued.

Another of the main strategic lines of action in this period has been through the funds, whose sole participant is ICO, managed by AXIS, the ICO Group's venture capital subsidiary.

FOND-ICO Global is Spain's first public "Fund of Funds". Its aim is to promote the creation of privately managed venture capital funds that invest in Spanish companies to provide alternative financing channels to banks and boost their capitalisation and growth.

This fund, with an initial endowment of 1,200,000 thousand Euros, has been gradually expanded given its positive evolution, receiving an additional boost in 2020 with the following actions: increasing the assets committed by ICO by 2,500,000 thousand Euros, to reach 4,500,000 thousand Euros, with ICO as the sole participant; extending the Fund's investment term until 17 May 2026 and extending the Fund's duration until 17 May 2034. In 2020, two new calls for proposals were resolved, approving investments amounting to 531,000 thousand Euros, in which criteria of sustainability, digitalisation and innovation of the productive fabric were incorporated in the evaluation of the proposals of the participating funds, accrediting ICO's commitment in these areas.

In addition, in response to the COVID-19 crisis, the AXIS Board of Directors approved the COVID-19 Entrepreneurial Ecosystem Initiative, through FOND-ICO Pyme, for 50,000 thousand Euros. This initiative promotes the creation of funds to finance the temporary liquidity needs of technology start-ups and SMEs with high growth potential and highly innovative.

FOND-ICO Infraestructuras II continued with the objective of investing directly or through other investment funds in sustainable infrastructure projects in Spain and abroad with Spanish companies, contributing to the national objectives for the ecological transition.

## Balance sheet

ICO Group occupies a prominent position within the Spanish financial system and has an important role in the Spanish economy, intensifying its contribution in those periods of economic and financial crisis characterised by the scarcity of credit, moments at which ICO has a specially relevant role.

During 2020, there has been an increase in the size of the consolidated balance sheet, from 31,841,654 thousand Euros at 2019 closing to 34,406,884 thousand Euros in 2020. The outstanding amount of financial assets at amortised cost has increased by 3.1%, amounting to 29,343,703 thousand Euros (28,469,446 thousand Euros at December 31, 2019):

- Loans to credit institutions amount to 10,588,049 thousand Euros (10,215,054 thousand Euros in 2019). This caption mainly includes outstanding balances from mediation operations.

- Loans to customers close the year with a balance of 11,433,524 thousand Euros with regard to 10,410,969 thousand Euros in the previous year.

- Debt securities amount to 7,347,498 thousand Euros; 7,843,423 thousand Euros at 2019 closing.

The outstanding balance of the portfolio of debt securities at fair value through other results, aimed to cover possible liquidity needs, amounts to 713,358 thousand Euros (998,586 thousand Euros at December 31, 2019). Also, cash and balances in central banks and other deposits have significantly increased, from 784,604 thousand Euros at 2019 closing to 2,729,630 thousand Euros at December 2020.

In agreement with the increase of credit investment and liquid assets, during 2020, there has been an increase of the balance of financial liabilities at amortised cost, closing the year in 27,759,956 thousand Euros (25,813,190 thousand Euros in 2019).

Equity amounts to 5,240,946 thousand Euros at 2020 closing, 15.2% of the balance sheet. ICO's solvency coefficient at year-end closing amounts to 37.2%, much higher than regulatory minimums.

## Risk management policy

ICO's actions with regard to liquidity, market, credit and operational risk management are described on the corresponding Notes 5.3 to 5.6.

**Results**

Net interest income at the end of December 2020 amounted to 21,789 thousand Euros, an increase of 49,845 thousand Euros with regard to 2019.

The gross margin in 2020 is above that achieved in 2019 (103,745 thousand Euros and 98,274 thousand Euros, respectively).

Operating expenses (administration and depreciation) amounted to 44,669 thousand Euros, above figures in 2019 (42,828 thousand Euros).

It should be noted that the financial year 2020 ended with net provision recoveries of 72,850 thousand Euros and an impairment charge for financial assets not measured at fair value of (22,162) thousand Euros.

As a result, profit before tax amounted to 110,423 thousand Euros.

**Research and development expenses**

No research or development activities were carried out in 2020.

**Treasury stock**

Not applicable to ICO.

**Personnel**

Average joint payroll in ICO and Axis, in 2020, amounts to 342 employees, with regard to 328 in 2019.

**Post-balance sheet events**

In 2021, the ICO will continue to focus its potential on providing added value to financing the Spanish business fabric and responding flexibly to the needs and challenges posed by the different economic scenarios, integrating and complementing the new activity with ICO’s usual activity, promoting the recovery and growth phase on the basis of national and European priorities and encouraging public-private collaboration.

Looking to the near future, the ICO will continue to work to be a useful instrument both in managing the measures implemented so far to mitigate the economic impact generated by the health crisis, especially the ICO COVID-19 surety line, and in deploying the new measures that may be adopted by the government to continue to mitigate the effects of the pandemic on Spanish economic activity. It is worth noting the approval on March 12, 2021 of a package of extraordinary measures to support business solvency, contained in Royal Decree-Law 5/2021, to mobilise public investment of 11,000 million Euros. The Royal Decree-Law empowers the Government to adopt additional measures to make loans with public guarantees more flexible, for which a line for the restructuring of COVID financial debt of 3 billion Euros is provided.

The ICO has also been equipped with new capacities to help Spanish companies to have more access to European programme funds. To this end, ICO has successfully completed its process to be designated Implementing Partner (IP) of the European Union, which will enable it to intervene in the management of European instruments such as Invest EU and others such as the Connecting Europe Facility (CEF), for which it has already managed projects during 2020.

Thus, ICO is accredited to contribute from all its areas of action -together with the corresponding ministries- to effectively deploy the resources that the European Union allocates to the instruments of the Multiannual Financial Framework 2021-2027 and the Next Generation EU (NGEU) programme, endowed with 750,000 million Euros to support the recovery of the European economy, especially between 2021 and 2023.

Within the NGEU, the Recovery and Resilience Mechanism stands out, which will mobilise 672.5 billion Euros to support Member States, of which 312.5 billion Euros will be disbursed in the form of grants. Spain, both through this mechanism and another mechanism also included in NGEU, React-EU, will receive around EUR 26 billion in 2021. For its part, the EIB Group has developed a European Guarantee Fund to support the productive fabric by offering guarantees to financial intermediaries such as ICO, with the aim of providing financing to companies that have been affected by the current crisis and are viable in the long term.

Other significant events that occurred after the reporting date are detailed in Note 1.8.

## Annex I:

## Investments at 31.12.2020 and 31.12.2019 (directly and indirectly held by ICO, as Group's parent company)

The relevant information on shares in associates and subsidiaries at December 31, 2020 and 2019 is the following:

**At 31 December 2020:**

| | | | Shareholding % | | | Investment's carrying value | | | Entity's data | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Address** | **Activity** | **Direct** | **Indirect** | **Total** | **Gross** | **Impairment** | **Net** | **Assets** | **Equity** | **Results** |
| **Associates** | | | | | | | | | | | |
| CERSA, Compañía Española de Reafianzamiento, S.A. | Paseo de la Castellana 151 - Madrid | Supporting guarantee of guarantee operations granted by the SS.GG.RR. | 24.30% | - | 24.30% | 38 886 | - | 38 886 | 490 496 | 343 199 | - |
| COFIDES, Compañía Española de Financiación del Desarrollo, S.A. | Príncipe De Vergara, 132 - Madrid | Financial support to private projects with Spanish interest performed in developing countries | 20.31% | - | 20.31% | 8 466 | - | 8 466 | 155 399 | 149 742 | 9 826 |
| | | | | | | 47 352 | - | 47 352 | | | |
| **Subsidiaries** | | | | | | | | | | | |
| AXIS Participaciones Empresariales Sociedad Gestora de Entidades de Capital Riesgo, S.A. | Los Madrazo, 38 - Madrid | Financial investments | 100.00% | - | 100.00% | 1 940 | - | 1 940 | 19 526 | 18 518 | 11 909 |
| | | | | | | **49 292** | **-** | **49 292** | | | |

Non-audited economic information, referred to December 31, 2020

## Annex I:

## Investments at 31.12.2020 and 31.12.2019 (directly and indirectly held by ICO, as Group's parent company)

**At 31 December 2019:**

| | | | Shareholding % | | | Investment's carrying value | | | Entity's data | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Address | Activity | Direct | Indirect | Total | Gross | Impairment | Net | Assets | Equity | Results |
| **Associates** | | | | | | | | | | | |
| CERSA, Compañía Española de Reafianzamiento, S.A. | Paseo de la Castellana 151 - Madrid | Supporting guarantee of guarantee operations granted by the SS.GG.RR. | 24.26% | - | 24.26% | 36 461 | - | 36 461 | 445 572 | 307 385 | - |
| COFIDES, Compañía Española de Financiación del Desarrollo, S.A. | Príncipe De Vergara, 132 - Madrid | Financial support to private projects with Spanish interest performed in developing countries | 20.31% | - | 20.31% | 8 465 | - | 8 465 | 146 198 | 140 582 | 1 871 |
| | | | | | | 44 926 | - | 44 926 | | | |
| **Subsidiaries** | | | | | | | | | | | |
| AXIS Participaciones Empresariales Sociedad Gestora de Entidades de Capital Riesgo, S.A. | Los Madrazo, 38 - Madrid | Financial investments | 100.00% | - | 100.00% | 1 940 | - | 1 940 | 12 169 | 11 609 | 7 565 |
| | | | | | | **46 866** | **-** | **46 866** | | | |

Non-audited economic information, referred to December 31, 2019

**Annex II**

**ANNUAL BANKING REPORT**

The present Annual Banking Report has been prepared in compliance with Article 87 of Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions. According to this Article, from January 1, 2016, credit institutions must provide Bank of Spain and annually publish, as a report accompanying the audited financial statements according to the regulation on auditing, per country where they are established, the following consolidated information for each year:

a) Denomination, nature and geographic location of the activity.
b) Turnover.
c) Number of FTE employees.
d) Gross profit/(loss) before tax.
e) Income tax.
f) Public grants or aids received.

The criteria used in the preparation of the annual banking report of 2020 and 2019 are detailed below:

a) Denomination, nature and geographic location of the activity

This information is available on Section 1 of the Group's Notes to the Consolidated Financial Statements. In the case of Instituto de Crédito Oficial, the main activity developed by the Group is the direct and mediation credit activity, developing such activity exclusively under Spanish jurisdiction, not having establishments or subsidiaries outside our borders.

b) Turnover

For the purpose of the present report, turnover is total net operating results, as defined and presented on the consolidated profit and loss account that is part of the Group's consolidated annual accounts.

c) Number of FTE employees

Data on FTE employees have been obtained from the Group's average payroll.

d) Gross profit/(loss) before tax

For the purpose of the present report, gross profit/(loss) before tax is profit/(loss) before tax, as defined and presented on the Group's consolidated profit and loss account.

e) Income tax

The corresponding amount of accrued tax has been included and registered on the caption of income tax of the consolidated profit and loss account.

f) Public grants or aids received

In the context of information requested by the legislation in force, this term has been interpreted as any aid or grant in line with the Guidelines of Estate's Aids of the European Commission and, in such context, the Group companies have not received any public grant or aid in 2020 or 2019.

The detail of the information corresponding to 2020 and 2019 is the following (amounts in thousands of Euros):

At 31 December 2020:

| | Thousands of Euros | | | |
|---|---|---|---|---|
| JURISDICTION | Turnover | Average no. Employees | Gross profit/(loss) before tax | Income tax |
| **Spain** | 103 745 | 342 | 110 423 | ( 31 331) |

At 31 December 2019:

| | Thousands of Euros | | | |
|---|---|---|---|---|
| JURISDICTION | Turnover | Average no. Employees | Gross profit/(loss) before tax | Income tax |
| **Spain** | 98 274 | 328 | 154 213 | 44 835 |

At December 31, 2020 the Group's return on assets (ROA) (net consolidated profit divided by total average assets) has been estimated at 0.29%.

**INSTITUTO DE CRÉDITO OFICIAL**

**PREPARATION OF THE CONSOLIDATED ANNUAL ACCOUNTS AT 31 DECEMBER 2020**

The President, as of today, and in compliance with the legislation in force, prepares the Consolidated Annual Accounts of the Institution and Subsidiaries corresponding to the financial year closed at December 31, 2020, and the Consolidated Management Report corresponding to the financial year 2020, which incorporate the attached documents above and conform 153 pages.

Madrid, 31 March 2021

*[Signed in original]*

D. José Carlos García de Quevedo Ruiz

President