INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

Consolidated Financial Statements and Consolidated Management Report

for the year ended December 31 2010

Instituto de Crédito Oficial

Contents

Auditor's Report

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AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

(Translation of a report and consolidated financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish language prevails)

To the General Council of Instituto de Crédito Oficial:

We have audited the consolidated financial statements of Instituto de Crédito Oficial (ICO or the Institute) and its subsidiaries (the Group), which consist of the consolidated balance sheet at 31 December 2010, the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto for the year then ended. As explained in Note 1.2, the Chairman of the Institute is responsible for the preparation of the Group's consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union and other regulations regarding financial information applicable to the Group. Our responsibility is to express an opinion on the aforementioned consolidated financial statements taken as a whole, based upon work performed in accordance with the prevailing audit regulations in Spain, which require the examination, through the performance of selective tests, of the evidence supporting the consolidated financial statements, and evaluation of whether the financial statements, the principles and criteria applied, and the estimates made, are in accordance with the applicable regulatory requirements regarding financial information.

In our opinion, the accompanying 2010 consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and financial position of Instituto de Crédito Oficial and subsidiaries at 31 December 2010 and of the consolidated results of its operations and consolidated cash flows for the year then ended, in conformity with the International Financial Reporting Standards as adopted by the European Union and other applicable regulations regarding financial information.

On 16 April 2010 other auditors issued their audit report on the 2009 consolidated financial statements, in which they expressed an unqualified opinion.

The accompanying consolidated management report for the year ended 31 December 2010 contains such explanations as the Chairman of the Institute considers appropriate concerning the situation of the Group, the evolution of its business and other matters, and is not an integral part of the consolidated financial statements. We have checked that the accounting information included in the aforementioned consolidated management report agrees with the consolidated financial statements for the year ended 31 December 2010. Our work as auditors is limited to verifying the consolidated management report in accordance with the scope described in this paragraph, and does not include the review of information other than that obtained from the accounting records of Instituto de Crédito Oficial and subsidiaries.

ERNST & YOUNG, S.L.

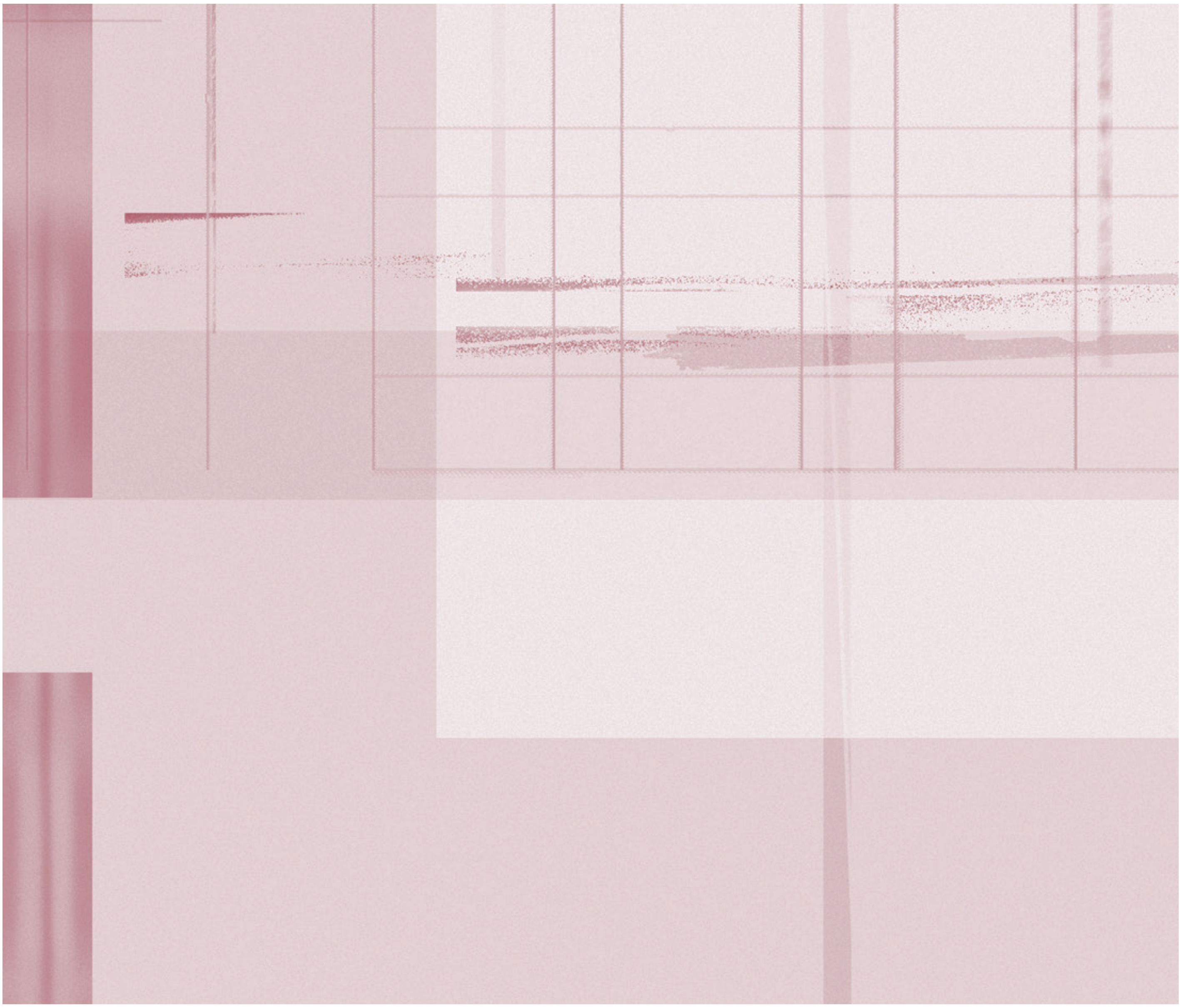
(Signed in the original in Spanish)

April 15, 2011

Francisco J. Fuentes García

Domicilio Social: Pl. Pablo Ruiz Picasso, 1. 28020 Madrid
Inscrita en el Registro Mercantil de Madrid al
Tomo 12749, Libro 0, Folio 215, Sección 8ª,
Hoja M-23123, Inscripción 116. C.I.F. B-78970506

Annual Accounts



Consolidated balance sheets

at 31 December 2010 and 2009

(expressed in thousand euros)

ASSETS	2010	2009
Cash and deposits at central banks (Note 6)	**424,056**	**74,548**
Trading portfolio (Note 7)	**598,423**	**470,686**
Debt securities	-	-
Equity instruments	-	-
Derivates far trading	598,423	470,686
Memorandum item: By the way of loan or guarantee	-	-
Other financial assets at fair value with changes in the income statement	-	-
Available-for-sale financial assets (Note 8)	**1,261,385**	**1,473,411**
Debt securities	1,105,597	1,365,803
Other equity instruments	155,788	107,608
Memorandum item: By the way of loan or guarantee	-	-
Credits, loans and discounts (Note 9)	**66,166,841**	**48,230,234**
Deposits at credit institutions	43,382,415	29,383,824
Customer loans	22,784,426	18,846,410
Debt securities	-	-
Memorandum item: By the way of loan or guarantee	-	-
Held-to-maturity investment portfolio (Note 10)	**4,292,179**	**7,828,332**
Memorandum item: By the way of loan or guarantee		
Adjustments to financial assets due to macro-hedging		**-**
Hedging derivatives (Note 11)	**4,768,558**	**1,899,625**
Non-current assets for sale (Note 12)	**1,592**	**4,332**
Shareholdings (Note 13)	**67,073**	**40,090**
Associates	67,073	40,090
Jointly Control Entities	-	-
Pension insurance contracts	**-**	**-**
Property, plant and equipment (Note 14)	**103,403**	**104,961**
Fixed Assets	103,403	104,961
For own use	103,403	104,961
Real estate investment	-	-
Memorandum item: Acquired under finance lease	-	-
Intangible assets (Note 15)	14,442	11,843
Other intangible assets	14,442	11,843
Tax assets (Note 16)	164,660	216,022
Current	397	12,314
Deferred	164,263	203,708
Other assets (Note 17)	3,621	2,158
TOTAL ASSETS	**77,866,233**	**60,356,242**

Consolidated balance sheets

at 31 December 2010 and 2009

(expressed in thousand euros)

LIABILITIES	2010	2009
Trading portfolio (Note 7)	**552,616**	**409,498**
Derivatives held for trading	552,616	409,498
Other financial liabilities at fair value with changes in the income statement	**-**	**-**
Financial liabilities at amortised cost (Note 19)	**72,199,138**	**53,598,908**
Central bank deposits	400,000	-
Credit Institution deposits	3,082,192	1,380,235
Customer funds	7,020,840	5,359,316
Money market operations through	57,693,775	43,694,878
Subordinated debt Financing	-	-
Other financial liabilities	4,002,331	3,164,479
Adjustments to financial liabilities due to macro-hedging	**-**	**-**
Hedging derivatives (Note 11)	**1,400,175**	**3,340,704**
Liabilities associated with non-current assets for sale	**-**	**-**
Provisions (Note 20)	**375,774**	**250,202**
Provisions for pensions and similar obligations	95	78
Provisions for taxes and other legal contingencies	-	-
Provisions for contingent exposures and commitments	26,614	26,782
Other provisions	349,065	223,342
Tax liabilities (Note 16)	**99,190**	**37,689**
Current	21,806	1,639
Deferred	77,384	36,050
Other liabilities (Note 18)	**3,056**	**3,119**
Capital classified as financial liabilities	**-**	**-**
TOTAL LIABILITIES	**74,629,949**	**57,640,120**
EQUITY		
Valuation adjustments (Note 21)	**139,718**	**(191,002)**
Available-for-sale financial assets	27,583	43,150
Cash-flow hedging	112,135	(234,152)
Exchange differences	-	-
Own Funds (Note 22)	**3,096,566**	**2,907,124**
Capital or endowment fund	2,351,448	2,202,729
Share premium	-	-
Reserves	715,158	681,918
Accumulated reserves	715,158	681,918
Retained earnings	-	-
Other equity instruments	-	-
Profit and loss for the period	29,960	22,477
Less: Dividends and remuneration	-	-
TOTAL EQUITY	**3,236,284**	**2,716,122**
TOTAL EQUITY AND LIABILITIES	**77,866,233**	**60,356,242**

Consolidated balance sheets

at 31 December 2010 and 2009

(expressed in thousand euros)

MEMORANDUM ITEM	2010	2009
Contingent risks (Note 24)	**2,869,357**	**3,291,927**
Financial guarantees	2,869,357	3,291,927
Contingent commitments (Note 24)	**17,037,648**	**23,781,577**
Drawable by third parties	16,525,476	23,198,017
Other commitments	512,172	583,560

Consolidated statements of income and expense

For the years ended 31 December 2010 and 2009

(Expressed in thousand euros)

	2010	2009
Interest and similar income (Note 25)	**1,419,582**	**1,436,984**
		(1,239,583)
Interest and similar charges (Note 26)	**(1,066,718)**	**(1,239,583)**
		197,401
NET INTEREST INCOME	**352,863**	**197,401**
		468
Return on equity instruments (Note 27)	**258**	**468**
		(1,307)
Share of results of entities accounted for using the equity method (Note 28)	**(1,863)**	**(1,307)**
		49,154
Fee and commission income (Note 29)	**57,763**	**49,154**
		(5,678)
Fee and commission expense (Note 29)	**(4,108)**	**(5,678)**
		30,422
Gains or losses on financial assets and liabilities (net) (Note 30)	35, 571	30,422
Derivatives held for trading	35,571	29,591
Other	-	831
		(3,179)
Exchange differences (net) (Note 2.4)	**(589)**	**(3,179)**
		2,538
Other operating income (Note 32)	**2,173**	**2,538**
		-
Other operating expenses	**-**	**-**
		269,819
GROSS OPERATING INCOME	**437,068**	**269,819**
		(39,914)
Administrative expenses:	(41,048)	(39,914)
Personnel expenses (Note 31)	(19,221)	(17,352)
Other administrative expenses (Note 32)	(21,827)	(22,562)
		(3,788)
Depreciation and amortization	(5,554)	(3,788)
Tangible assets (Note 14)	(2,527)	(2,809)
Intangible assets (Note 15)	(3,027)	(979)
		(49,763)
Provisions expense (net) (Note 20)	**(227,165)**	**(49,763)**
		(146,999)
Financial asset impairment losses (net)	(121,962)	(146,999)
Loans and receivables (Note 9)	(139,631)	(146,999)
Other financial instruments not valued at fair value (Notes 8 and 10)	17,669	-
		29,355
NET OPERATING PROFIT	41,339	29,355
		-
Losses for impairment of other assets (net)	-	-
Goodwill and other intangible assets	-	-
Other assets	(1,100)	-
		4
Gains/(Losses) on disposal of assets not class. as non-current assets held for sale	**(168)**	**4**
		-
Negative difference on business combinations	**-**	**-**
		-
Gains/(Losses) on non-current assets held for sale not classified as discontinued operations	-	-
		29,359
PROFIT BEFORE TAX	40,071	29,359
Income tax (Note 23)	**(10,111)**	**(6,882)**
PROFIT FOR THE PERIOD FROM ONGOING OPERATIONS	**29,960**	**22,477**
CONSOLIDATED NET PROFIT FOR THE YEAR	**29,960**	**22,477**
Profit attributable to the parent company	29,960	22,477
Profit attributable to minority interest	-	-

Statement of changes in equity

I. Consolidated statements of income and expense recognized for the years ended 31 December 2010 and 2009

(Expressed in thousand euros)

	2010	2009
Profit for the year	**29,960**	**22,477**
Other income and expenses recognized	**330,720**	**164,430**
Available-for-sale financial assets	**(22,238)**	**34,331**
Profit/loss valuation	(22,238)	34,331
Amounts transferred to profit and loss account	-	-
Reclassifications	-	-
Hedging of cash flows	**494, 696**	**200,569**
Profit/loss valuation	494, 696	200,569
Amounts transferred to profit and loss account	-	-
Amounts transferred to initial carrying amount of hedged items	-	-
Reclassifications	-	-
Hedges of net investments abroad	-	-
Profit/loss valuation	-	-
Amounts transferred to profit and loss account	-	-
Income tax	-	-
Exchange differences	-	-
Gains/losses on conversion	-	-
Amounts transferred to profit and loss account	-	-
Reclassifications	-	-
Non-current assets for sale	-	-
Valuation gains	-	-
Amounts transferred to profit and loss account	-	-
Reclassifications	-	-
Gains (Losses) in pension actuarial	-	-
Other income and expenses recognized	-	-
Income tax	(141,738)	(70,470)
TOTAL RECOGNIZED INCOME AND EXPENSES	**360,680**	**186,907**

Statement of changes in equity

II. Consolidated statements of total changes in equity for the years ended 31 December 2010 and 2009

(Expressed in thousand euros)

At December 31, 2010	**NET ASSETS ATTRIBUTED TO THE PARENT ENTITY**												
	SHAREHOLDERS EQUITY												
			RESERVES										
	Capital / endowment fund	Share premium	Reserves (losses) accumulated	Reserves (losses) entities accounted for participation method	Other equity instruments	Less: Treasury shares	Result attributed to the dominant entity	Less: Dividends and remuneration	Total Own Funds	Valuation adjustments	Total	Minority interests	Total Net Equity
Ending Balance at December 31, 2009	2,202,729	-	690,128	(8,210)	-	-	22,477	-	2,907,124	(191,002)	-	-	2,716,122
Total income and expenses recognized	-	-	-	-	-	-	29,960	-	29,960	330,720	-	-	360,680
Other changes in net worth:	148,719	-	23,746	9,494	-	-	(22,477)	-	159,482	-	-	-	159,482
Increases in capital endowment	148,719	-			-	-		-	148,719		-	-	148,719
Reductions in capital	-	-			-	-		-	-		-	-	
Transfers between equity	-	-			-	-	(22,477)	-	(22,477)		-	-	(22,477)
Other increases (decreases) in equity	-	-	23,746	9,494	-	-		-	33,240		-	-	33,240
Ending Balance at December 31,2010	**2,351,448**	**-**	**713,874**	**1,284**	**-**	**-**	**29,960**	**-**	**3,096,566**	**139,718**	**-**	**-**	**3,236,284**

Statement of changes in equity

II. Consolidated statements of total changes in equity for the years ended 31 December 2010 and 2009

(Expressed in thousand euros)

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

Statement of changes in equity

Consolidated cash flow statements for the years ended 31 December 2010 and 2009

(Expressed in thousand euros)

	2010	2009
A. CASH FLOWS FROM OPERATING ACTIVITIES	**(3,310,078)**	**(3,470,341)**
1. Consolidated income for the year	**29,960**	**22,477**
2 Adjustments to result:	**341,483**	**170,262**
Depreciation and amortization	5,554	3,788
Other adjustments	335,929	166,474
3. Net increase/decrease in operating assets	**(20,722,713)**	**(10,740,407)**
Trading portfolio	(127,738)	(262,934)
Other financial assets at fair value with changes in the income statement	-	-
Available-for-sale financial assets	212,026	(1,368,114)
Credits, loans and discounts	(17,936,605)	(9,924,821)
Other operating assets	(2,870,396)	815,462
4 Net increase/decrease in operating liabilities	**16,928,329**	**7,058,426**
Trading portfolio	143,117	344,564
Other financial liabilities at fair value with changes in the income statement	-	-
Financial liabilities at amortised cost	18,600,230	7,395,120
Other operating liabilities	(1,815,018)	(681,258)
5. Collections/payments for income tax	**112,863**	**18,901**
B. CASH FLOWS FROM INVESTMENT ACTIVITIES	**3,510,868**	**3,049,955**
6. Payments	**(8,537,282)**	**(8,303)**
Tangible assets	(776)	-
Intangible assets	(5,627)	(2,793)
Shareholdings	(26,983)	(5,510)
Other business units	-	-
Non-current assets and liabilities associated for sale	-	-
Held-to-maturity investment portfolio	(8,503,896)	-
Other payments related to investing activities		
7. Collections	**12,048,150**	**3,058,258**
Tangible assets	2,309	1,354
Intangible assets	-	-
Shareholdings	-	-
Other business units	-	-
Non-current assets and liabilities associated for sale	2,740	49,893
Held-to-maturity investment portfolio	12,028,607	3,007,011
Other collections related to investing activities	14,494	-

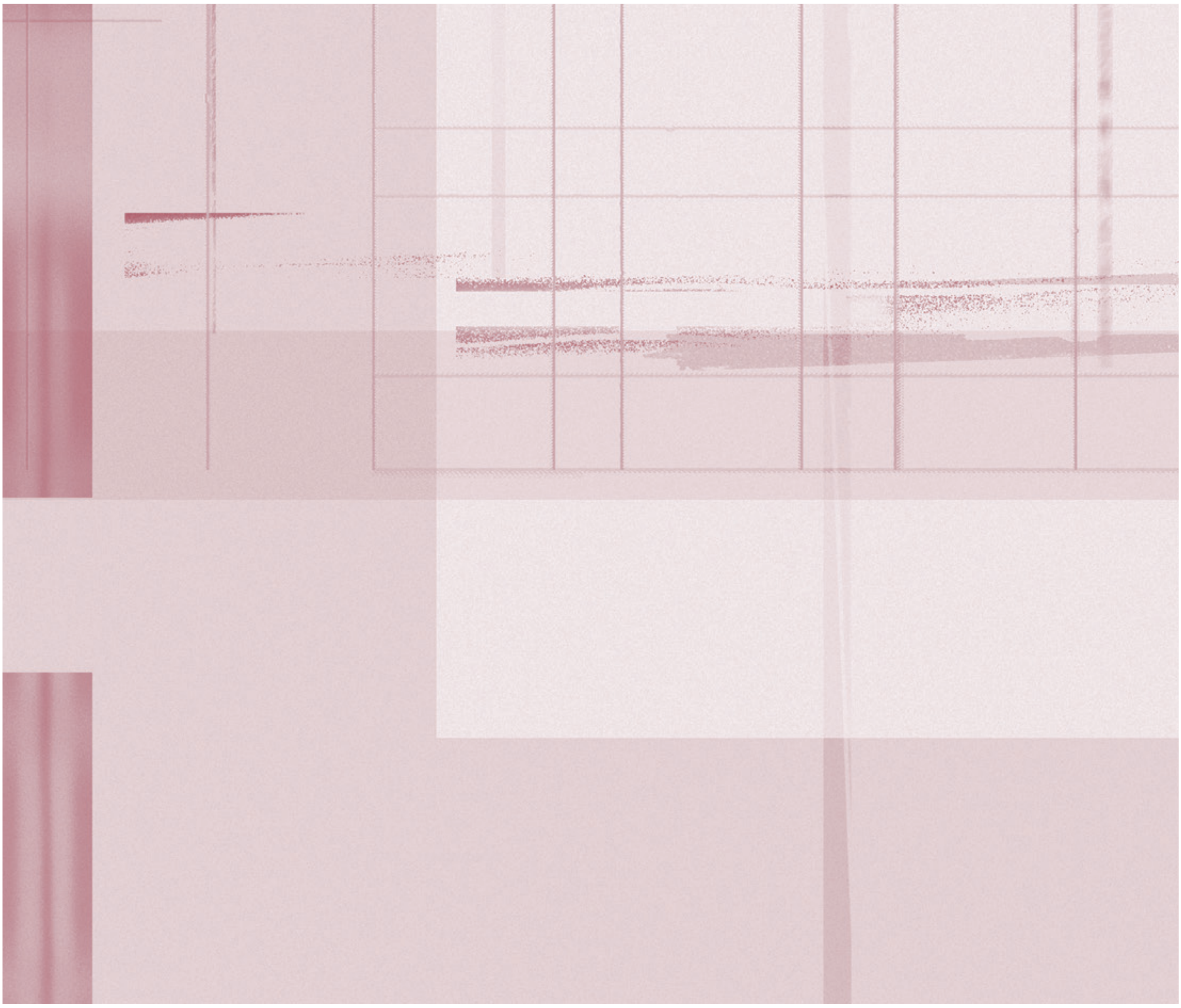
Statement of changes in equity

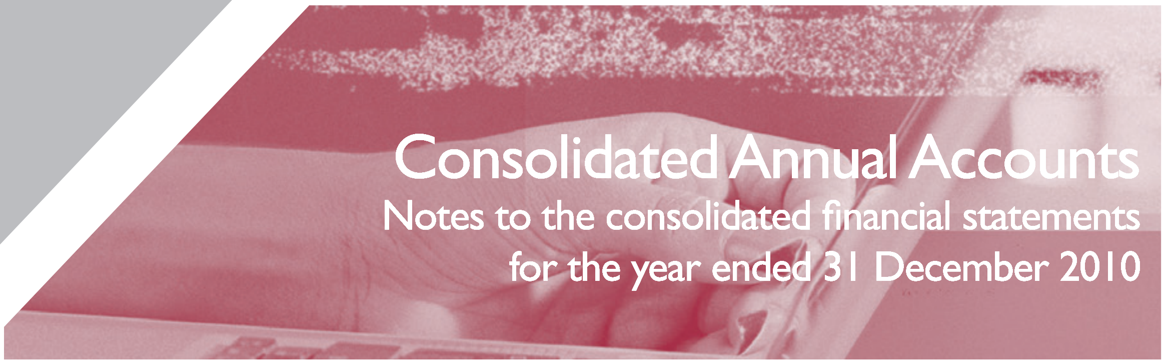
Consolidated cash flow statements for the years ended 31 December 2010 and 2009

(Expressed in thousand euros)

	2010	2009
C. CASH FLOWS FROM FINANCING ACTIVITIES	**148,718**	**150,633**
8. Payments	**-**	**-**
Dividends	-	-
Subordinated debt financing	-	-
Equity instruments amortizations	-	-
Own equity instruments purchased	-	-
Other finances received	-	-
9. Collections	**148,718**	**150,633**
Subordinated debt financing	-	-
Issue own equity instruments	-	-
Disposal own equity instruments	-	-
Other finances charged	148, 718	150,633
D. EFFECT OF EXCHANGE RATE FLUCTUATIONS	**-**	**-**
E. NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS	**349,508**	**(269,753)**
F. CASH OR CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**74,548**	**344,301**
G. CASH OR CASH EQUIVALENTS AT END OF THE YEAR	**424,056**	**74,548**
MEMORANDUM ITEM	**-**	**-**
COMPONENTS OF CASH AND EQUIVALENTS AT THE END OF THE PERIOD	**-**	**-**
Cash	1	8
Cash equivalent balances with central banks	424,055	74,540
Other financial balances	-	-
Less: bank overdrafts repayable	-	-

Consolidated Annual Accounts






1. Introduction, basis of presentation and other information

1.1 Introduction

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

The Institute is domiciled at Paseo del Prado, 4, in Madrid, where it carries out all of its activities and it does not have any office network.

The Institute is a public business entity in accordance with the provisions of Article 43.1.b) of Law 6/1997 (14 April), on the Organisation and Operation of the General State Administration and pertains to the Ministry of Finance through the Secretary of State for Finance; it is a credit institution by law and is considered to be a State Finance Agency with its own legal personality, assets and finances, as well as management autonomy to fulfil its purposes.

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

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

The Institute's purpose is to sustain and promote economic activities that contribute to growth and the improvement of national wealth distribution and, in particular, all those that are deserving of support due to their social, cultural, innovative or ecological importance.

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

The Institute also has the following duties:

a) Contribute to the mitigation of the economic effects deriving from serious economic recessions, natural catastrophes or similar situations, in accordance with the instructions received in this respect from the Council of Ministers or the Government Commission for Economic Matters.
b) Act as the instrument for executing certain economic policy measures, in line with

the fundamental guidelines established by the Council of Ministers or the Government Commission for Economic Matters, or the Ministry of Finance, subject to the rules and decisions adopted by its General Council.

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

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

2. Reciprocal Interest Adjustment Agreement (hereinafter RIAA). This export support system ensures a yield for the member financial institution, domestic or foreign. The Institute merely acts as an intermediary in the transaction, charging the State for its management costs, in accordance with the provisions of the General State Budget Act for each year.
The net result of interest adjustments with member banks is regularly offset by the State or a payment is made by the Institute to the State, depending on which party is the debtor or creditor, respectively.

3. Development Assistance Fund (hereinafter DAF). It was created in 1976 by Royal Decree-Law 16/1976 and it consists of providing credit to developing countries under conditions that are more favourable than can be provided by the market, with the aim of encouraging Spanish exports. The Institute acts as a Government agent and the structuring, administration and accounting for these transactions is kept separate from all other operations, in independent accounts maintained by the Institute and the ICO is reimbursed for the cost of management in accordance with the General State Budget for each year.

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

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

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

1.2 Basis of presentation of the consolidated financial statements

Since January 1st 2005, the Group presents its consolidated financial statements in accordance with International Financial Reporting Standards adopted by the European Union (hereafter, NIIF-UE) mandatory for those entities that at the time of final balance sheet situation, their values were admitted to trading on a regulated market in any Member State, as established by Regulation 1606/2002 of July 19, European Parliament and Council. Similarly, the consolidated financial statements are presented according to the principles and standards contained in Circular 4/2004 of December 22 (hereafter, Circular 4/2004), Bank of Spain, on financial reporting standards and public reserved models on financial statements. The aforesaid Circular 4/2004 is mandatory for the individual financial statements of the Spanish Credit Institutions.

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

Since the adoption of Circular 4/2004, there have been changes in law and in Spanish NIIF-UE, which affect the accounting. Therefore, Bank of Spain has considered necessary to modify Circular 4/2004, issuing Circular 6/2008 in November 26, 2008. As expressly mentioned in Circular 6/2008, major amendments to Circular 4/2004 concern the definition of credit institutions, public financial statement formats; treatment of financial instruments including guarantees, of pension commitments, payments based on equity instruments and tax benefits, as well as certain information that must be revealed in the report. Circular 6/2008 al so introduces minor changes due to changes in the rules that governs the determination and control of own funds, the information requirements of the European Central Bank, the mortgage market and the national activities classification of economy (NACE).

Subsequently, the Bank of Spain approved Circular 3/2010, of 29 June, and Circular 8/2010, of 22 December, both modifying Circular 4/2004. The first Circular introduces important modifications to Anejo IX of Circular 4/2004, with a view to strengthening guarantees for credit risk coverage of financial entities. The second Circular introduces International Auditing Standard 27 (IAS 27) on consolidated and separate financial statements to Spain, as well as the revised International Financial Reporting Standard 3 (IFRS 3) on business combinations.

Accordingly, the accompanying consolidated financial statements have been prepared from the accounting records of the entities Group and in accordance with the requirements established by International Accounting Standards (IAS) adopted by the European Union (NIIF-UE) and by Circular 4/2004 of December 22, Bank of Spain, partially modified by Circular 6/2008, November 26, Bank of Spain and with the Commercial Code, the Ley de Sociedades Anónimas or other Spanish legislation that is applicable, so that they present fairly the net worth and financial situation of the Group at 31 December 2010 and the results of its operations, of changes in equity and consolidated cash flows for the year ended on that date.

The accounting principles applied in the preparation of the consolidated financial statements for the year ended 31 December 2010 are the same as those applied to the 2009 consolidated financial statements, except for the following standards and interpretations, applicable for annual periods beginning on or after 1 January 2010:

- IFRS 2 Share-based Payments (Revised)
- IFRS 3 Business Combinations (Revised) and IAS 27 Separate and Consolidated Financial Statements (Amended)
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible hedged items
- FRIC 12 Service Concession Arrangements
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers
- Amendments to IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations (including the IFRS improvements issued in May 2008)
- Improvements to IFRS issued in April 2009.

Adopting these standards, interpretations, and modifications had no impact on the Group's financial position or results.

The Group has not early adopted any standard, interpretation or amendment issued but not effective.

The Group is evaluating the effect that the following standards and interpretations issued by the IASB and adopted by the European Union but not applicable might have on the accounting policies, financial position or performance of the Group:

- IAS 32 Classification of Rights Issues:effective for annual periods beginning on or after 1 February 2010;
- IAS 24 Related Party Disclosures:effective for annual periods beginning on or after 1 January 2011;
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments: effective for annual periods beginning on or after 1 July 2010;
- IFRIC 14 Prepayments of a Minimum Funding Requirement:effective for annual periods beginning on or after 1 January 2011.

At the date of publication of these consolidated financial statements, the following IFRSs and amendments had been issued by the IASB but were not mandatory and had not been approved by the EU:

- IFRS 9 Financial Instruments: effective for annual periods beginning on or after 1 January 2013;
- Improvements to IFRS (May 2010): effective for annual periods beginning on or after 1 January except for amendments to IFRS 3 (2008) regarding measurement of non-controlling interests and share-based payment awards and amendments to IAS 27 (2008) and IFRS 3 (2008) regarding contingent consideration arising from business

combinations whose acquisition dates precede the application of amended standards effective for annual periods beginning on or after 1 July 2010;

• Amendment to IFRS 7 Disclosures About Transfers of Assets: effective for annual periods beginning on or after 1 July 2011;

• Amendment to IAS 12 Deferred Tax - Recovery of Underlying Assets: effective for annual periods beginning on or after 1 January 2012.

The Group is currently analyzing the impact of the application of these standards and amendments. Based on the analyses made so far, the Group estimates that their application will not have a significant impact on the consolidated financial statements in the initial period of application. However, changes introduced by IFRS 9 will affect financial instruments and future transactions with financial instruments taking place on or after 1 January 2013.

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

The consolidated financial statements for the year 2010 of the Group have been prepared by the Chairman of the Institute dated on March the 30, 2011, still pending approval by the General Council of the Institute, parent entity of the Group, which is expected to approve them without significant changes. These consolidated financial statements, unless otherwise stated, are presented in thousand euros.

1.3 Responsibility for information and estimates made.

The information contained in Group's consolidated financial statements for the year ended 31 December 2010 and the accompanying Notes to the Consolidated financial statements are the responsibility of the Chairman. When preparing these consolidated financial statements, at times estimates made by Group have been used to quantify some of the assets, liabilities, income, expenses, and commitments. These estimates relate basically to:

- Impairment losses on certain assets

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

- Useful lives of fixed assets and intangible assets.

- Losses on future obligations deriving from contingent risks.

- The fair value of certain unlisted assets.

These estimates were made based on the best information available at 31 December 2010 in connection with the facts analyses. Nonetheless, future events could generate significant adjustments (upward or downward) in coming years, which would be made prospectively, to recognize the impact of the change in the estimate on the consolidated income statement for the years in question.

1.4 Transfer of assets and liabilities from the former Argentaria

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

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

Furthermore, on 25 March 1993 a management agreement was concluded with the relevant banks regarding the transferred assets and liabilities, which includes both the administration and the adequate accounting for these items in accordance with current banking legislation. The management commissions accrued in 2010 and 2009 totalled 799 thousand euros and 103 thousand euros, respectively.

At 31 December 2010 and 2009 the breakdown by nature of the transferred assets and liabilities that were managed at those dates by BBVA (the entity resulting from the integration of all of the above, among others), is set out below:

Assets and liabilities managed by BBVA

	Thousand euros	
	2010	**2009**
Credit Institutions	9	72
Loans to Spanish Public Administrations	712	789
Loans to other resident sectors	318	186
Doubtful assets	5,416	7,918
Non-current assets	100	65
Sundry accounts	7	(70)
Total assets	**6,562**	**8,960**
Sundry accounts	389	1,359
Connection account with ICO	4,844	7,591
Profit for year	1,329	10
Total liabilities	**6,562**	**8,960**

The balances of the above accounts relating to 2010 and 2009 do not coincide with the balances included in the Institute's financial statements at 31 December 2010 and 2009, due to the fact that the latter have only included accounting information up until 30 September 2010 and 30 September 2009, respectively. This accounting information is received from BBVA and the information relating to October, November and December 2010 and December 2009 did not arrive on time to be included in the closing for the year. Nonetheless, the differences in the balances are not significant. Had the balances for October, November and December 2009 been included in the Institute's financial statements for the year ended 31 December 2009, profit in 2009 would have been 76 thousand euros higher.

1.5 Presentation of individual financial statements

In accordance with Article 42 of the Code of Commerce, the Institute has prepared its individual financial statements at the same date as the present consolidated financial statements.
A summary is set out below of the individual balance sheet, individual income statement, individual statement of changes in equity and individual cash flow statement of Instituto de Crédito Oficial for the years ended 31 December 2010 and 2009, prepared under the same accounting principles and standards as applied by the Group in consolidated financial statements:

a) Individual balance sheets at 31 December 2010 and 2009:

	Thousand euros	
	2010	**2009**
Cash and balances with central banks	424,055	74,547
Financial assets held for trading	598,423	470,686
Available-for-sale financial assets	1,261,385	1,473,411
Loan and receivables	66,159,489	48,226,408
Held-to-maturity investment portfolio	4,292,179	7,824,802
Hedging derivatives	4 ,768,558	1,899,625
Non-current assets for sale	1,592	4,332
Shareholdings	69,394	51,349
Tangible assets	103,240	104,774
Intangible assets	14,442	11,843
Tax assets	164,660	216,022
Other assets	2,603	1,708
Total assets	**77,860,020**	**60,359,507**
Financial liabilities held for trading	552,616	409,498
Financial liabilities at amortised cost	72,199,138	53,598,908
Hedging derivatives	1,400,175	3,340,704
Provisions	375,774	250,202
Tax liabilities	99,190	37,689
Other liabilities	2,938	3,004
Total liabilities	**74,629,831**	**57,640,005**
Valuation adjustments	139,718	(191,002)
Own Funds:	3,090,471	2,910,504
Capital or endowment fund	2,351,448	2,202,729
Reserves	707,775	684,279
Profit and loss for the period	31,248	23,496
Total equity	**3,230,189**	**2,719,502**
Total equity and liabilities	**77,860,020**	**60,359,507**
Contingent risks	2,869,357	3,291,927
Contingent commitments	17,037,648	23,781,577
Total memorandum item	**19,907,005**	**27,073,504**

b) Individual income statements for the years ended 31 December 2010 and 2009:

	Thousand euros	
	2010	**2009**
Interest and similar income	1 ,419,519	1,436,880
Interest and similar charges	(1,066,712)	(1,239,583)
Net interest income	**352,807**	**197,297**
Return on equity instruments	258	468
Fee and commissions income	50,770	47,721
Fee and commissions expense	(4,108)	(5,678)
Gain or losses on financial assets and liabilities (net)	35,571	30,422
Exchange differences (net)	(589)	(3,179)
Other operating income	2,173	2,538
Other operating expenses	-	-
Gross operating income	**436,882**	**269,589**
Administrative expenses	(39,596)	(38,794)
Depreciation and amortization	(5,518)	(3,754)
Provisions expenses (net)	(227,165)	(49,763)
Financial asset impairment losses (net)	(121,962)	(146,999)
Net operating profit	**42,641**	**30,279**
		-
Losses for impairment of other assets (net)	-	-
Gains / losses on disposal of assets not class as non-current assets held for sale	(182)	(17)
Negative difference on business combinations	-	-
Gains / losses on non-current assets held for sale not classified as discontinued operations	(1,100)	-
Profit before tax	**41,359**	**30,262**
Income tax	(10,111)	(6,766)
Profit for the period from ongoing operations	**31,248**	**23,496**
Profit / Loss from discontinued operations (net)	-	-
Profit for the year	**31,248**	**23,496**

c) Statement of changes in equity. Statements of individual income and expense recognized for the years ended 31 December 2010 and 2009

	Thousand euros	
	2010	2009
Profit for the year:	**31,248**	**23,496**
Other income and expenses recognized:	**330,720**	**164,430**
Available – for – sale financial assets	(22,238)	34,331
Financial liabilities at fair value with changes in equity		
Hedging of cash flows	494,696	200,569
Hedges of net investments abroad	-	-
Exchange differences	-	-
Non-current assets for sale	-	-
Income tax	(141,738)	(70,470)
Total recognized income and expenses	**361,968**	**187,926**

d) Statement of changes in equity. Individual statements of changes in equity for the years ended 31 December 2010 and 2009:

At December 31, 2010	SHAREHOLDERS EQUITY									
	Capital/endowment fund	**Share premium**	**Reserves**	**Other equity instruments**	**Less: Treasury shares**	**Profit for the year**	**Less: Dividends and remuneration**	**Total Own Funds**	**Valuation adjustments**	**Total net equity**
Ending Balance at December 31, 2009	**2,202,729**	**-**	**684,279**	**-**	**-**	**23,496**	**-**	**2,910,504**	**(191,002)**	**2,719,502**
Total income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**31,248**	**-**	**31,248**	**330,720**	**361,968**
Other changes in net worth:										
Increases in capital endowment	148,719	-	-	-	-	-	-	148,719	-	148,719
Transfers between equity				-	-		-			
Other increases (decreases) in net worth	-	-	23,496	-	-	(23,496)	-	-	-	-
	-	-	-			-		-	-	-
Total other increases (decreases) in net worth	**148,719**		**23,496**	**-**	**-**	**(23,496)**	**-**	**148,719**	**-**	**148,719**
		-								
Ending Balance at December 31, 2010	**2,351,448**	**-**	**707,775**	**-**	**-**	**31,248**	**-**	**3,090,471**	**139,718**	**3,230,189**

d) Statement of changes in equity. Individual statements of changes in equity for the years ended 31 December 2010 and 2009 :

At December 31, 2010	SHAREHOLDERS EQUITY									
	Capital/ endow-ment fund	**Share premium**	**Reserves**	**Other equity in-struments**	**Less: Treas-ury shares**	**Profit for the year**	**Less: Dividends and remunerations**	**Total Own Funds**	**Valuation adjustments**	**Total net equity**
Ending Balance at December 31, 2008	**2,052,096**	**-**	**595,556**	**-**	**-**	**88,723**	**-**	**2,736,375**	**(355,432)**	**2,380,943**
Total income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**23,496**	**-**	**23,496**	**164,430**	**187,926**
Other changes in net worth:										
Increases in capital endowment	150,633	-	-	-	-	-	-	150,633	-	150,633
Transfers between equity	-	-	88,723	-	-	(88,723)	-	-	-	-
Other increases (decreases) in net worth	-	-	-	-	-	-	-	-	-	-
Total other increases (decreas-es) in net worth	**150,633**	**-**	**88,723**	**-**	**-**	**(88,723)**	**-**	**150,633**	**-**	**150,633**
Ending Balance at December 31, 2009	**2,202,729**	**-**	**684,279**	**-**	**-**	**23,496**	**-**	**2,910,504**	**(191,002)**	**2,719,502**

e) Individual cash – flow statements for the years ended
31 December 2010 and 2009:

	Thousand euros	
	2010	**2009**
Net cash – flows from operating activities:		
Profit for the year	31,248	23,496
Adjustments for cash flows from operating activities	330,721	164,431
Net increase/decrease in operating assets	(20,718,619)	(10,743,906)
Net increase/decrease in operating liabilities	16,928,235	7,058,826
Collections/payments for income tax	112,863	18,898
Net cash flows for investing activities:		
Payments	(8,531,875)	(3,779)
Collections	12,048,125	3,061,772
Net cash flows for financing activities	148,719	150,633
Effect of exchange rate fluctuations		-
Net increase/decrease in cash or cash equivalents	**349,507**	**(269,627)**
Cash or cash equivalents at beginning of the year	74,548	344,174
Cash or equivalents at end of the year	424,055	74,548

1.6 Environmental impact

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

The Institute considers that the Group has taken appropriate environmental protection and improvement measures and for minimizing, whenever applicable, the environmental impact, and complies with rules enforced in this regard. In 2010 and 2009 the Group has not carried out significant environmental investments and neither has it considered it necessary to record any provision for environmental risks and charges. Nor does it consider that there are any significant contingencies in connection with environmental protection and improvement.

1.7 Minimum coefficients

1.7.1 Minimum equity ratio

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

At December 31, 2010 and 2009, the entity's computable equity, which is calculated on a consolidated basis, exceeds the minimum requirements required by the regulation cited by 1,047,077 thousand euros and 1,016,167 thousand euros respectively.

Also, Circular 3/2008 stipulates that net tangible assets and all consolidated groups of credit institutions risks with the same person or economic group, may not exceed certain percentages of equity, also establishing limits on positions in foreign currencies. At December 31, 2010 and 2009, the Entity Group complies with these limits.

At December 31, 2010 and 2009, the ICO Group's computable equity is as follows:

	Thousand euros	
	2010	2009
Basic own funds	3,021,825	2,851,049
- Capital	2,351,448	2,202,729
- Reserves (*)	670,377	648,320
Second category own funds	292,550	301,452
- Other reserves (*)	40,603	47,057
- Generic insolvency risk coverage	251,947	254,395
Total computable own funds	3,314,375	3,152,501
Total minimum own funds	2,267,298	2,136,334

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

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

At December 31, 2010 and 2009, the ICO Group's minimum equity most important data is the following:

	2010	2009
Basic own funds ratio	11.29%	11.51%
Second category own funds ratio	1.09%	1.22%
Total own funds ratio	12.38%	12.73%

At December 31, 2010 and 2009, the most important data of the minimal resources of the Group are (in thousand euros):

	2010	2009
Basic own funds	3,021,825	2,851,049
Risk weighted	26,763,749	24,763,901
Basic own funds ratio (%)	11.29%	11.51%
Computable equity	3,314,375	3,152,501
Computable equity ratio (%)	12.38%	12.73%
Minimum computable equity ratio (%)	8%	8%

At December 31, 2010 and 2009 ICO Group's computable own funds exceeded the minimum requirements by the mentioned standards.

1.7.2 Minimum reserves ratio

In accordance with Monetary Circular 1/1998, of 29 September 1998, that came into effect on 1 January 1999, the ten-year cash ratio was replaced with the minimum reserve ratio.
At December 2010 and 2009, and throughout 2010 and 2009, Group complied with the minimum ratios required by applicable Spanish regulations.

1.7.3 Capital management

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

In this sense, the regulatory capital requirements are incorporated directly in the management thereof in order to maintain at all times a solvency ratio higher than 9.5%. This objective is met through a proper capital planning.

1.8 Post-balance sheet events

In accordance with Additional Provision of Law 24/2001, of 27 December 2001, on Tax, Administrative and Social Security measures, amended by Law 42/2006, of State Budget for 2007, the amounts recovered following the repayment by Central Government of the debts incurred with ICO as a result of certain credit and guarantee facilities granted by the former Entidades Oficiales de Crédito and the Institute itself will form part of the Institute's equity. The amount estimated for 2011 totals 9 million euros.

As in previous years, Chapter VIII of the General State Budgets for 2011 envisages a new contribution to ICO's equity amounting to 340 million euros in order to increase the equity of the Institute and adapt it to its activities.

In 2011, the Instituto de Crédito Oficial, as a State Financial Agency, has capitalized by government order, new lines of credit to businesses and individuals in order to provide more liquidity to the Spanish credit system and to address other needs within the framework of the Institute's objectives. The main lines approved are:

• Línea ICO Inversión Nacional 2011 (combines the old ICO-SME and ICO¬Business Growth): this ICO line provides preferential supports and funding for the development of investment projects of freelancers and small and medium-sized Spanish companies. It is intended for self-employed persons and small and medium enterprises, financing 100% of the investment project and with support for the aid received from the Autonomous Regions and other institutions.

• Línea ICO Inversión Internacional 2011: This line has an interest rate subsidy for the self-employed and small and medium-sized companies, with fewer than 50 employees, with the aim of boosting the output of these companies abroad.

• Línea ICO Inversión Sostenible 2011: This credit line is intended to finance company investments aimed at increasing productivity, improving resource efficiency and/or reducing the environmental impact of operations. It will be repaid over 20 years at subsidized rates.

• Línea ICO Liquidez 2011: For self-employed persons, and small and medium-sized companies, with a maximum funding limit of 500 thousand euros per customer per year, in one or more transactions. The part funded by credit institutions will be analyzed by them and the guarantees that must be provided will be based on the applicant's creditworthiness.

• Línea ICO Vivienda 2011: This line aims, among other things, to promote rental housing. ICO may conclude transactions with a credit institution other than the one that initially granted the loan to the developer.

The total amount of the lines amounts to 26,000 million euros. In late December 2009, the ICO and credit institutions that submitted the application for membership of these credit lines firm handled the drafting and funding of contracts.

During the first quarter of 2011, the ICO requested that the Public Treasury fulfil its obligations as guarantor of a transaction classified at year end as non-performing under "Loans and advances to other debtors" amounting to 321,329 thousand euros, for which it received an affirmative reply.
No significant events other than those described in the above paragraphs have occurred from the end of the reporting period (31 December 2010) to the date these financial statements were issued (31 March 2011).

1.9 Information per business segment

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

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

1.10 ICO direct lending activities

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

These lending transactions are processed directly by the ICO at the following website: www.facilitadorfinanciero.es. Detailed information on this product is provided on the aforementioned website and at our commercial website www.icodirecto.es. Transactions derived from ICO Direct activities are formally processed and administered by Banco Santander and Banco Bilbao Vizcaya Argentaria (BBVA). These financial institutions were awarded the public tender held by ICO for this purpose.

The breakdown by nature of ICO Direct's assets and liabilities at 31 December 2010 and the corresponding managing entity is as follows:

	Thousand euros			
	2010		2009	
Assets and liabilities of ICO Direct	**BBVA**	**BS**	**BBVA**	**BS**
Loans and advances to other resident sectors	80,675	97,677	-	-
Doubtful assets	-	-	-	-
Other	-	13	-	-
Total assets	80,675	97,690	-	-
Sundry accounts	-	1	-	-
Connection account with ICO	79,633	96,447	-	-
Profit for the year	**1,042**	**1,242**	**-**	**-**
Total liabilities	**80,675**	**97,690**	**-**	**-**

2. Accounting principles and policies and measurement methods applied

During the preparation of Group's consolidated financial statements for the years ended 31 December 2010 and 31 December 2009, the following accounting principles and policies and measurement methods have been applied:

2.1 Shareholdings

2.1.1 Subsidiaries

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

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

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

- Consolidated results for the year are presented in "Surplus attributed to minority interests" in the consolidated income statement, and there is no balance at 31 December 2010 and 2009.

Results generated by subsidiaries acquired by the Group during the year are consolidated taking into account only the amounts for the period running from the acquisition date to the year end.
Appendix I provides relevant information on these entities, all of which close their financial year on 31 December.

2.1.2 Associates entities

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

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

The results on the transactions between the associate and Group companies are eliminated in the percentage represented by the Group's interest in the associate. The results recorded in the year by the associate, following the elimination referred to above, increase or decrease, as appropriate, the value of the relevant shareholding in the consolidated financial statements. The amount of these results is recorded under "Results in companies carried under the equity method" in the consolidated income statement (Note 28).

The variations in the valuation adjustments of the associate, subsequent to the acquisition date, are recorded as an increase or decrease in the value of the shareholding. The amount of these variations has been recorded under "Valuation adjustments", in consolidated equity.
Appendix I provides relevant information on these entities.

2.2 Financial Instruments

2.2.1 Initial recognition of financial instruments

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

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

2.2.2 Disposal of financial instruments

Financial instruments disposals are recorded in the manner in which risks and benefits associated with the transferred financial instruments are transferred, based on the following criteria:

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

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

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

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

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

Therefore, financial assets are only removed from the balance sheet when the cash flows generated have been extinguished or when the implicit risks and benefits have been transferred to third parties. Similarly, financial liabilities are only removed off the balance sheet when the obligations generated have been extinguished or when they are purchased with the intention to cancel or reposition them again.

2.2.3 Fair value and amortised cost of financial instruments

Financial assets:

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

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

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

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

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

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

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

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

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

Also, changes in the value of the items included under the heading Non-current assets held for sale are recorded under consideration in valuation adjustments to equity.
In relation to financial instruments, the valuations at fair value reflected in the financial statements are classified using the following fair value ranking:

i) Level I: reasonable values are obtained from quoted prices (unadjusted) in active markets for the same instrument.
ii) Level II: the fair values are obtained from valuation techniques in active markets for similar instruments, recent transaction prices or expected cash flows, or other valuation techniques in which all significant inputs are based on directly or indirectly observable market data.
iii) Level III: fair values are obtained from valuation techniques in which any the significant inputs is not based on observable market data.

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

- In fair value hedges, the differences occurring in coverage items and in items covered in relation to the type of hedged risk are recognized directly in the profit and loss account.
- Differences in valuation for the inefficiency of cash flows hedging and net foreign investments are carried directly to the profit and loss account.
- In cash flow hedges, the valuation differences arising on the effective coverage of the coverage items are temporarily registered under the heading of valuation adjustments of net equity.
- In net foreign investments coverage, valuation differences arising on the effective coverage of the coverage items are temporarily registered under the heading of valuation adjustments of net equity.

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

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

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

Financial liabilities

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

- Financial liabilities included in epigraphs Trading Portfolio, Other financial liabilities at fair value with changes in the income statement and financial liabilities at fair value with changes in equity, as defined for financial assets in the previous note. Financial liabilities covered by fair value hedging operations are adjusted, being registered those fair value variations in relation to the hedged risk covered by the hedge operation.

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

Financial liabilities amounts' variations are recorded, in general, offset by the profit and loss account, differentiating between those that are caused by interest accrual and similar items that are recorded in the heading of Interest and similar charges, and those corresponding to other causes, which are recorded by their net amount under the heading of Net operating profit of the profit and loss account.

However, items included under the heading of financial liabilities at fair value with changes in equity value variations, are recorded temporarily in Valuation adjustments of the net equity. The amounts in the row of Valuation adjustments remain part of net equity until liabilities in which their origin are removed of the balance sheet, moment when they are written off against profit and loss account.

Financial liabilities designated as hedged items and hedging accounting valuation differences, are recorded taking into account the above criteria for financial assets in Note 2.

2.2.4 Classification and measurement of financial assets and liabilities

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

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

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

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

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

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

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

- Financial liabilities designated at initial recognition by the entity or when it is done, more relevant information is obtained because:

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

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

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

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

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

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

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

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

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

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

The instruments included in this category are initially measured at fair value, as adjusted for transaction costs directly attributable to the acquisition of the financial asset, which are recognised in the consolidated income statement using the effective interest method defined in Bank of Spain, Circular 4/2004, December 22, to maturity, unless the financial assets have no fixed maturities, in which case they are taken to the consolidated income statement when they become impaired or are written off the consolidated balance sheet. Following acquisition, the financial assets included in this category are carried at fair value.

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

Balancing entries are made in "Interest and similar income" (calculated using the effective interest method) and "Return on equity instruments - Other equity instruments" in the consolidated income statement, with respect to changes in the fair value of financial assets classed as available for sale, relating to interest or dividends accrued, respectively. Impairment losses on these instruments are recorded as mentioned in Note 2.7. Exchange differences on financial assets denominated in foreign currency other than the euro are accounted for as mentioned in Note 2.4. Changes in fair value of financial assets covered by fair-value hedges are stated as mentioned in Note 2.3.

A balancing entry is made in "Equity - Measurement adjustments – Available-for-sale financial assets", in the Group's equity, with respect to the remaining changes to the fair value from the acquisition date of available-for-sale financial assets, until the financial asset is written off, when the balance is taken to "Gain/(loss) on financial transactions (net) - Available for sale financial assets" in the consolidated income statement.

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

The financial liabilities included in this category are initially carried at fair value, as adjusted for transaction costs directly attributable to the issue of the financial liability, which are recognised in the income statement using the effective interest method, defined in Bank of Spain, Circular 4/2004. Subsequently they are measured at amortised cost, calculated by applying the effective interest rate method defined in Bank of Spain Circular 4/2004.

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

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

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

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

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

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

During 2010 and 2009, there has been no reclassification as described above.

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

During 2010 and 2009, there has been no reclassification as described above.

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

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

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

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

During 2010 and 2009, there has been no reclassification of financial assets included in the trading portfolio.

2.3 Financial derivatives

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

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

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

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

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

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

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

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

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

- For fair-value hedges, differences in the fair value of both hedges and hedged components, with respect to the type of risk hedged, are recognised directly in the income statement.

- For cash-flow hedges, measurement differences arising on the efficient part of the cover of the hedges are temporarily carried under "Equity - Measurement Adjustments.

- Cash-flow hedges. Hedged financial instruments in this type of hedge are carried in accordance with the criteria explained in Note 2.2, without any modification due to being considered as such.

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

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

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

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

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

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

2.4 Foreign currency transactions

2.4.1 Functional currency

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

Set out below are the total assets and liabilities denominated in foreign currency held by the Institute, the Group's Parent entity, at 31 December 2010 and 2009 (thousands of units of each foreign currency):

	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Pounds sterling	313,642	3,115,254	392,651	3,379,725
US dollars	2,241,921	17,082,073	2,459,990	20,243,821
Canadian dollars	97,093	1,436,057	37,908	1,387,006
Swiss Francs	10,458	2,444,290	6,329	2,166,310
Swedish kroner	-	500,001	-	500,002
Norwegian kronor	-	9,375,009	-	13,475,028
Japanese yen	2	208,433	4	173,670
Australian dollars	84	2,999,807	11	3,561,735
Other traded currencies	202,508	473,962	141,508	439,456
Other non-traded currencies	155,441	33,788	132,376	29,640

The equivalent value in euros of assets and liabilities denominated in foreign currency, classified by nature, recorded by the Institute, the Group's parent entities at 31 December 2010 and 2009 is as follows:

	Thousand euros			
	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Spanish credit institutions in Spain	53,732	139,453	41,817	97,938
Spanish credit institutions abroad	110,663	82,089	92,772	61,228
Foreign credit institutions abroad	49,320	375,578	52,694	356,850
Loans/Deposits Spanish Public Administrations	-	607	-	579
Loans to/Deposits with other resident sectors	1,007,451	-	939,534	-
Loans/Deposits non-resident Public Admin	-	-	-	-
Loans/Deposits, other non-resident sectors	1,259,977	-	1,326,165	-
Provisions denominated in foreign currency	-	474	-	659
Issued bonds and others	354	24,805,348	-	25,343,204
	2,481,497	2,452,982	2,452,982	25,860,458

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

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

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

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

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

Exchange differences arising on translation of debtor and creditor balances denominated in foreign currency are generally recorded in the income statement. Nonetheless, in the case of exchange differences that arise on non-monetary items measured at fair value, for which the fair-value adjustment is recorded under Equity Measurement Adjustments, the component of the exchange rate relating to the revaluation of the non¬monetary element is broken down.

The exchange rates used by the Group to convert balances denominated in the main foreign currencies in which it operates are the market rates at 31 December 2010 and 2009 published by the European Central Bank at each of those dates.

The net amount of exchange differences arising on the conversion of receivables and payables denominated in foreign currency is a 589 thousand euros loss at 31 December 2010 (3,179 thousand euros loss at 31 December 2009).

2.5 Recognition of revenue and expense

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

2.5.1 Interest income and expense, dividends and similar items

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

2.5.2 Commissions, fees and similar items

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

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

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

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

2.5.3 Non-financial income and expense

These amounts are accounted for on an accruals basis.

2.5.4 Deferred collections and payments:

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

2.6 Offset of balances

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

2.7 Financial asset impairment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

When there is objective evidence that the decline in fair value is attributable to impairment, the latent losses recognised directly under "Valuation adjustments" in Equity are recorded immediately in the consolidated income statement. If subsequently all or part of the impairment losses are recovered, the amount involved is recognised, in the case of debt securities, in the consolidated income statement for the recovery period, and, in the case of equity instruments, under "Valuation Adjustments" in Equity.

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

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

In the case that the probabilities of recovery any amount recorded like impairment are considered slim, are eliminated in the balance sheet, although the Instituto 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 his specific payment obligation under the conditions, original or amended of an instrument of debt, regardless of their legal form, which can be, inter alia, of a surety, financial guarantee insurance contract or credit derivative.

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

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

Subsequent to initial recognition, the contracts are treated in accordance with the following criteria:

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

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

The classification of financial guarantee contracts as doubtful imply their reclassification under the heading of "Provisions for liabilities and contingent".

2.9 Accounting for leases

2.9.1 Finance leases

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

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

When the Group acts as the lessee in a finance lease transaction, the cost of the leased assets is recorded in 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 of the fair value of the leased asset and the sum of the present values of the amounts payable to the lessor, plus, if appropriate, the purchase option exercise price. These assets are depreciated at similar rates to those applied to the Group's property, plant and equipment for own use (Note 2.12).

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

2.9.2 Operating leases

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

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

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

2.10 Staff costs

2.10.1 Short-term remuneration

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

2.10.2 Post-employment commitments

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

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

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

- The professional group to which the employee pertains.

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

The amounts to be contributed are those approved in the General State Budget for each year, and the expense totalling 30 thousand euros at 31 December 2010, is recorded under the heading "Staff costs" in the accompanying income statement (42 thousand euros at 31 December 2009).

2.10.3 Death and disability benefits and retirement bonuses

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

At 31 December 2010 a provision was recorded for post-employment commitments amounting to 95 thousand euros (78 thousand euros at 31 December 2009).

2.10.4 Termination benefits

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

At 31 December 2010 and 2009, the Institute has not recorded any provisions in this respect as there is no plan or agreement that would require such an allocation.

2.11 Corporate income tax

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

Income tax expense for the year is calculated as tax payable on taxable income for the year, as adjusted for variations during the year in asset and liability balances arising from temporary differences, tax credits and allowances, and any tax-loss 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 that which will generate a future obligation for the Institute to pay the relevant Administration. A deductible temporary difference is understood to be that which will generate for the Group some reimbursement right or a decrease in the payment to be made to the relevant administration in the future.

Tax credits and allowances and tax credits for tax-loss 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 provided the Institute considers that application in future years is probable.

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

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

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

- Deferred tax assets are only recognized in the event that the Group considers it likely that there will be sufficient future taxable profits against which they may be offset.

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

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

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

2.12 Property, plant and equipment

2.12.1 Property, plant and equipment for own use

Property, plant and equipment for own use includes those assets that are owned or acquired under finance leases that the Institute holds for its own current or future use for administrative purposes or for the production or supply of assets and when they are expected to be used for more than one financial year. Among other things, this category includes property, plant and equipment received by the Group for the total or partial settlements of financial assets that represent debt claims against third parties which are expected to be used on a continuous and internal basis. Property, plant and equipment for own use is carried in the balance sheet at acquisition cost, which consists of the fair value of any compensation paid plus any monetary payments made or promised, less accumulated depreciation and, if appropriate, any estimated losses that result from comparing the net value of each item with the relevant recoverable amount.

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

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

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

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

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

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

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

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

2.12.2 Real estate investments

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

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

2.13 Intangible assets

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

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

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

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

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

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

2.14 Provisions and contingent liabilities

When preparing the financial statements the Group differentiates between:

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

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

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

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

At the 2010 and 2009 year end, a number of legal proceedings and claims had been initiated against the Group, arising in the ordinary course of business. ICO's legal advisors and its directors understand that the finalisation of these proceedings and claims will not have a significant effect other than that provided for, if appropriate, in the consolidated financial statements in which they finalise.

Provisions deemed necessary as stated above are charged or credited to the consolidated income statement caption "Transfers to provisions (net)".

2.15 Cash-flow statements

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

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

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

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

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

2.16 Non-current assets for sale

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

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

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

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

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

Non-current assets held for sale are generally measured at the lower of their carrying amount when they are recognised as such and their fair value net of estimated cost of sales. While included in this category, property, plant and equipment, and intangible assets, subject to depreciation and amortisation by nature, are not depreciated or amortised.

In the event that the carrying amount exceeds the fair value of the assets, net of cost of sales, the Institute adjusts the carrying amount of the assets by the amount of the excess and makes a balancing entry in the caption "Asset impairment losses (net) - Non-current assets held for sale" in the consolidated income statement. In the event that the fair value of the assets were to increase at a later date, the Group reverses the losses previously recorded in the accounts, increasing the carrying value subject to the limit of the amount prior to their eventual impairment, against Asset impairment losses (net) - Non-current assets for sale in the consolidated income statement.

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

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

3. Customer service

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

In 2010 a total of 4,602 complaints were received, (2,335 in 2009) which were addressed within an average of 6.2 working days, (5.82 in 2009). Eighty-two percent of the total related to credit transactions in the intermediary line and were therefore passed on to the relevant financial institutions.

4. Distribution of results

The distribution of 2010 ICO profits, which totalled 31,248 thousand euros, has not yet been decided by the General Council of the Institute, the Group's Parent entity. Such distribution will conform to the bylaws applicable to the Institute.

The distribution of 2009 profits totalling 23,496 thousand euros was made entirely to voluntary reserves.

5. Risk exposure

5.1 Risk - General aspects

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

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

• Liquidity risk: The risk incurred as a result of an absence of sufficient liquid resources to comply with obligations.

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

• Credit risk: This refers to the risk of not fully recovering the principal and interest relating to our investments within the projected periods. This risk may also be subdivided into two broad groups: Counterparty risks with banking institutions and credit risk regarding investment transactions.

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

As a credit institution, the ICO, the Parent entity, is exposed to this group of risks that must be identified, measured and monitored in order to operate efficiently. This is done in accordance with the Risk Policy Manual approved by the General Council, which contains the different methods, applicable legislation, procedures and organisational structure.

5.2 Organisational structure

In order to cover the entire risk spectrum, within its organisational structure the Institute, the Group's Parent entity (according to Presidential Organizational Circular 1/2010 of January 28th applicable to the end of 2009) , has created specialised units that report to the Sub-Directorate for Risk and Accounting, which reports to the General Directorate for Control and Administration.

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

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

The primary duties of the Global Risk area are:

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

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

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

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

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

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

The primary duties of the Risk Acceptance area are:

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

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

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

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

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

The primary duties of the Monitoring and Supervision Area are:

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

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

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

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

• Managing of supporting documentation for the Monitoring Commission.

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

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

5.3 Liquidity risk at the Group

National legislation contains several references to be taken into consideration when adequately managing this risk. There are all so international recommendations of reference, such as those established in the document published by the Basel Committee on Bank Supervision in February 2000 (Sound Practices for Managing Liquidity in Banking Organizations), which contains guidelines that must be taken into consideration when establishing a system for measuring, managing and monitoring liquidity risk. The establishment in December 2010 of new solvency and liquidity requirements, which is an updated version of the solvency and liquidity publication issued in December 2009, (International framework for liquidity risk measurement, standards and monitoring, and a global regulatory framework for more resilient banks and banking systems) represents a new step in the direction of guaranteeing more efficient parameters in liquidity measurement and control.

In ICO, the Group's Parent entity, is 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.

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

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

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

Generally, the Institution raises liquidity in a variety of ways, including tapping the interbank market and issuing debt securities in wholesale and retail markets.

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

Faced with this scenario, decisions were taken throughout 2010 to adapt the Group to the new circumstances in order to secure the liquidity needed to meet its payment commitments on time and achieve its strategic operating, investment, and growth targets. Thanks to these measures, the Group's management does not anticipate any liquidity shortages in 2011.

Maturities of the financial assets and liabilities of the Institution, as parent of the Group.

The following table shows the classification by residual maturity of ICO's assets and liabilities, net of valuation adjustments and amounts in foreign currency, at 31 December 2010:

	Thousand euros							
ASSETS	**Upon demand**	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1– 5 years**	**More than five years**	**Total**
Cash and balances with central banks	**424,055**	-	-	-	-	-	-	**424,055**
Deposits at credit institutions	**4,533**	**1,132,326**	**1,102,228**	**2,928,720**	**4,787,040**	**25,830,165**	**7,258,858**	**43,043,870**
Loans and advances to other debtors	**408,415**	**86,842**	**162,935**	**318,727**	**1,206,401**	**7,028,720**	**12,011,708**	**21,223,748**
- Spanish Public Administrations	320,163	13,542	12,493	20,790	63,325	805,434	1,063,795	2,299,541
- Other resident sectors	79,630	67,393	143,689	268,913	1,130,675	6,088,336	10,748,334	18,526,970
- Non-residents	8,622	5,907	6,753	29,024	12,401	134,950	199,579	397,237
Debt securities	-	**886,294**	**424,798**	**185,385**	**319,385**	**3,586,666**	-	**5,402,528**
Other assets with agreed maturity	-	-	**7,454**	-	-	-	-	**7,454**
	837,003	2,105,462	1,697,415	3,432,832	6,312,826	36,445,551	19,270,566	70,101,655

LIABILITIES	Thousand euros							
	Upon demand	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 – 5 years	More than five years	Total
Deposits from central banks	-	400,000	-	-	-	-	-	400,000
Deposits from credit institutions	-	-	3,716	9,107	19,406	75,109	2,261,066	2,368,404
Deposits from other creditors	3,271,527	91,581	158,468	231,998	363,291	2,893,842	-	7,010,706
- Spanish Public Administrations	324,652	33,052	39,036	123,188	363,291	2,893,842	-	3,777,060
- Other resident sectors	2,945,156	45,952	119,432	108,810	-	-	-	3,219,350
- Non-residents	1,719	12,577	-	-	-	-	-	14,296
Debt certificates including bonds	-	381,503	1,230,158	2,342,336	2,476,978	19,782,606	4,075,978	30,289,559
Other liabilities with agreed maturity	-	-	-	-	4,001,326	-	-	4,001,326
	3,271,527	873,084	1,392,342	2,583,441	6,861,001	22,751,557	6,337,044	44,069,995

The following table shows the classification by residual maturity of ICO's assets and liabilities, net of valuation adjustments and amounts in foreign currency, at 31 December 2009:

	Thousand euros							
ASSETS	**Upon demand**	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 – 5 years**	**More than five years**	**Total**
Cash and balances with central banks	**72,531**	**-**	**-**	**-**	**-**	**-**	**-**	**72,531**
Deposits at credit institutions	**7,072**	**540,925**	**836,612**	**2,032,478**	**3,283,673**	**17,707,786**	**4,706,997**	**29,115,543**
Loans and advances to other debtors	117,408	62,033	410,443	196,508	481,353	6,497,519	9,477,088	17,242,352
- Spanish Public Administrations	350	12,640	2,813	13,616	53,528	567,265	1,024,036	1,674,248
- Other resident sectors	**117,058**	**44,922**	**400,900**	**163,509**	**397,866**	**5,752,761**	**8,267,232**	**15,144,248**
- Non-residents	**-**	**4,471**	**6,730**	**19,383**	**29,959**	**177,493**	**185,820**	**423,856**
Debt securities	-	49,967	1,103,025	1,571,448	184,625	6,319,766	-	9,228,831
Other assets with agreed maturity	-	-	8,760	-	-	-	-	8,760
	197,011	652,925	2,358,840	3,800,434	3,949,651	30,525,071	14,184,085	55,668,017

LIABILITIES	Thousand euros Upon demand	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 – 5 years	More than five years	Total
Deposits from credit institutions	**-**	**-**	**8,261**	**9,041**	**121,937**	**99,204**	**576,642**	**815,085**
Customer deposits	**1,194,755**	**127,031**	**22,056**	**89,956**	**2,000,000**	**1,918,814**	**-**	**5,352,612**
- Spanish Public Administrations	-	-	-	-	2,000,000	1,918,814	-	3,918,814
- Other resident sectors	1,179,123	127,031	22,056	89,956	-	-	-	1,418,166
- Non-residents	15,632	-	-	-	-	-	-	15,632
Debt certificates including bonds	**-**	**149,651**	**2,364,576**	**29,767**	**106,493**	**12,234,421**	**2,711,391**	**17,596,299**
Other liabilities with agreed maturity	-	-	-	-	3,162,740	-	-	3,162,740
Other assets with agreed maturity								
	1,194,755	276,682	2,394,893	128,764	5,391,170	14,252,439	3,288,033	26,926,736

Analysis of euro-denominated trading and hedging derivatives of the Institute, as parent of the Group.

- The following table shows the contractual maturities for euro-denominated derivatives recognized as financial assets and financial liabilities at 31 December 2010 and 2009 (except for embedded derivatives in hybrid financial instruments) and loan commitments considered financial derivatives as they can be settled through netting, in cash or with another financial asset, in which the maturities are deemed essential for understanding the Institute's cash flow projections.

At 31 December 2010:

	Thousand euros					
	Up to one year	From 1 to 5 years	From 6 to 10 years	From 11 to 15 years	From 16 to 20 years	Total
Derivatives held for trading	4,169,440	112,700	79,839	118,308	38,590	4,518,877
- Of which: credit commitments considered as derivatives	-	-	-	-	-	-
Hedging derivatives	17,020,971	37,775,406	7,876,268	862,045	1,045,718	64,580,408
	21,190,411	37,888,106	7,956,107	980,353	1,084,308	69,099,285

At 31 December 2009:

	Thousand euros					
	Up to one year	From 1 to 5 years	From 6 to 10 years	From 11 to 15 years	From 16 to 20 years	Total
Derivatives held for trading	1,502,146	4,007,259	192,539	118,308	38,590	5,858,842
- Of which: credit commitments considered as derivatives	-	-	-	-	-	-
Hedging derivatives	11,631,805	38,019,185	6,175,052	862,584	1,002,191	57,690,817
	13,133,951	42,026,444	6,367,591	980,892	1,036,781	63,549,659

With respect to the information presented in the preceding tables, we would highlight that:

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

- The amounts shown relate 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 no stated contractual amount at the reporting date, e.g. because they depend on the performance of an index, the residual maturity considered for classification purposes in the preceding tables was determined based on prevailing conditions at 31 December 2010 and 2009, respectively.

Liquidity GAP analysis of the Institute, as parent of the Group.

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

The Group uses this approach because history has shown that it provides a more accurate picture of how the Institution's cash inflows and outflows are produced.

The tables below compare cash inflows and outflows at different maturities up to 12 months for the Institute, as parent of the Group. Inflows and outflows in foreign currency are shown at their equivalent value in euros.

At 31 December 2010

				Thousand euros
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months
Equivalent inflows in euros	4,833,832	9,455,990	10,134,136	15,537,711
Equivalent outflows in euros	(4,527,463)	(12,759,714)	(11,828,204)	(14,215,648)
Partial GAP	306,369	(3,303,724)	(1,694,068)	1,322,063
Cumulative GAP	306,369	(2,997,355)	(4,691,423)	(3,369,360)

At 31 December 2009:

				Thousand euros
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months
Equivalent inflows in euros	2,383,384	9,707,734	6,663,840	7,209,894
Equivalent outflows in euros	(2,214,253)	(10,361,351)	(5,295,139)	(5,707,101)
Partial GAP	169,131	(653,617)	1,368,701	1,502,793
Cumulative GAP	169,131	(484,486)	884,215	2,387,008

5.4 Market risk at the Group

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

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

Yield: At ICO this fundamentally derives from the income statement and therefore the relevant variable is the Financial Margin.

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

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

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

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

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

3) Degree of risk. The decision regarding the degree of risk assumed by ICO, the Group's Parent entity, is the responsibility of Senior Management, at the proposal of the Directorate for Risks and Accounting, establishes the acceptable limits based on the particular characteristics of the ICO.

These limits are reviewed regularly and, at least, on an annual basis.

The sensitivity of net interest income at 31 December 2010 to movements in interest rates of 100 basis points was 1.20% in the euro (1.96% at December 31, 2009), 0.24% in the US dollar (0.10% at December 31,2009) and 0.01% in the Pounds sterling (0.37% at December 31, 2009).The sensitivity to exchange rate fluctuations (movements of +/- 10%) was 0.51% and 0.11% respectively (0.54 % and 0.09% at December 31, 2009).

The sensitivity of equity at 31 December 2010 to movements in interest rates of 100 bp and fluctuations in the exchange rate of 10% was 0.39% in the euro (1.37% at December 31st, 2009), 0.09% in the US dollar (0.08% at December 31st, 2009) and 0.02% in the Pound sterling (0.00 % at December 31st, 2009). The sensitivity to exchange rate between USD/EUR was 0.19% and between GBP/EUR 0.05% (0.19% and 0.05% in respect of the exchange rate at December 31st, 2009).

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

The principal currencies used by ICO to present its balance sheet at 31 December 2010 are the euro, US dollar and pound sterling, which account for 95% of total balance sheet and off-balance sheet transactions, of which approximately 80% is in euros, 16% in US dollars and the remaining 4% in pounds sterling.

With respect to currencies other than the euro and dollar with which the Group operates, its balance sheets are closed to interest and exchange rate risks either because the operation involves financing obtained in the currency concerned and converted to euros using a derivative instrument that completely covers all currency flows, or because the financial of a certain asset is custom designed to avoid these risks.

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

5.5 Credit risk at the Group

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

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

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

The basic criteria for establishing counterparty lines are also approved by ICO's General Council on an annual basis. These counterparty lines are subdivided into two broad groups as a result of the operating characteristics of the ICO. The first of the counterparty lines relates to cash transactions. The other counterparty line relates to mediation transactions, transactions in which the ICO finances various investment projects through framework programmes concluded with various entities operating in Spain such as, for example, lines for small and medium-sized businesses.

The transactions involving derivatives contracted by ICO have counterparties with high credit ratings such that at least 99% of them maintain an Agency rating equal or higher than A-. These counterparty institutions operate at the national and international level.

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

Acceptance performs an analysis of companies and transactions based on a going concern evaluation and guarantees are examined to issue an opinion as to the risk and the potential client, which is the basis for taking decisions by the Operations Committee or General Council, as appropriate.

The Monitoring process (direct loans) has the purpose of making the Group's credit portfolio of the highest quality, i. e. ensures that our loans are repaid on a timely basis on the agreed dates. The basic monitoring unit is the client, not the transaction, such that any incident affecting a transaction affects the rating for a client and its group. This is achieved through ongoing controls, regular reviews, rating updates and alert systems such that the entire portfolio is classified into one of the following categories: Normal monitoring, Special monitoring and Recovery.

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

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

In this connection, ICO, the Group's Parent entity, has approved a methodology for measuring country risk that follows current legislation and complies with the objective of evaluating countries by risk group based on multiple criteria, thereby allowing for a defined policy when recording provisions for that country risk, evaluating direct loan transactions and segmenting the non-resident loan portfolio and introducing Basel II criteria. Rating agency and OECD-CESCE evaluations are used as source of information when classifying countries into risk groups and these classifications are reviewed on a monthly basis.

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

The following chart shows the maximum credit risk exposure assumed by the Group at December 31, 2010 and 2009 without deducting collateral or other credit enhancements received to ensure compliance of debtors:

December 31 2010

Thousand euros

Types of instruments	Available for sale financial assets	Credit, loans and discounts	Held to maturity investment portfolio	Hedging derivatives	Off Balance Sheet Items	Trading portfolio
Debt instruments	-	-	4,292,179	-	-	-
Credit institutions deposits	-	43,375,063	-	-	-	-
Securities	1,261,385	-	-	-	-	-
Customer loans	-	22,784,426	-	-	-	-
Contingent risks: guarantees	-	-	-	-	2,869,357	-
Financial derivatives	-	-	-	4,768,558	-	598,423
Other instruments	-	-	-	-	-	-
TOTAL	**1,261,385**	**66,159,489**	**4,292,179**	**4,768,558**	**2,869,357**	**598,423**

December 31 2009

						Thousand euros
Types of instruments	**Available for sale financial assets**	**Credit, loans and discounts**	**Held to maturity investment portfolio**	**Hedging derivatives**	**Off Balance Sheet Items**	**Trading portfolio**
Debt instruments	-	-	7,824,802	-	-	-
Credit institutions deposits	-	29,380,003	-	-	-	-
Securities	1,473,411	-	-	-	-	-
Customer loans	-	18,846,405	-	-	-	-
Contingent risks: guarantees	-	-	-	-	3291,927	-
Financial derivatives	-	-	-	1,899,625	-	470,686
Other instruments	-	-	-	-	-	-
TOTAL	**1,473,411**	**48,226,408**	**7,824,802**	**1,899,625**	**3,291,927**	**470,686**

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

	2010		**2009**	
	Amount	**%**	**Amount**	**%**
External ratings				
Credit quality level 1 (AAA)	-	-	-	-
Credit quality level 2 (AA, AA+)	930,000	4%	830,000	4%
Credit quality level 3 (A)	1,076,550	5%	1,419,609	8%
Others				
Not assigned amounts (without rating)	20,777,876	91%	16,596,796	88%
	22,784,426	100%	18,846,410	100%

5.6 Operating risk at the Group

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

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

5.7 Active credit risk with companies

5.7.1 Classification by sector

Taking into account a classification by sector, the distribution of the outstanding risk, not including valuation adjustments and certain items, classified as loans and advances to other debtors and financial guarantees, is as follows:

	Million euros			
	2010		2009	
	Amount	% / total	Amount	% / total
Outstanding risk by sector				
Investment properties	956	4%	766	4%
Construction of social housing for rent	498	2%	430	2%
Acquisition and development of land	348	2%	185	1%
Other	110	1%	151	1%
Investment intangible assets	0	0%	39	0%
Investment tangible assets	14,926	68%	13,452	67%
Renewable energies	1,238	6%	1,176	6%
Water infrastructures	528	2%	449	2%
Electricity infrastructures	2,232	10%	2,516	12%
Gas and fossil fuel infrastructures	1,790	8%	1,693	8%
Transport infrastructures	7,329	33%	6,155	30%
Tourism and leisure	211	1%	193	1%
Social-health infrastructures	251	1%	166	1%
Telecommunications	102	0%	116	1%
Audiovisual production and exhibition	53	0%	49	0%
Business parks and other constructions	27	0%	29	0%
Other	1,165	5%	910	5%
Acquisitions of companies	2,450	11%	2,852	14%
General corporate needs	1,197	5%	1,386	7%
Restructuring of liabilities	238	1%	254	1%
General State Budgets	1,981	9%	1,394	7%
Financial intermediary services	252	1%	56	0%
	22,000	100%	20,199	100%

As with other business figures, at 31 December 2010 and 2009 the outstanding risk is concentrated in "Transport infrastructures" and "Acquisition of companies". In 2010 and 2009, the outstanding risk relating to both sectors amounts to 9,689 million euros and 9,007 million euros respectively (44% of the total outstanding risk each year). In the "Acquisition of companies" sector are set the society mergers and acquisitions approved 3 or 4 years ago. As these financings become due, the weight of this sector will decrease.

5.7.2 Classification by geographic location of financial investments

The total risk at 31 December 2010 is distributed as follows: 86% in transactions financing investments in Spain, amounting to 18,850 million euros (78% relating to 15,765 million euros at 31 December 2009) and 14% in transactions aimed at financing investment projects in other countries (22% at 31 December 2009). This distribution has changed slightly over the last year, increasing in nearly a 20% the risk of domestic investment to the detriment of investment out of Spain.

Of the domestic total, the distribution of outstanding risks by autonomous region is similar to last year; Madrid still being the region with the greatest concentration, 30% (24% at 31 December 2009); followed by Cataluña, 13% (7% in 2009), Autonomous Community of Valencia, 7% (5% in 2009) and Andalucía, 8% (7% in 2009); not taking into account the risks attributed to "general" domestic relating to transactions that, in light of their nature, are not located in a specific geographic area but throughout Spain.

Transactions taking place in the international market at 31 December 2010 and 2009 are distributed as follows in accordance with the active foreign risk:

	Million euros			
	2010		**2009**	
	Amount	**%**	**Amount**	**%**
European Economic Community	1,089	35%	1,392	31%
Latin America	680	22%	1,526	34%
Brazil	165	5%	209	5%
United States	762	24%	877	20%
Rest of Europe (not EEC)	54	2%	35	1%
Other	396	12%	395	9%
	3,146	100%	4,434	100%

5.7.3 Refinancing

There are no unprovisioned financial assets that would have matured or been impaired had their respective conditions at 31 December 2010 or 2009 not been renegotiated.

5.8 Other information. Information on late payments to suppliers

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

- Given the Group's core business (financial activity), the information presented in this Note concerning late payment relates exclusively to payments to suppliers of services and sundry suppliers to the Institution and payments to commercial suppliers other than depositors and holders of ICO securities. With the latter, the contractual and legal payment deadlines of both liabilities due on demand and with deferred payment have been met dutifully.

- Regarding the information required by Law 15/2010, of 5 July with respect to the Institution's commercial and service suppliers and considering the provisions of the second transitional provision of ICAC Resolution of 29 December 2010, within the scope of the preceding paragraph, the following table provides information on outstanding late payments to suppliers which at 31 December 2010 exceed the legal payment deadline.

	Thousand euros	
	Amount	**% of total deferred payments**
Deferred payments exceeding the legal payment deadline at the reporting date	-	-

(*) The legal deadline was determined in accordance with the nature of the good or service received by the company as provided for in Law 3/2004 of December 29 establishing measures against late payment in commercial transactions.

5.9 Risk concentration

The bylaws of ICO, the Group's parent, state that the Institute is subject to the provisions of Royal Decree 1343/1992 of 6 November regulating credit institutions and implementing Law 13/1992 of 1 June on the consolidated capital and supervision of financial institutions and implementing regulations, except those regarding limits on large risks.

5.10 Information on construction and property development finance (purpose of the loan)

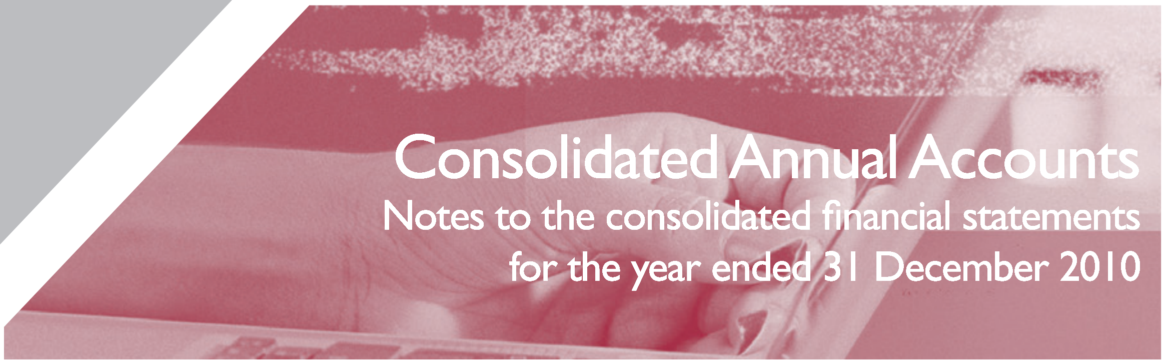
The table below details the finance granted for construction and property development, along with the related hedges (in thousand euros).

	Gross amount
Loan recognised by the Group	1,985,340
Of which: doubtful	360,763
Of which: substandard	32,654
Memorandum item	
Total general allowance (total businesses)	251,947
Default loans	-

Memorandum item

	Carrying amount
Total loans and advances to other debtors excluding regional governments (business in Spain)	20,484,885
Total consolidated assets (total businesses)	77,866,233

Finance for construction and property development represents 2.55% of total consolidated assets.



The breakdown of these loans (gross amounts) recognised by the Group is as follows:

	Loan: Gross amount
Without mortgage collateral	1,194,941
With mortgage collateral	790,399
Finished buildings	476,671
Homes	343,400
Other	133,271
Buildings under construction	104,489
Homes	96,387
Other	8,102
Land	209,239
Developed land	-
Other land	209,239
TOTAL	**1,985,340**

The table below shows loans granted by the Group to households for home purchases (businesses in Spain):

	Gross amount	Of which: doubtful
Home loans	22,243	-
Without mortgage collateral	19,358	-
With mortgage collateral	2,885	-

Home loans with mortgage collateral by percentage of total risk of the amount of the latest available appraisal (LTV) (businesses in Spain), is as follows:

	LTV<50%	50<LTV<80	80<LTV<100%	LTV>100
Gross amount	-	-	2,885	-
Of which:	-	-	-	-

None of the foreclosed assets on the Group's balance sheet (non-current assets classified as held for sale, Note 12) comes from finance granted to construction companies and property developers, or mortgage loans to households for home purchases, nor do they consist of equity instruments, investments and finance to non-consolidated companies holding the assets.

6. Cash and deposits at central banks

An analysis of the balances of this caption in the consolidated balance sheets as at 31 December 2010 and 2009 is as follows:

	Thousand euros	
	2010	2009
Cash on hand	1	8
Deposits at Bank of Spain	424,055	74,540
Mandatory to comply with minimum reserve ratios	422,803	72,524
Not mandatory	-	-
Accrued interest	1,252	2,016
	424,056	74,548

7. Trading portfolio

The total balance under this heading in the balance sheets at 31 December 2010 and 2009 is made up of trading derivatives.

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

Additionally, the balance includes the valuation of the derivative associated with the transaction Titulización ICO - Pyme, since it cannot be regarded as a hedge following the write-off of securitized loans from the balance sheet. The fair value of this instrument amounts to 16,738 thousand euros at 31 December 2010 (43,910 thousand euros at 31 December 2009).

The fair value of these items has been calculated in both 2010 and 2009, taking as a reference, implicit curves in monetary and government debt markets.

The effect on the consolidated income statement for the years ended 31 December 2010 and 2009 of the changes in the fair value of trading portfolio assets and liabilities is a profit of 35,571 thousand euros and 29,591 thousand euros, respectively (Note 30).

Set out below is a breakdown, by class of derivative, of the fair value of the Institute's trading derivatives and their notional value (amount on which future payments and collections of these derivatives are based) at 31 December 2010 and 2009:

	Thousand euros					
	Notional		Assets		Liabilities	
	2010	2009	2010	2009	2010	2009
By type of market						
Organised markets		-		-		-
Non-organised markets	8,680,512	10,830,428	598,423	470,686	552,616	409,498
	8,680,512	10,830,428	598,423	470,686	552,616	409,498
By type of product						
Swaps	**8,680,512**	**10,830,428**	**598,423**	**470,686**	**552,616**	**409,498**
	8,680,512	10,830,428	598,423	470,686	552,616	409,498
By counterparty						
Credit institutions	4,258,867	5,259,484	16,503	290,642	552,616	409,498
Other financial institutions	**2,626,252**	**4,910,301**	**16,738**	**43,910**	**-**	**-**
Other sectors	1,795,393	660,643	565,182	136,134	-	-
	8,680,512	10,830,428	598,423	470,686	552,616	409,498
By type of risk						
Exchange risk	**3,774,611**	**3,211,908**	**558,323**	**410,117**	**546,666**	**401,085**
Interest rate risk	**4,905,901**	**7,618,520**	**40,100**	**60,569**	**5,950**	**8,413**
	8,680,512	**10,830,428**	**598,423**	**470,686**	**552,616**	**409,498**

The reasonable value has been calculated in 100% of the cases in 2010 and 2009, taking the implicit curve of the money markets and the public debt as a reference.

At December 31, 2010 and 2009 the classification of the trading portfolio, stated at fair value and taking the hierarchical level into account as shown in Note 2.2.3, was as follows:

	Thousand euros					
	2010			2009		
	Level I	Level II	Level III	Level I	Level II	Level III
Held-for-trading-derivatives assets	-	598,423	-	-	470,686	-
Held-for-trading-derivatives of liabilities	-	552,616	-	-	409,498	-

The following table shows the amounts recognised in the income statements in 2010 and 2009 for changes in the fair value of the Institute's financial instruments included in the trading portfolio related to unrealised gains and losses, distinguishing between financial instruments whose fair values are measured taking quoted prices in active markets (Level 1), those estimated using valuation technique whose inputs are observable (Level 2) and those whose inputs are not based on observable market data (Level 3):

	Thousand euros					
	2010			2009		
	Gains	Losses	Net	Gains	Losses	Net
Level 1	-	-	-	-	-	-
Level 2	576,211	540,640	35,571	885,492	855,901	29,591
Level 3	-	-	-	-	-	-

8. Available-for-sale financial assets

The breakdown of the balance of this chapter of the balance sheet at December 31 2010 and 2009, investment is as follows:

	Thousand euros	
	2010	2009
FONDICO, Fondo de Capital Riesgo (1)	147,137	101,242
FEI, Fondo Europeo de Inversiones (2)	2,744	2,704
SWIFT (3)	2	2
Fondo Fons Mediterránea Fondo Capital Riesgo (4)	5,663	2,486
Fondo PYMEX Fundación Emp y Crecim (5)	150	235
Fondo de Carbono Postkyoto (6)	7	934
SICAV Fondo Marguerite (7)	85	5
Fixed income portfolio (8)	1,105,597	1,365,803
	1,261,385	1,473,411

The balance of Valuation Adjustment of equity epigraph at December 31 2010 and 2009 produced by changes in the fair value of the items included under the heading of financial assets available for sale is as follows:

	Thousand euros	
	2010	2009
Equity instruments	18,931	19,892
Debt instruments	8,652	23,258
	27,583	43,150

Movements experienced during the years 2010 and 2009 under the heading of financial assets available for sale are listed below:

	Thousand euros	
	2010	2009
Initial balance	1,473,411	105,297
Purchase additions	465,860	1,344,385
Amortizations and sales	(661,430)	-
Fair value fluctuations movements	(15,567)	24,031
Impairment losses movements	(889)	(302)
Balance at the end of the year	1,261,385	1,473,411

(1) Fund formed in May 1993, in which the Institute, the Group's Parent entity, is the sole participant. The book value of the interest held is 147,137 thousand euros at 31 December 2010 (31 December 2009 101,242 thousand euros), fully paid at December 2010 (47,390 thousand euros at 31 December 2009).

(2) Interest equivalent to 0.2667% of share capital. An amount of 6,400 thousand euros was outstanding at 31 December 2010 and 2009.

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

(4) Fund formed in October 2005 and in which the Institute participates with other public and private entities. The Fund was created to invest in projects developed by Spanish companies in the African Maghreb. The allocations to this fund have a provision coverage of 30% of total real capital (1,674 thousand euros at December 31, 2010 and 785 thousand euros at December 31, 2009).

(5) Fund formed in May 2003 by the Enterprise Foundation and Growth, in collaboration with the IDB and Nacional Financiera SNC, which aims at taking stakes in the temporary capital of non-financial firms located in Mexico. The allocations to this fund have a decline of 30% of the total contributions made (77 thousand euros at December 31, 2010 and at December 31, 2009).

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

(7) Participation in a Luxemburg based Investment Company with Variable Capital (S.I.C.A.V.) (16.66%) that manages the Marguerite Fund. With the participation of leading European public financial institutions, this is a European equity fund which seeks to promote investment in infrastructure to implement the key policies of the European Union in the fight against climate change, with the aim of combining the principle of return to investors based on market policies and the objectives set by public policy.

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

(8) Starting in 2009 ICO, as part of its liquidity management policy, has invested in debt instruments

classified as financial assets available for sale. These are fixed income securities issued by Spanish financial institutions, consisting mainly of bonds guaranteed by the State at 31 December 2010: 1,100,764 thousand euros (31 December 2009: 1,269,714 thousand euros) as shown below:

	Thousand euros 2010	Thousand euros 2009
Maturity of 3 months	75,000	159,764
Maturity between 3 and 6 months	34,993	1,059,950
Maturity between 6 and 9 months	-	50,000
Maturity over 9 months	990,771	-
	1,100,764	1,269,714

At December 31, 2010 and 2009, the classification of financial assets available for sale, stated at fair value and taking the hierarchical level into account as shown in Note 2.2.3., was as follows:

	Thousand euros					
	2010			2009		
	Level I	Level II	Level III	Level I	Level II	Level III
Debt securities	1,105,597	-	-	1,365,803	-	-
Other equity instruments	-	155,788	-	-	107,608	-

9. Credit, loans and discounts

The breakdown by type and status, of Investment Credit, loans and discounts at December 31, 2010 and 2009, net value adjustment for impairment of assets, is as follows:

	Thousand euros	
	2010	2009
By mode and location:		
Commercial credit	-	-
Debtors with mortgage	73,081	68,366
Debtor with other security	24,801	17,440
Assets temporary acquisitions	-	-
Hybrid financial assets	-	85
Other term debtors	62,997,758	47,423,781
Leases	-	-
Advances on demand and other	1,902,023	45,986
Doubtful assets	997,503	591,106
Valuation adjustments	171,675	83,470
	66,166,841	48,230,234

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

The composition of the balance of this chapter of the balance sheet at December 31, 2010 and 2009, classified by type of counterparty, is as follows:

	Thousand euros	
	2010	2009
By counterparty categories		
Credit institutions (Note 9.1)	43,264,317	29,332,596
Resident public administrations (Note 9.2)	2,299,541	1,674,249
Other resident sectors (Note 9.2)	21,217,194	17,828,961
Other financial assets (Note 9.2)	7,807	9,699
	66,788,859	48,845,505
(Impairment losses)	(793,693)	(698,741)
Other measurement adjustments (*)	171,675	83,470
	66,166,841	48,230,234

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

Set out below is the movement for 2010 and 2009 in impairment losses recorded to cover the credit risk and the accumulated amount of such losses at the beginning and end of those years on the portfolio of loans and discounts:

	Thousand euros			
	Country risk	Specific provisions	General provision	Total
Balance as at January 31 2009	**8,825**	**321,075**	**237,638**	**567,538**
Appropriations charged to income	-	197,303	20,000	217,303
Recoveries	(876)	(44,657)	(25,047)	(70,580)
Application of funds	-	(6,422)	-	(6,422)
Other movements	-	(7,296)	-	(7,296)
Adjustments for exchange differences	(4)	(1,798)	-	(1,802)
Balance as at December 31 2009	**7,945**	**458,205**	**232,591**	**698,741**
Appropriations charged to income	-	177,905	-	177,905
Recoveries	(536)	(37,714)	-	(38,250)
Application of funds	-	(46,805)	-	(46,805)
Other movements	(7,440)	7,404	-	(36)
Adjustments for exchange differences	31	2,107	-	2,138
Balance as at December 31 2010	**-**	**561,102**	**232,591**	**793,693**

The general provision is constituted at December 31 2010 and 2009, 125% respectively of the alpha parameter established for its calculation in Anejo IX of Circular 4/2004, respectively.

The net amount carried in the accompanying income statements for 2010 and 2009 as a result of movements affecting assets whose recovery is deemed remote totals 24 thousand euros and 5,007 thousand euros, respectively.

The heading "Other movements" included in variations for 2010 in the specific provision records amounts reclassified by the Group, taking into account the nature of the transactions covered, broken down mainly as follows:

1. Transfer to "Provisions of non-current assets in sale" of 7,440 thousand euros related to the award of assets covered by credit operations with specific.

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

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

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

	Thousand euros	
	2010	**2009**
Determined:	445,488	357,117
Exclusively to customer arrears	50,329	123,400
Other than customer arrears	395,159	233,717
Substandard	115,614	101,088

The substandard specific provision corresponds to credit assets for an amount of 768,582 thousand euros at December 31 2010 (779,793 thousand euros at December 31 2009).

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

	Thousand euros	
	2010	**2009**
Initial balance	329,027	326,993
Additions:	101,733	7,262
By remote recoveries	58,247	7,262
By other causes	43,486	-
Recoveries:	(24)	(5,007)
By refinancing or restructuring		-
By collecting cash without additional funding	(24)	(5,007)
For asset allocation	-	-
Others	-	-
Definitive write-off:	-	-
By forgiveness	-	-
By expiry	-	-
By other causes	-	-
Net Exchange fluctuation	493	(221)
Final balance at the year end	431,229	329,027

Set out below is a breakdown of those financial assets classified as credits, loans and discounts and considered to be impaired due to the credit risk at December 2010 and 2009 and those which, although not considered impaired, record some amount which is past due at that date, classified by counterparty and on the basis of time elapsed from the due date of the amount not paid at that date most outstanding on each operation. Impaired assets secured by Central Government are detailed in Note 9.2.

Impaired assets at December 2010

	Thousand euros				
	Up to 6 months	**Between 6 and 9 months**	**Between 9 and 12 months**	**Over 12 months**	**Total**
By counterparty categories					
Other resident and non-resident sectors	943,115	467	15,302	38,619	997,503
	943,115	467	15,302	38,619	997,503

There were no impaired assets relating to country risk at 31 December 2010.

Impaired assets at December 2009

	Thousand euros					
	Up to 6 months	**Between 6 and 12 months**	**Between 12 and 18 months**	**Between 18 and 24 months**	**Over 24 months**	**Total**
By counterparty categories						
Other resident and non-resident sectors	408,000	796	83,550	927	97,833	591,106
	408,000	796	83,550	927	97,833	591,106

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

The amount of the unimpaired matured assets relating to 2010 and 2009 totals 104,549 thousand euros and 46,019 thousand euros, respectively, and their age in both years is between one and two months.

9.1 Deposits at credit institutions

An analysis of the balances of this caption in the balance sheets as at 31 December 2010 and 2009 is as follows:

	Thousand euros	
	2010	2009
By nature		
Institute loans to BBVA (Note 9.1.1)	375,476	524.472
Deposits at credit and financial institutions (Note 9.1.2)	545,745	271.708
Financing loans for small and medium-sized businesses (Nota 9.1.3)	19,022,298	15.375.353
Other mediation loans (Note 9.1.2)	23,139,422	13.144.586
Other demand accounts (Note 9.1.2)	181,376	16.392
Other financial assets	-	85
	43,264,317	29,332,596
(Impairment losses)	-	(26,935)
Other measurement adjustments (*)	118,098	78,163
	43,382,415	29,383,824

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

In 2010, an asset transaction was reclassified due to the change in the counterparty's sector. As a result, the related impairment losses were recovered, with a charge to the allowance recognised for the provision of loans and receivables.

9.1.1 Institute loans to BBVA

The breakdown, by product type, of the loans and current accounts granted to BBVA at 31 December 2010 and 2009, as well as the average annual interest charged during those years, is set out below:

	Thousand euros		Average nominal interest rate	
	2010	2009	2010	2009
Loans -				
Ordinary financing	347,705	487,902	1.05%	2.17%
Official Export Credit	27,762	36,498	3.77%	2.17%
Other accounts	9	72	1.47%	2.17%
	375,476	524,472		
Current accounts -				
Current Accounts and other outstanding debits (1)	8,818	11,448		
	384,294	535,920		

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

Of the total recorded under this heading, the amount denominated in foreign currency at 31 December 2010 and 2009 totalled 27,762 thousand euros and 36,498 thousand euros, respectively.

The interest accrued during 2010 and 2009 for these loans totalled 5,590 thousand euros and 12,830 thousand euros, respectively, which is included under the heading "Interest and similar revenues - credit institutions" in the income statement.

A breakdown of loans by maturity date, excluding restatement adjustments, at 31 December 2010 and 2009 is set out below:

	Thousand euros	
	2010	2009
Up to 1 year	152,333	152,333
From 1 to 2 years	148,666	152,333
From 2 to 3 years	74,477	148,666
From 3 to 4 years	-	71,140
From 4 to 5 years	-	-
More than 5 years	-	-
	375,476	524,472

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

At 31 December 2010 and 2009, the headings "Deposits in credit and financial institutions" and "Other mediation loans" accrued interest at 2.64% and 2.12% per year, respectively. Their composition, in terms of nature and currency, at 31 December 2010 and 2009 is set out below.

	Thousand euros	
	2010	2009
By nature		
Demand deposits	181,376	16,392
Fixed-term deposits	23,685,167	13,416,294
	23,866,543	13,432,686

"Time deposits" grouped by maturity date at 31 December 2010 and 2009 break down as follows:

	Thousand euros	
	2010	2009
Up to 1 year	3,891,027	1,197,465
From 1 to 2 years	6,347,389	2,208,900
From 2 to 3 years	3,422,684	4,113,884
From 3 to 4 years	3,040,061	1,123,269
From 4 to 5 years	2,010,250	1,653,242
More than 5 years	4,973,756	3,119,714
	23,685,167	13,416,294

In transactions classified as "Other mediation loans", the ICO, the Groups Parent entity assumes a percentage of credit risk that the entity receiving the funds holds, in turn, with respect to final borrowers. At December 31, 2010 and 2009, there was a provision for possible failures of "Other mediation loans" of 0 thousand euros and 5,219 thousand euros respectively, that figure in the chapter "Provisions for liabilities and charges" of the balance sheets (Note 20). At 31 December 2010, there was no outstanding risk undertaken by the Institute in this connection (5,219 thousand euros at 31 December 2009).

The interest accrued during 2010 and 2009 for these loans amounted to 471,292 thousand euros and 214,785 thousand euros, respectively, which are included under the heading "Interest and similar income - of credit institutions" of the profit and loss account.

The mediation lines that come up in 2010 and 2009 and are shown under "Other mediation loans" in the amount of 5,579,836 thousand euros include the liquidity line for SMEs. In these lines ICO assumes a general and global risk for default presented by mediator financial entities, up to 5% of the amount of the provisions made for these lines. At December 31 2010 ICO had set up a provision of 144,165 thousand euros (44,009 thousand euros at December 31 2009) for this item (Note 20). The provisions made are equal to net interest income generated for the Institute by these lines of mediation. If the provisions were insufficient to cover the defaults, the difference would be charged directly to the ROL Fund 12/95, not generating losses for ICO.

9.1.3 Financing loans for small and medium-sized companies

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

In 2010 and 2009, 8,000 and 10,000 million euros, was approved for each year as a maximum amount, respectively.

The interest accrued during 2010 and 2009 for these loans totalled 354,524 thousand euros and 442,632 thousand euros, respectively, which is included under the heading "Interest and similar revenues - credit institutions" in the income statement.

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

	Thousand euros	
	2010	2009
Up to 1 year	4,346,313	3,478,474
From 1 to 2 years	4,206,881	3,425,813
From 2 to 3 years	3,481,764	3,090,176
From 3 to 4 years	2,659,852	2,237,618
From 4 to 5 years	1,776,487	1,533,190
More than 5 years	2,551,001	1,610,082
	19,022,298	15,375,353

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

At 31 December 2010 and 2009, the Institute has recorded a provision for the possible default of these lines of SME financing totalling 0 thousand euros (1,348 thousand euros at December 31, 2009), which are recorded under the heading "Provisions" (Note 20) in the accompanying balance sheets (1,348 thousand euros at December 31, 2009). Based on the accumulated experience over the years the SME lines have been open, the Group has been able to determine that defaults have been minimal, representing 0.055% of all draw-downs between 1993 and 1997. Bearing in mind that the lines giving rise to this provision are fully amortised and, given accumulated experience, in 2005 the Group decided to reverse 35,000 thousand euros from the provision that had been recorded. The adoption of this new approach to the treatment of these provisions meant that, with this amount of 35,000 thousand euros a reserve was recorded deriving from the first application of Bank of Spain Circular 4/2004. As of December 31, 2010, the Institute had not assumed any active risk for this item.

9.2 Customer loans

The breakdown of this balance sheet heading at 31 December 2010 and 2009, based both on the category of counterparty and the currency concerned, is as follows:

	Thousand euros	
	2010	**2009**
By counterparty categories		
Resident Public Administrations	2,299,541	1,674,249
Non-resident Public Administrations	-	-
Other resident sectors	19,532,750	16,082,572
Other non-resident sectors	1,684,444	1,746,389
Other financial assets	7,807	9,699
	23,524,542	19,512,909
(Impairment losses)	(793,693)	(671,806)
Other measurement adjustments (*)	53,577	5,307
	22,784,426	18,846,410

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

Of the above counterparty balances, below we provide information regarding the transactions secured by the State, set out by counterparty and type of instrument, included under "Other resident sectors" and "Resident Public Administrations", which are classified under the heading Customer loans at 31 December 2010 and 2009:

	Thousand euros	
	2010	2009
Balances included under "Resident Public Administrations"		
Loans to the national government	162,303	45,634
Loans to regional governments	2,137,238	1,628,615
Measurement adjustments	3,092	450
	2,302,633	1,674,699
Balances included under "Other resident sectors"		
Doubtful assets secured by the State	376,207	21,347
Loans to other public entities	5,205,500	4,190,946
Loans to other sectors guaranteed by the State	936,275	904,723
	6,517,982	5,117,016
Total transactions secured by the State	**8,820,615**	**6,791,715**

The breakdown of "Loans to the National government", without any measurement adjustment, is as follows at 31 December 2010 and 2009:

	Thousand euros	
	2010	2009
Loans to the State and its Autonomous Entities	650	787
Accounts receivable from the Public Treasury	154,575	41,323
Other accounts receivable from the State	7,078	3,524
	162,303	45,634

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

The heading "Other accounts receivable from the State" records the Institute's CARI operations amounts.

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

The breakdown of the principal amounts of loans included under the heading "Customer loans", including measurement adjustments, and set out by maturity date at 31 December 2010 and 2009, is as follows:

	Thousand euros	
	2010	2009
By maturity		
Up to 3 months	500,172	650,519
From 3 months to 1 year	1,993,877	811,914
From 1 to 5 years	9,399,622	6,873,294
More than 5 years	11,684,448	11,105,103
Indeterminate maturity	-	77,386
	23,578,119	19,518,216

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

10. Held-to-maturity investment portfolio

The breakdown by counterparty of the held-to-maturity investment portfolio at 31 December 2010 and 2009 is as follows:

	Thousand euros	
	2010	**2009**
By counterparty		
Resident credit institutions	1,928,603	3,562,660
Other resident sectors	2,363,576	4,265,672
Doubtful assets	-	30,000
	4,292,179	7,858,332
Value adjustments for impairment	-	(30,000)
	4,292,179	7,828,332

The average rate of compensation for the portfolio was 1.70% regardless of coverages, and 1.53% with them (1.59% and 1.49% respectively at December 31, 2009).

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

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

The assets were securitized through the establishment of a securitization fund called "ICO-MEDIACIÓN AyT, FTA". The assets in this fund were composed of credit rights assigned to serve them as a guarantee for the bond issue amounting to 13, 169,000,000 euros and the other liability elements of the fund which essentially include subordinated loans amounting to 930,470,000 euros whose payment priority is behind that of the aforementioned bonds which have been signed by other financial institutions. The bond issue was fully subscribed by the Institute having been placed in the investment portfolio at December 31 2010 and 2009. The Fund was accepted to trading on the AIAF Bond Market and given an AAA credit rating by FITCH.

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

Additionally along with the securitization the Institute contracted an interest rate swap that is classified in the trading book balance sheet on December 31, 2010 and 2009 (Note 7).

The heading "Other resident sectors" mainly includes the bonds issued by the Fund "ICO-Mediación AyT, FTA" being the outstanding balance at 31 December 2010 2,363,576 thousand euros (4,262,142 thousand euros at 31 December 2009).

The contribution of interest to the consolidated income statement in 2010 and 2009 totalled 23,525 thousand euros and 144,173 thousand euros, respectively (Note 25).

Movements experienced during the years 2010 and 2009 under the heading of Held-to-maturity investment portfolio are shown below:

	Thousand euros	
	2010	**2009**
Initial balance	7,828,332	10,835,342
Purchase additions	8,503,896	15,390,552
Derecognition from recovery of funds	(18,558)	-
Written off for default	(11,442)	-
Amortization and depreciation	-	(18,397,562)
Balance at the end of the year	4.292.179	7,828,332

Movement of impairment losses recorded in the held-to-maturity investment portfolio at the end of the years 2010 and 2009 is shown below:

	Thousand euros
Balance as at January 1 2009	**30,000**
Appropriations charged to income	-
Recoveries	-
Application of funds	-
Other movements	-
Adjustments for exchange differences	-
Balance as at December 31 2009	**30,000**
Appropriations charged to income	-
Recoveries	(18,558)
Application of funds	(11,442)
Other movements	-
Adjustments for exchange differences	-
Balance as at December 31 2010	-

In 2010, an investment classified in this portfolio was written. A partial recovery of 18,558 thousand euros of the loan was received.This amount was recognised under "Impairment of financial assets – Financial instruments not measured at fair value through profit and loss" in the income statement.

The breakdown by term residual maturity of December 31 2010 and 2009 is as follows:

	Thousand euros	
	2010	2009
On demand	-	30,000
Up to 3 months	1,928,603	3,562,660
Between 3 months and 1 year	-	-
Between 1 and 5 years	2,363,576	4,235,672
Over 5 years	-	-

11. Hedging derivatives (debtors and creditors)

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

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

- Interest-rate swaps, which hedge financial instruments remunerated at a rate other than Euribor.

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

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

The notional and net fair values of financial derivatives recorded as "Hedging derivatives" at 31 December 2010 and 2009 are set out below by counterparty, remaining term and risk:

	Thousand euros					
	Notional		**Assets**		**Liabilities**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
By type of market						
Organised markets	-	-	-	-	-	-
Non-organised markets	71,364,003	70,327,761	4,768,558	1,899,625	1,400,175	3,340,704
	71,364,003	**70,327,761**	**4,768,558**	**1,899,625**	**1,400,175**	**3,340,704**
By type of product						
Swaps	71,364,003	70,327,761	4,768,558	1,899,625	1,400,175	3,340,704
	71,364,003	**70,327,761**	**4,768,558**	**1,899,625**	**1,400,175**	**3,340,704**
By counterparty						
Credit institutions	71,364,003	70,327,761	4,768,558	1,899,625	1,400,175	3,340,704
Other financial institutions	-	-	-	-	-	-
Other sectors	-	-	-	-	-	-
	71,364,003	**70,327,761**	**4,768,558**	**1,899,625**	**1,400,175**	**3,340,704**
By type of risk						
Exchange risk	19,801,322	20,762,902	3,338,616	1,114,491	1,015,974	2,608,012
Interest rate risk	51,562,681	49,564,859	1,429,942	785,134	384,201	732,692
	71,364,003	**70,327,761**	**4,768,558**	**1,899,625**	**1,400,175**	**3,340,704**

On December 31 2010 and 2009, the classification of hedging derivatives, measured at fair value and taking into account the hierarchical level set out in Note 2.2.3., was as follows:

	Thousand euros					
	2010			**2009**		
	Level I	**Level II**	**Level III**	**Level I**	**Level II**	**Level III**
Held-for-trading-derivatives assets	-	4,768,558	-	-	1,899,625	-
Held-for-trading-derivatives of liabilities	-	1,400,175	-	-	3,340,704	-

12. Non-current assets for sale

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

Movements between 31 December 2009 and 31 December 2010 in the balances under this balance sheet heading are shown below:

	Thousand euros		
	Cost	Impairment	Total
Balance as at January 1 2009	**56,680**	**(2,455)**	**54,225**
Additions	6,058	-	6,058
Disposals / Applications	-	-	-
Transfers	-	(55,951)	(55,951)
Balance as at December 31, 2009	**62,738**	**(58,406)**	**4,332**
Additions	-	(1,100)	(1,100)
Disposals / Applications	(2,387)	-	(2,387)
Transfers	-	747	747
Balance as at December 31, 2010	**60,351**	**(58,759)**	**1,592**

Of the total amount of "Non-current assets held for sale" at 31 December 2010 and 2009, 48,678 thousand euros corresponds to a single asset, which is fully provisioned.

13. Shareholdings

The balance of this consolidated balance sheet heading at 31 December 2010 and 2009, set out by company and shareholding, is as follows:

	Thousand euros
	Associate Entities
Balance at 31 December 2008	**42,600**
Additions	8,281
Disposals/ Applications	-
Other movements	-
Impairment	(10,791)
Balance at 31 December 2009	**40,090**
Additions	31,062
Disposals/ Applications	-
Other movements	-
Additions	(4,079)
Balance at 31 December 2010	**67,073**

Appendix I contains a breakdown of shareholdings, as well as the most relevant information regarding these interests at 31 December 2010 and 2009.

The most significant additions for 2010 and 2009 relate to the acquisition of a shareholding in the Economic Interest Groupings detailed in Appendix I, engaged in the acquisition and charter of aircraft and ships and the performance of related air transport activities, classified as associates under "shareholdings"

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

At December 31 2010 an amount of 4,079 thousand euros was recognized in respect of impairment by charge to corporate income tax in the accompanying consolidated income statement (4,129 thousand euros as of December 31 2009).

14. Property, plant and equipment

Movements in 2010 and 2009 recorded under property, plant and equipment, and accumulated depreciation, are as follows:

	Thousand euros			
	Buildings of own use	Furniture, vehicles and other fixed assets	Real-estate investments	Total
Cost				
Balance as at January 1 2010	111,686	16,904	-	128,590
Additions	776	163	-	939
Disposals and other write-offs	-	(1,159)	-	(1,159)
Balance as at December 31 2010	112,462	15,908	-	128,370
Accumulated depreciation				
Balance as at January 1 2010	16,009	6,969	-	22,978
Appropriations	2,186	492	-	2,678
Transfers and other movements	(321)	(368)	-	(689)
Balance as at December 31 2010	17,874	7,093	-	24,967
Impairment losses	-	-	-	-
December 31 2010				
Property, plant and equipment net				
Balance as at December 31 2010	94,588	8,815	-	103,403
Cost				
Balance as at January 1 2009	111,686	14,798	-	126,484
Additions	-	2,106	-	2,106
Disposals and other write-offs	-	-	-	-
Balance as at December 31 2009	111,686	16,904	-	128,590
Accumulated depreciation				
Balance as at January 1 2009	13,645	6,524	-	20,169
Appropriations	2,364	445	-	2,809
Transfers and other movements	-	-	-	-
Balance as at December 31 2009	16,009	6,969	-	22,978
Impairment losses				
December 31 2009				
Property, plant and equipment net	-	651	-	651
Balance as at December 31 2009	95,677	9,284	-	104,961

At 31 December 2010 there are fully-depreciated property, plant and equipment for own use for a gross amount of approximately 6,187 thousand euros (5,977 thousand euros at 31 December 2009).

In compliance with the Group policy, all property, plant and equipment is insured at 31 December 2010 and 2009.

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, 2010 amounted to 29,054 thousand euros (29,965 thousand euros at December 31, 2009) (Note 22).

The table below presents the fair value of certain items of property, plant and equipment at December 31, 2010 and 2009 by category into which they are classified, along with the related carrying amounts at those dates:

	Thousand euros			
	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Property, plant and equipment for own use	103,240	115,442	104,774	115,887
Buildings	95,020	107,222	96,109	107,222
Other	8,220	8,220	8,665	8,665
Investment property	-	-	-	-
Property under construction	-	-	-	-

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

- For assets for which an updated appraisal by a Bank of Spain-approved valuer 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 assets for which an updated appraisal by a Bank of Spain-approved valuer is available, fair value was determined based on the appraisal as provided for in Ministerial Order 805/2003. Information on the valuers performing the appraisals and on the fair value estimated in accordance with the procedure described is as follows:

All properties for own use were appraised by Gestión de Valoraciones y Tasaciones, S.A. (GESVALT) using the comparison approach (M), at 31 December 2010 and 2009.

15. Intangible assets

The breakdown of Intangible assets in the balance sheet at 31 December 2010 and 2009 relates solely to other intangible assets.

	Thousand euros		
	Useful estimated life	2010	2009
With indefinite useful life	-	-	-
With defined useful life	3 years to 10 years	19,825	14,198
Gross total		19,825	14,198
Of which:			
Internal developments	3 years	16,661	11,986
Remainder	10 years	3,164	2,212
Accumulated depreciation		(5,383)	(2,355)
Impairment losses		-	-
		14,442	11,843

All intangible assets at 31 December 2010 and 2009 related to computer software. Fully amortised intangible assets at 31 December 2010 amounted to 2,139 thousand euros (0 at 31 December 2009).

16. Tax assets and liabilities

The breakdown of tax assets and liabilities at 31 December 2010 and 2009 is as follows:

	Thousand euros			
	Assets		Liabilities	
	2010	2009	2010	2009
Current taxes:	397	12,314	21,806	1,639
Corporate income tax	-	12,095	20,432	-
VAT	397	219	21	13
Personal income tax withholdings	-	-	1,023	1,279
Social Security contributions	-	-	330	347
Other	-	-	-	-
Deferred taxes:	164,263	203,708	77,384	36,050
Impairment losses on credits, loans and discounts	164,263	103,357	1,517	224
Measurement of cash-flow hedges (Note 21)	-	100,351	48,057	-
Restatement of property	-	-	15,932	15,932
Restatement of available-for-sale financial assets (Note 21)	-	-	11,822	18,493
Accrual financial liabilities	-	-	-	1,244
Accrual of financial commissions	-	-	-	-
Reinvestment deferral	-	-	56	157
	164,660	216,022	99,190	37,689

Movements in 2010 and 2009 in the deferred tax asset and liability balances are set out below:

	Thousand euros			
	Assets		Liabilities	
	2010	2009	2010	2009
Balance at beginning of the year	**203,708**	**242,099**	**36,050**	**28,133**
Impairment losses on credits, loans and discounts	60,906	22,367	1,293	224
Valuation of cash flow hedges	(100,351)	(60,171)	48,057	-
Restatement of property		-	-	-
Restatement of available -for- sale financial assets		-	(6,671)	10,299
Accrual financial liabilities		-	(1,244)	(2,473)
Accrual of financial commissions		(587)	-	-
Reinvestment deferral		-	(101)	(133)
Balance at the end of the year	**164,263**	**203,708**	**77,384**	**36,050**

17. Other assets

The breakdown of Other Assets at 31 December 2010 and 2009 is as follows:

	Thousand euros	
	2010	2009
Other assets	1,005	450
Accruals	2,616	1,708
	3,621	2,158

18. Other liabilities

The breakdown of Other Assets at 31 December 2010 and 2009 is as follows:

	Thousand euros	
	2010	2009
Other assets	990	1,819
Accruals	2,066	1,300
	3,056	3,119

"Other liabilities" basically corresponds to various payment obligations in connection with the transfer of assets and liabilities from the now dissolved Argentaria to BBVA (see Note 1.4).

19. Financial liabilities at amortised cost

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

	Thousand euros	
	2010	2009
By counterparty categories		
Deposits from Central Banks (Note 19.1)	400,000	-
Credit institution deposits (Note 19.2)	3,082,192	1,380,235
Customer deposits (Note 19.3)	7,020,840	5,359,316
Debts represented by negotiable securities (Note 19.4)	57,693,775	43,694,878
Other financial liabilities (Note 19.7)	4,002,331	3,164,479
	72,199,138	53,598,908

19.1 Deposits from central banks - liabilities

The composition of this balance sheet heading at 31 December 2010 and 2009, set out by currency and the nature of the transaction, is as follows:

	Thousand euros	
	2010	2009
By type of transaction:		
Repurchase agreements with the ECB	400,000	-
	400,000	-

19.2 Credit institution deposits

The composition of this balance sheet heading at 31 December 2010 and 2009, set out by currency and the nature of the transaction, is as follows:

	Thousand euros	
	2010	2009
By nature:		
Loans from the European Investment Bank	1,197,851	893,883
Interbank loans	1,092,360	34,402
Loans from other financial institutions	506,850	400,118
Other accounts	168,427	-
Measurement adjustments – Accrual accounts	116,704	51,832
	3,082,192	1,380,235

Interbank deposits fall due within one year as from 31 December 2010 and 2009, respectively.

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

	Thousand euros	
	2010	2009
Up to 1 year	44,605	201,168
From 1 to 2 years	44,277	43,706
From 2 to 3 years	38,780	43,332
From 3 to 4 years	16,307	37,944
From 4 to 5 years	13,398	15,739
More than 5 years	1,040,484	551,994
	1,197,851	893,883

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

	Thousand euros	
	2010	2009
Up to 1 year	30,020	-
From 1 to 2 years	5,976	-
From 2 to 3 years	73,674	-
From 3 to 4 years	7,899	69,415
From 4 to 5 years	83,379	-
More than 5 years	305,902	330,703
	506,850	400,118

19.3 Customer funds

The composition of this heading in the consolidated balance sheets at 31 December 2010 and 2009, according to sector and currency, is as follows:

	Thousand euros	
	2010	2009
By counterparty category		
Public Administrations	3,777,666	3,919,392
Other resident sector (1)	3,219,351	1,418,168
Other non-resident sectors	14,296	15,633
Measurement adjustments – Accrual accounts	9,527	6,123
	7,020,840	5,359,316

(1) Of which at 31 December 2010 and 2009 2,945,156 thousand euros and 1,179,123 thousand euros, respectively, relate to demand.

At 31 December 2010 and 2009, the breakdown by nature of the balance recorded under "Public Administrations" is as follows:

	Thousand euros	
	2010	2009
Special loan from the State	2	2
Reciprocal Interest Adjustment Agreement (RIAA)	18,076	12,184
Public Administration Current Accounts and other items	325,257	335,769
Special loan Liquidity Line	3,434,331	3,571,437
	3,777,666	3,919,392

With the formalization of liquidity lines mediation ICO 2009, the State subscribed with ICO a special loan to finance 50% of these lines of mediation to a maximum of 5,000,000 thousand euros. On December 31, 2010 the amount of the loan is 3,434,331 thousand euros (3,571,437 thousand euros at December 2009).

On 30 July 2010, the Institute carried out another asset transfer in the form of a securitisation of credit rights from loans granted to financial institutions through its 2007-2010 mediation line for 22,868,713 thousand euros.

This securitisation was carried out through the creation of the "ICO-MEDIACIÓN AyT, FTA II" securitisation fund (the "Securitisation Fund"). The Securitisation Fund's assets comprised assigned credit rights, which were used as guarantee of a 14,864,700 thousand euros bond issue and of the fund's remaining liabilities and, mainly, includes a subordinated loan for 8,004,013 thousand euros, whose payment rank is below previous bonds, and which was equally subscribed by ICO. This bond issue was fully subscribed by the Institute. It was admitted to trading on the AIAF Fixed-income Market and rated AAA by FITCH.

According to the criteria described in Note 2.2.2 and in Rule 23 of Bank of Spain Circular 4/2004, the risk and rewards incidental to ownership of the assigned credit rights have not been transferred substantially to third parties because of ICO's subscription of the subordinated loan. Therefore, securitised loans are not derecognised from the balance sheet.

In addition, the Institute arranged an interest rate swap with the Securitisation Fund as a cash flow hedge.

As a result, "Other resident sectors" in "Loans and advances to other debtors" on the liability side of the balance sheet includes, under "Issues of equity instruments" a value of zero, which is the result of netting the amount of cash received (22,868,713 thousand euros) and the amount of equity instruments issued for the securities received in exchange (14,864,700 thousand euros) plus the amount of the subordinated loan subscribed in the transaction (8,004,013 thousand euros).

19.4 Debts represented by negotiable securities

The breakdown of the heading "Debts represented by negotiable securities" at 31 December 2010 and 2009 is set out below:

	Thousand euros	
	2010	2009
Promissory notes and other securities (Note 19.5)	25,905	53,281
Bonds and debentures issued (Note 19.6).	55,081,619	42,900,879
Valuation adjustments (including transaction costs)	2,586,251	740,718
	57,693,775	43,694,878

Movements experienced during the years 2010 and 2009 under the heading of debt securities - notes are as follows:

	Thousand euros	
	2010	2009
Balance at beginning of the year	53,281	64,074
Issues	-	-
Amortizations and depreciations	(27,376)	(10,793)
Balance at the end of the year	25,905	53,281

Movements experienced during the years 2010 and 2009 under the heading of debt securities - Bonds and obligations are shown below:

	Thousand euros	
	2010	2009
Balance at beginning of the year	42,900,879	38,699,051
Issues	28,119,382	15,221,355
Amortizations and depreciations	(15,938,642)	(11,019,527)
Balance at the end of the year	55,081,619	42,900,879

19.5 Promissory notes and other securities

The breakdown of the heading "Promissory notes and other securities", based on the nominal amount of the securities and their amortization periods, is set out below at 31 December 2010 and 2009.

	Thousand euros	
	2010	2009
Up 1 year	25,905	27,376
From 1 to 2 years	-	25,905
From 2 to 3 years	-	-
From 3 to 4 years	-	-
From 4 to 5 years	-	-
More than 5 years	-	-
	25,905	53,281

The financial cost of the promissory notes and other securities in 2010 and 2009 totalled 46.905 thousand euros and 67,243 thousand euros, respectively, and is recorded under the heading "Interest and similar charges for deposits represented by negotiable securities" (Note 26) in the income statement.

The average weighted interest rate on active promissory notes at 31 December 2010 (all issued between 1989 and 1993) and 2009 was 11.63% and 11.90%, respectively, excluding hedges obtained. Taking hedges into consideration the average rates in 2010 and 2009 fall to 7.57% and 8.93%, respectively.

19.6 Bonds and debentures issued

Set out below are the main characteristics of the debenture issues outstanding at 31 December 2010 and 2009, grouped together by currency together with the relevant interest rates and maximum redemption dates:

Number of issues					Thousand euros	
2010	2009	Currency	Redemption date	Annual interest rate	2010	2009
16	23	Norwegian krone	Until2016	4.28 to 6.61	1,201,923	1,623,492
1	1	Swedish krona	Until2016	4.5	55,769	48,771
13	16	Australian dollar	Until2014	0.055 to 13.5	2,279,598	2,224,907
4	4	Canada dollar	Until2020	3.32 to 5.00	1,013,361	892,385
2	2	Brazilian Real	Until 2011	Various	33,819	29,865
2	3	New Zealand dollar	Until2015	6.375	182,539	187,834
66	59	US dollar	Until2018	Various	12,633,165	13,848,028
136	45	Euro	Until2026	Various	30,263,653	17,543,018
19	11	Swiss franc	Until2024	Unti12.00	1,966,758	1,465,676
27	24	British pound	Until2013	0.0475 to 5.00	3,625,996	3,764,920
4	5	Turkish lira	Until 2011	10.00 to 10.50	145,338	162,789
14	12	Yen	Until2023	Various	1,679,700	1,109,192
					55,081,619	42,900,879

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

In 2010 and 2009 the total financial cost of debenture loans in both euros and foreign currency recorded under the heading "Interest and similar charges for debenture loans and other negotiable securities" in the income statement was 1,746,370 thousand euros, which is an annual average interest rate of 3.56%. In 2009 financial costs totalled 1,754,390 thousand euros, which was an average annual interest rate of 3.99% (Note 26).

The above interest rates do not take into account the effect of hedges obtained. If hedges are taken into account the above-mentioned rates decline to 1.54% in 2010 and to 2.43 % in 2009, respectively.

19.7 Other financial liabilities

An analysis of the balances of this caption in the consolidated balance sheets as at 31 December 2010 and 2009 is as follows

	Thousand euros	
	2010	2009
Grants	8,311	6,276
Treasury Funds	3,876,367	3,035,545
Other items	117,653	122,658
	4,002,331	3,164,479

At 31 December 2010 "Other items" mainly include, an amount of 2,560 thousand euros corresponding to operations of outstanding compensation in connection with the operation of ICO PYME securitisation (at December 31, 2009 an amount of 2,138 thousand euros), an amount of 13,767 thousand euros from a refinancing of economic policy (at December 31, 2009 an amount of 20,828 thousand euros), an amount of 8,526 thousand euros from recuperations of pending operations of capitalize as it said in the DA 11 ª of the Law 24/2001 (at December 31, 2009 an amount of 7,661 thousand euros), an amount of 14,797 thousand euros from timing of financial guarantees (at December 31, 2009 an amount of 16,645 thousand euros) and an amount of 70,774 thousand euros as an advanced received for the operation of the Jeremie Fund (at December 31, 2009 an amount of 70,000 thousand euros).

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

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

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

The funds associated with the most important lines are:

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

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

- Línea Préstamos Renta Universidad: this line is to guarantee a future income for postgraduate studies as a Doctorate or a Master degree for 2009-2010.

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

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

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

The balance of those funds at 31 December 2010 and 2009 is set out below:

	Thousand euros	
	2010	2009
FOMIT	804,959	802,477
Avanza	1,612,905	1,377,983
Préstamos Renta Universidad	189,214	114,798
Plan Vive	862,564	723,658
DGT Carnet de conducer	12,678	12,827
FuturE	390,642	-
Other	3,405	3,802
	3,876,367	3,035,545

20. Provisions

At 31 December 2010 and 2009 the breakdown of the balances recorded under this heading in the accompanying balance sheet is as follows:

	Thousand euros	
	2010	2009
Provisions for pensions and similar obligations	95	78
Provisions for contingent exposures and commitments	26,614	26,783
Other provisions	349,065	223,341
	375,774	250,202

Provisions for contingent exposures and commitments

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

Other provisions

An analysis of the balances of this caption in the balance sheets as at 31 December 2010 and 2009 is as follows:

	Thousand euros	
	2010	2009
Provision for SMB (Note 9.1.3)	-	1,348
Royal Decree-Law 12/1995 Fund (Note 9.2)	134,812	132,427
Provision for other mediation loans (Note 9.1.2)	-	5,219
Provision for Special Loan Liquidity Line	144,165	44,009
Other specific provisions – CARI Egypt	474	538
Fund for amounts recovered from BBVA	500	968
Line Fund Prestige	13,286	8,703
Fund to compensate AIE shareholdings results	33,413	27,583
Contingency fund	20,000	-
Other funds	2 415	2,546
	349,065	223,341

Royal Decree-Law 12/1995 (28 December)

Royal Decree-Law 12/1995 (28 December), published in the Official State Gazette (BOE) on 30 December 1995 and taking effect on 1 January 1996, it is stipulated that Instituto Oficial de Credito would create, by charging the resources obtained from the State Loan referred to by Section 4.1 of the Council of Ministers Resolution (11 December 1987), a Fund totalling a maximum of 150,253 thousand euros (Note 19.2) to provide provisions and charge the amounts relating to doubtful and default loans that could arise in the future from the activities listed in Note 1, in accordance with the regulations in force for credit institutions. Additional Provision 4 of Law 66/1997 (30 December) on Tax, Administrative and Social Order Measures stipulated that notwithstanding the application of these regulations, the Council of Ministers or the CDGAE could authorize the ICO to charge the Special provision Fund established under RDL 12/95 for any defaults arising during the course of its business, provided that they did not receive any specific coverage in the General State Budgets. This Fund was created in 1996 under the heading "Other Provisions".

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

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

The Fund was created as explained in the preceding paragraph and was credited, in addition to the initial allocation, with future allocations that the Instituto Oficial de Crédito makes out of profits obtained and any made or authorized by the State when assuming or offsetting losses, or through any other appropriate system . Similarly, the Fund is credited with the amounts of any 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 2010 and 2009 amounted to 1,008 thousand euros and 8,863 thousand euros, respectively and the income obtained on the management of the funds assigned to the Fund itself, in 2010 and 2009, amounted to 1,408 thousand euros and 3,104 thousand euros, respectively.

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

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

In 2010 allocations were made for 11,952 thousand euros directly by the State online mediation Forum Afinsa, by agreement of the Council of Ministers of April 27 2007, with any other additional endowment (3,795 thousand euros in 2009).

At 31 December 2010 and 2009, the balance of this Fund totals 134,812 thousand euros and 132,427 thousand euros, respectively.

Movements in 2010 and 2009 in this fund recorded under "Other Provisions" in the balance sheet at 31 December 2010 and 2009 are as follows:

	Thousand euros
Balance as at January 1, 2009	**134,807**
Capitalisation of interest	3,104
Loan recoveries (principal and interest)	8,863
Applications	(14,347)
Balance as at December 31 2009	**132,427**
Capitalisation of interest	1,408
Contributions by the State	11,952
Loan recoveries (principal and interest)	1,008
Applications	(11,983)
Balance as at December 31 2010	**134,812**

Other provisions CARI-Egypt

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

Funds recovered from BBVA

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

Nonetheless, the management of the transactions affected by the cancellation process has meant that ICO continues to receive collections pertaining to these loans, which for prudence, are not generally reflected as income in the income statement. For those recorded as income, the relevant provision for liabilities has been recorded amounting to 500 thousand euros and 968 thousand euros at 31 December 2010 and 2009, respectively, that will be capitalized in accordance with Additional Provision 10.1 of Law 24/2001, amended by Law 42/2006.

Prestige Line fund

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

Fund to compensate AIE shareholdings results

Heading Fund to compensate AIE shareholdings includes the provision to adjust to its profit the transactions performance conducted through the Economic Interest Groupings (Note 13). This provision has been recognized under the rubric of corporate income tax of the income account for an amount of 5,829 thousand euros and 10,048 thousand euros, respectively in the years 2010 and 2009 (Note 23).

Contingency fund

This heading was created in 2010 and includes a generic provision for general contingencies (including operational risk).

Movements in 2010 and 2009 in the provisions recorded under these balance sheet headings at 31 December 2010 and 2009:

	Thousand euros				
	Provisions for taxes	Fund for pension	Provisions for contingent exposures and commitments	Other provisions	Total
Balance as at December 31 2008	-	58	26,314	181,409	207,781
Net allocation (1)	-	20	5,905	49,523	55,448
Recoveries	-	-	(5,436)	(249)	(5,685)
Application of funds	-	-	-	(17,369)	(17,369)
Transfers and other movements	-	-	-	10,044	10,044
Exchange differences	-	-	-	(17)	(17)
Balance as at December 31 2009	-	78	26,783	223,341	250,202
Net allocation (1)	-	17	-	227,325	227,342
Recoveries	-	-	(169)	(8)	(177)
Application of funds	-	-	-	(118,630)	(118,630)
Transfers and other movements (2)	-	-	-	16,967	16,967
Exchange differences	-	-	-	70	70
Balance as at December 31 2010	-	95	26,614	349,065	375,774

(1) Net charges to profit and loss recognized under "Other provisions" include amounts of 1,408k thousand euros in 2010 and 3,104 thousand euros in 2009 related to credits made to the Special Provision Fund (Royal Decree Law 12/1995 Fund) for the capitalisation of interest accrued in relation to the fund's own remuneration.The figure also includes a provision charge for ICO's liquidity lines with ICO risk (see Note 9.1.3.) amounting to 195,552 thousand euros in 2010 (46,420 thousand euros in 2009) and an allocation to the contingency fund (28,714 thousand euros).

(2) Transfers and other movements relate mainly to the Fund to compensate AIE shareholding results, allocations to which are charged to "Income tax expense" (5,830 thousand euros) (Note 13) and to the increase in the Royal Decree-Law 12/95 Fund for the contribution of the State (11,952 thousand euros).

21. Valuation adjustments

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

	Thousand euros					
	2010			2009		
	Gross	Tax effect (Note 16)	Net	Gross	Tax effect (Note 16)	Net
Available-for-sale financial assets	39,404	(11,821)	27,583	61,643	(18,493)	43,150
Cash flow hedging	160,193	(48,058)	112,135	(334,503)	100,351	(234,152)
TOTAL	199,597	(59,879)	139,718	(272,860)	81,858	(191,002)

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

	Thousand euros	
	2010	2009
Opening balance	(191,002)	(355,432)
Change in fair value of available-for-sale financial assets (Note 8)	(15,567)	24,031
Cash flow hedges	346,287	140,399
Closing balance	139,718	(191,002)

22. Own funds

The reconciliation of the opening and closing carrying value in 2010 and 2009 of the heading "Equity" in the balance sheets:

	Thousand euros				
	Share	Restatement reserves	Other reserves	Results	Total
Balance as at December 31 2008	**2,052,096**	**30,876**	**564,867**	**88,363**	**2,736,202**
Distribution of results	-	-	88,363	(88,363)	-
Other increases in reserves	-	(911)	911	-	-
Result for the year	-	-	-	22,477	22,477
Other movements	150,633	-	(2,188)	-	148,445
Balance as at December 31 2009	**2,202,729**	**29,965**	**651,953**	**22,477**	**2,907,124**
Distribution of results	-	-	22,477	(22,477)	-
Other increases in reserves	-	(911)	911	-	-
Result for the year	-	-	-	29,960	29,960
Other movements	148,719	-	10,763	-	159,482
Balance as at December 31 2010	**2,351,448**	**29,054**	**686,104**	**29,960**	**3,096,566**

In 2010 capital was increased by 148,719 thousand euros as follows:

- Contribution of 140,000 thousand euros by charge to budgetary item 15.16.931 M.871 of 2010 General State Budget Law 26/2009, of 23 December, authorized in order to increase the Institute's equity.

- Based on the eleventh additional provision of Law 24/2001, of 27 December, on fiscal, administrative and social measures, the amounts recovered after the cancellation of debt owed by the State with ICO as a result of certain loans and guarantees granted by the former official credit entities and by the Institute. The contribution to Equity in this connection amounted to 8,719 thousand euros in 2010.

In 2009 capital was increased by 150,633 thousand euros as follows:

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

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

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

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

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

The Institute's net computable equity, that does not include profit and amounted to 3,314,375 thousand euros at 31 December 2010, exceeded the amount laid down in Bank of Spain Circular. At 31 December 2009 the Institute's net computable equity amounted to 3,152,501 thousand euros that also exceeded the amount laid down in said Circular (Note 1.7.1).

22.1 Reserves in fully or proportionally consolidated companies

Set out below is the breakdown by consolidated company of balances under equity "Equity - Reserves - Accumulated Reserves" in the consolidated balance sheets at 31 December 2009 and 2008, in the part of that balance which has arisen on consolidation, analyzed for fully and proportionally consolidated companies in the consolidated financial statements:

	Thousand euros	
	2010	2009
AXIS Participaciones Empresariales, S.A.	6,098	5,849
Instituto de Crédito Oficial	678,721	654,314
	684,819	660,163

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

"Equity - Reserves - Reserves in companies carried under the equity method " in the consolidated balance sheets at 31 December 2010 and 2009, in the part of that balance which has arisen on consolidation process, analyzed for each company carried under the equity method in the consolidated financial statements:

	Thousand euros	
	2010	2009
COFIDES, Compañía Española de Financiación del Desarrollo, S.A.	3,323	2,880
CERSA, Compañía Española de Reafianzamiento, S.A.	58	-
Arrendadora Aeronáutica, AIE	-	(3,279)
Other entities	(2,096)	(7,811)
	1,285	(8,210)

23. Tax situation

The balance sheet at 31 December 2010 and 2009 includes, within the heading "Customer debits" the liability relating to applicable taxes.

The Institute does not pay tax under the tax consolidation regime as the Institute, the Group's Parent entity, was exempt from corporate income tax in the years 1993 through 1996, in accordance with Royal Decree Law 3/1993, of 26 February 1993, on urgent budgetary, tax, financial and employment measures. In accordance with the provisions of Transitional Provision Thirteen of Law 43/1995 (27 December) on corporate income tax, the Institute was exempted from this tax in 1997 and 1998 and became liable to general corporate income tax as from 1999.

The reconciliation of the accounting Institute's profit for 2010 and 2009 to the corporate income tax base is as follows:

	Thousand euros	
	2010	**2009**
Book profit before income tax	**41,359**	**30,262**
Permanent differences		
Externalisation of pension commitments	-	39
Foreign taxes paid	1,799	2,571
Tax-loss carryforwards attributed to invested companies	(37,637)	(51,225)
Monetary adjustment due to the sale of assets	-	-
Adjustment to the measurement of derivatives	-	-
	(35,838)	(48,615)
Temporary differences:		
Due to impairment losses and provision non-deductible	228,430	139,164
Due to the reversal of temporary differences arising in other years	(25,234)	(58,623)
	203,196	80,541
Tax assessment base	**208,717**	**62,188**
Gross tax payable (30%)	62,615	18,656
Deductions and allowances	(1,454)	(2,094)
Withholdings and interim payments	(40,729)	(28,657)
Tax payable	20,432	(12,095)
Corporate income tax	203	(7,600)
Adjustments for exchange differences	-	189
Other adjustments (Note 13 and 20)	9,908	14,177
Corporate income tax	10,111	6,766

There are no tax losses available for offset. During the year the losses allocated of the Economic Interest Groupings in which ICO, the Group's Parent entity, has a differing proportional interest in capital are included (37,637 thousand euros at December 2010 and 51,225 thousand euros at December 2009). Losses are allocated on the basis of the information provided by the entities. It has been decided to allocate these items in the same period in which the balance sheets of the Economic Interest Groupings are closed.

The tax incentive deductions applied in the years 2010 and 2009 in respect of professional training expenses amount to 32 thousand euros and 25 thousand euros respectively. There is an international double tax deduction (taxes borne) amounting to 1,422 thousand euros and 2,069 thousand euros respectively. There are no deductions pending inclusion in future year tax assessments. There are no commitments entered into pending the completion of in relation to the tax incentives applied.

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

Taxes and other tax obligations applicable to the Institute since 2006 are open to inspection by the tax authorities.

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

24. Financial guarantees and balances drawable by third parties

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

This heading breaks down as follows at 31 December 2010 and 2009:

	Thousand euros	
	2010	2009
Contingent risks		
Guarantees and other sureties	2,869,357	3,291,927
	2,869,357	3,291,927
Contingent commitments		
Balances drawable by third parties:		
Credit institutions	11,064,259	16,686,872
The Public Administrations sector	163,590	407,242
Other resident sectors	4,748,254	5,520,934
Non-resident sectors	535,912	582,969
	16,512,015	23,198,017
Other commitments	525,633	583,560
	17,037,648	23,781,577

At 31 December 2010 the item titled "Available from third parties - credit entities" includes the total amount formalized in December 2010 by ICO in respect of new ICO 2011 lines of mediation (11,000,000 euros).

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

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

25. Interest and similar income

Interest and similar yields for 2010 and 2009 are broken down below by source:

	Thousand euros	
	2010	2009
Bank of Spain and credit institutions	1,252	2,016
Credit institution deposits	840,003	692,096
Loans and advances to other debtors	435,602	483,269
Public administrations	33,954	39,420
Resident sectors	401,648	443,849
Debt securities	172,030	279,785
Adjustment of income from accounting hedges	(35,790)	(25,517)
Doubtful assets	6,485	5,335
	1,419,582	1,436,984

26. Interest and similar charges

The breakdown of this profit and loss heading during 2010 and 2009 is as follows:

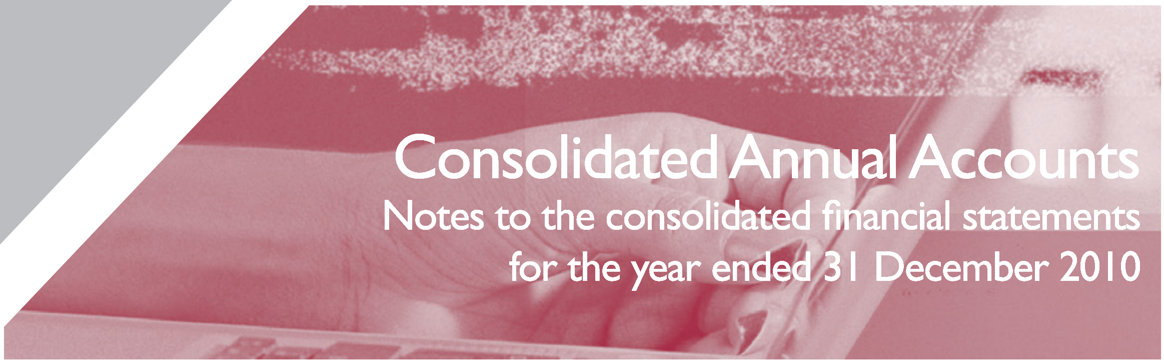
	Thousand euros	
	2010	2009
Deposits from Central Banks	3,805	-
Credit institution deposits	41,869	32,510
Customer funds	244,948	95,840
Deposits represented by marketable securities	1,793,275	1,821,633
Promissory notes (Note 19.5)	46,905	67,243
Other non-convertible securities (Note 19.6)	1,746,370	1,754,390
Adjustment of expenses owing to hedging operations	(1,017,179)	(710,400)
	1,066,718	1,239,583

27. Return on equity instruments

All yields obtained in this respect relate to the Equity portfolio and in 2010 and 2009 this item totalled 258 thousand euros and 468 thousand euros, respectively, in the consolidated income statement.

28. Results in companies carried under the equity method

All entities results valuated by the equity method registered in this caption in the consolidated income statements amounted losses of 1,863 thousand euros and 1,307 thousand euros in 2010 and 2009, respectively. Appendix I provides a breakdown of and relevant information on the shareholdings at 31 December 2010 and 2009.




29. Fees and commissions income and expenses

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

	Thousand euros	
	2010	2009
Commissions received		
Contingent risks	4,239	5,199
Availability commissions	11,758	15,423
Collection and payment services	11	11
Other commissions	36,755	28,521
	52,763	49,154
Commissions paid		
Signature risks	(122)	(207)
Other commissions	(3,986)	(5,471)
	(4,108)	(5,678)
Net commissions for the year	**48,655**	**43,476**

30. Gain or losses on financial assets and liabilities

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

	Thousand euros	
	2010	2009
Hedging derivatives (Note 7)	35,571	29,591
Derivatives held for trading	-	831
	35,571	30,422

31. Personnel expenses

The composition of this consolidated income statement heading is as follows in 2010 and 2009:

	Thousand euros	
	2009	2009
Wages and salaries	14,684	12,891
Staff welfare expenses	3,063	2,822
Other expenses	1,474	1,639
	19,221	17,352

The number of employees at the Group at 31 December 2010 and 2009, by professional category and sex, was as follows:

	Distribution of employees			
	Men		Women	
	2010	2009	2010	2009
Management	6	10	7	5
Managers and technicians	108	91	144	130
Administrative staff	13	17	56	62
Support and sundry staff	1	1	-	-
	128	119	207	197

The average number of employees at the Group in 2010 and 2009, by professional category and location, was as follows:

	Average distribution of employees			
	Men		Women	
	2010	2009	2010	2009
Management	9	10	7	3
Managers and technicians	99	90	136	125
Administrative staff	16	17	60	61
Support and sundry staff	1	1	-	-
	125	118	203	189

NOTE: Since the signing of the Fifth Collective Agreement (published in the Official Gazette on October 24th, 2008), general service staff is included under the heading of administrative professionals.

Application of Royal Decree Law 8/2010, of 20 May

Pursuant to Royal Decree-Law 8/2010 of 20 May, adopting extraordinary measures to reduce the budget deficit, and Resolution 606/10-L of the Inter-ministerial Remuneration Committee implementing this Royal Decree, ICO cut employees' wages by 5% in 2010 effective 1 June 2010, although it maintained the "extra salary" paid in June.

Remuneration and other benefits for the General Council

In 2010 and 2009 the Institute recorded in the Profit and Losses 108 thousand euros and 146 thousand euros, respectively, in respect of remuneration accrued by the members of the Governing Bodies of the companies that form the Group in respect of wages, per diems and other remuneration. These allowances were paid to the Treasury, according to the applicable regulation law (also in 2009).

Fees collected by the Managing Director and other persons exercising similar functions during the years 2010 and 2009 are as follows (thousand euros):

Year 2010

Number of Employees	Salaries and wages		Other wages	Total
	Fixed	Variable		
5	479	98	4	581

Year 2009:

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

At December 31, 2010 and 2009 there were no loans granted to the executive members of the Institute's General Council. At December 31, 2009 loans granted under internal regulations on loans to staff, had an outstanding amount of 23.548 thousand euros and the average interest rate was 2.52% (22,771 thousand euros at 31 December 2009, with an average interest rate of 2.52%).

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

32. Other administrative expenses

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

	Thousand euros	
	2010	2009
Buildings, installations and materials	1,233	1,292
Computers	3,819	3,429
Communications	291	376
Advertising and publicity	3,090	4,665
Rates and taxes	2,311	3,079
Other general administrative expenses	11,083	9,721
	21,827	22,562

Audit fees

The audit fees for the year are borne by the Contracting Body of the Ministry of Finance in accordance with the Law on Contracts with Public Administrations and complementary legislation and, therefore, are not included in "External services" in the accompanying consolidated income statement.

The amount invoiced by companies under the trademark of Ernst and Young (the auditor of the 2010 financial statements) for non-audit services in 2010 was 630 thousand euros.

In 2009, the total invoiced by companies under the trademark of PricewaterhouseCoopers (auditor of the 2009 financial statements) was 48 thousand euros.

33. Other operating products

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

	Thousand euros	
	2010	2009
Operating income from investment property	773	958
Other items	1,400	1,580
	2,173	2,538

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

34. Fair value

As mentioned above, financial assets are recorded on the balance sheet at fair value, except for credit, loans and discounts and equity instruments whose market value cannot be estimated reliably.
In the same way, financial liabilities are recorded on the balance sheet at amortized cost, except those included in the trading portfolio.

Part of the assets recorded under the heading "Credit, loans and discounts" and liabilities recorded under the heading "Financial liabilities at amortized cost" of the balance sheet at December 31, 2010 are variable rate, with annual interest rate revision, so it's fair value as a result of the movements of market interest rates is not significantly different from the one recorded in the balance sheet.

Of the total amount recorded under the heading Credit, loans and discounts and financial liabilities at amortized cost, amounting to 5,111,110 thousand euros and 3,719,909 thousand euros, respectively, at December 31 of 2010 (6,402,183 thousand euros and 3,829,577 thousand euros at December 31, 2009) related to assets and liabilities linked to fixed ratio The fair value of these has been obtained using a weighted average maturity and a weighted average rate through which it has proceeded to calculate fair value using a discount flows. The value calculated for these operations to December 31, 2010 and 2009 is as follows:

ASSETS	Thousand euros			
	Book value		Fair value	
	2010	2009	2010	2009
Credits, loans and discounts				
Deposits at credit institutions	3,161,874	4,406,721	2,677,220	4,165,302
Customer loans	1,949,236	1,995,462	2,015,558	1,986,355
LIABILITIES				
Financial liabilities at amortized cost				
Credit institutions deposits	3,719,909	3,829,557	4,291,906	3,873,573

35. Additional explanation regarding the translation of the consolidated financial statements into English

This document is a translation of the consolidated financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

The accounting policies applied by Instituto de Crédito Oficial and subsidiaries in the consolidated financial statements conform to the International Financial Reporting Standards adopted by the European Union, which may differ from generally accepted accounting principles in other countries.

Consolidated Management Report

Consolidated Management Report

For the year ended 31 December 2010

Financial backdrop

Europe's economy in 2010 was plagued by wobbly financial markets, burgeoning budget deficits caused by the anti-crisis measures adopted in previous years, fiscal belt-tightening measures to curb the deficits and ongoing expansive monetary policies aimed at jump-starting the fledging macroeconomic recovery. Meanwhile, economic activity in the rest of the world continued to rebound, led by the resilience of emerging countries.

Affecting the international financial situation was the government debt crisis in Europe, which surfaced at the beginning of the year when Greece acknowledged that it had a serious imbalance. This had a knock-on effect on the rest of the world's financial markets, ultimately prompting the EU, the IMF and the ECB to intervene. Towards the end of the year, Ireland's economic woes –exacerbated by the country's banking scandals- sent the alarm bells ringing again and caused its country risk to soar to extremely high levels, inducing the ECB and the EU to step in again. Investor skittishness triggered sharp rises in debt yields in the euro zone peripheral countries. In view of the market instability and to prevent similar episodes from cropping back up in the future, in May the European Financial Stability Facility (EFSF) was created. A special purpose vehicle to preserve the financial stability of Europe, the EFSF's objective is to provide financial assistance to euro zone countries with economic difficulties or facing problems refinancing their debts.

Doubts surrounding the solvency of Europe's peripherals undermined the euro's credibility, causing the currency to fall by 7.25% against the dollar in the year. In Spain, the country's financial problems were seen in the 17.4% fall by the IBEX 35 index.

In 2010, the Spanish economy extended the trend begun around the middle of 2009, with slight quarter-on-quarter growth in GDP throughout the year leading to an overall contraction of just 0.1%, a much improved performance on the 3.7% contraction of 2009. Driving this improvement were a smaller negative contribution (-1.2 percentage points) by domestic demand and a larger positive contribution (+1.1 percentage points) by net trade, underpinned by robust exports. As for the country's public finances, the contributions to GDP by both consumption and investment of the regional governments decreased following the measures adopted to reduce the forecast budget deficit for 2010 (9.3% of GDP).

However, this was not enough to prevent employment from falling further, by 2.3% in the year. The decline in the fourth quarter marked the tenth consecutive quarterly drop. Spain's unemployment rate according to the labour market survey reached 20.3% in the fourth quarter, mostly due to job losses in the construction sector and an increase in the total labour force.

On the price front, the CPI ended 2010 running at 1.8% after falling 0.3% in 2009, pushed up by oil prices and the tax hikes included in the set of fiscal consolidation measures adopted by the Spanish government. With benign inflationary pressures in the rest of the euro zone, however, the ECB decided to maintain its low interest-rate policy.

The Spanish financial system's credit balance continued to fall in 2010, albeit at a smaller pace than in previous years. In addition, the Spanish authorities continued to push through financial sector reforms throughout the year (e.g. restructuring of savings banks and savings bank regulations) while the bank stress tests carried out in summer 2010 in the euro zone showcased the strength and health of Spain's credit system.

Operating environment

Amid the financial backdrop described and performing its functions as a public bank and state financial agency, subject to its by-law stipulated principles of "financial balance and alignment of means and objectives", ICO carried out the following in 2010:

Pursuant to instructions and guidelines issued by economic authorities and resolutions adopted at the General Assembly, ICO continued the arrangement of new credit facilities begun in 2009 to help finance investment and the working capital needs of the self-employed and SMEs as a way of cushioning the negative effects of the economic and financial crisis. These facilities are part of the mediation lines, which include a liquidity line for the self-employed and SME, a home credit line and a sustainable investment line.

Also noteworthy was the 2010 investment line for business growth, entrepreneurs and the internal expansion of Spanish companies, in addition to other (direct and indirect) lines of finance for investment in infrastructure, strategic activities, the acquisition of IT equipment by citizens and sustainable tourism. On top of these, other initiatives for smaller amounts were undertaken, targeting energy efficiency, cinema, public road transports, victims of disasters, etc.

Transactions executed in the year totalled 23,395,985 thousand euros, with 23,599,256 thousand euros of total loan draw downs between mediation lines, direct loans, ICO Direct credit and guarantees provided. As indicated, these draw downs were mostly mediation lines, with 19,619,323 thousand euros, an increase of 29.7% from 2009. The remaining draw downs were direct loans to customers.

Direct loans include one of the year's main highlights: in June, an ICO Direct programme was initiated to finance investment and liquidity targeting SMEs and self-employed individuals; i.e. retail borrowers. With these loans, the Institute reviews and authorises the transactions, and assumes the entire risk.

In line with this programme and considering the limited access to credit to the self-employed and small businesses, we would highlight the channel set up at the beginning of the year to help them raise appropriate financing via the "Finance Facilitator".

ICO has an annual debt cap to channel this entire investment. This limit, established in the General State Budget Law for 2010, is 23,000,000 thousand euros.

With markets up and down and prices spiralling, the necessary funds were raised to meet the primary objective of generating new loans through the various lines of meeting maturities in the year and structuring the balance so as to either eliminate or minimise the related liquidity, interest rate and foreign currency risks, while ensuring at all times the transparency of its public issues in executing its finance programmes.

Consolidated Management Report
For the year ended 31 December 2010

ICO based its fundraising activities in 2010 mainly on issues of bonds and debentures, and promissory notes. These issues were made in five difference currencies, although the bulk was in local currency. The equivalent value in euros of the gross funds obtained in the year including long-, medium- and short-term issues and excluding those from the interbank market, customer deposits, etc. was 23,043,000 thousand euros.

ICO's capital requirement is regulated Bank of Spain Circular 3/2008 of 22 May for credit institutions on the calculation and control of minimum capital requirements. At 31 December 2010, the balance of eligible capital stood at 3,314,375 euros, 5.13% higher than at 31 December 2009 and equivalent to 4.26% of total assets. The increase in 2010 was due to the measures adopted in Additional Provision Forty-nine of General State Budget Law 42/2006 of 28 December 2006, allowing ICO's individual capital adequacy to stand at 11.69%, above the legal minimum required by the Bank of Spain and the 9.5% level established in the General State Budget Law.

Activity

At 31 December 2010, the balance of loans and receivables; i.e. the outstanding amount of bonds acquired by ICO that replaced the mediation securitised loans at the time (2,363,576 thousand euros at present), excluding deposits on the interbank market and financial accounts, and including provisions, adjustments and temporary accounts, stood at 67,228,849 thousand euros, up 30.38% on the year-earlier figure. The ratio between loans and receivables, and ICO's total assets at year-end 2010 and 2009 was 86.80 and 86.35%, respectively.

The balance of ordinary loans from direct business with customers after deducting provisions and including adjustments and temporary accounts ended the year at 22,702,662 thousand euros and that of mediation-granted loans (e.g. securitised bonds with an AAA securitisation rating) at 44,526,187 thousand euros. These balances were 20.92% and 35.86% higher, respectively than in 2009 (the increase in mediation ex-securitisation was 47.8%). Within direct lending to customers, loans and special transactions after deducting provisions, granted for reasons of economic or social order, amounted to 73,963 thousand euros, an increase of 17.4% from 2009.

At 31 December 2010, funding provided by ICO to credit institutions, excluding the mediation transactions indicated above, totalled 1,212,289 thousand euros, up 41.2% on the year before due to the increase in deposits on the interbank market. Of the total, 538,393 thousand euros relate to deposits transferred on the interbank market (not included as lending), 375,504 thousand euros to transactions with BBVA –attributable entirely to refinancing of contributions prior to the privatization of the former public credit institutions (PCI)- and the remaining 298,392 thousand euros to net lending, including valuation adjustments, to resident and non-residents, less country risk provisions.

Of ICO's borrowings, 95.24% relate to market financing. The equivalent value of ICO's regular funding in 2010 including valuation adjustments amounted to 64,762,359 thousand euros, an increase of 38.2%. Outstanding fixed income securities (bonds, debentures and promissory notes) including valuation adjustments ended the year at 57,693,775 thousand euros, while funds received from credit institutions (e.g. loans from the European Investment Bank –EIB- other banks and funds raised on the interbank market) stood at 3,482,078 thousand euros. These amounts represented increases of 32% and 152.3%, respectively, from 2009. Loans and advances to other debtors at year-end 2010 amounted to 3,586,507 thousand euros, an increase of 100.6% from 2009.

Special fixed-rate financing of the State loan to finance demand for credit of the SME liquidity line in 2009, arranged to help SMEs experiencing working capital problems, amounted to 3,434,332 thousand euros, down 3.8% or 317,107 thousand euros from the year before.

Risk management policy

The Institution's policies for managing credit, liquidity, market and operational risk are described in the related Note to the financial statements.

Earnings

In accordance with Bank of Spain Circular 4/2004, of 22 December and subsequent amendments, net interest income for ICO rose 78.8% in 2010 to 352.807 thousand euros, driven by the income on new liquidity lines and the larger asset volume. Helping margins were the economic and financial crisis described above and the credit crunch, not to mention the Institute's subsidiary nature, which meant that in much of the funding of the liquidity lines for self-employed individuals and SMEs, ICO shared the risk with the financial institutions, making it necessary to pass on margins in order to hedge the risk undertaken and recognize the appropriate provisions. In addition, ICO had to adapt its fundraising in the year to demand for credit in order to prevent market price volatility from undermining net interest margins. Net interest income represented 0.54% of average total assets (ATA) in 2010, compared to 0.34% in 2009. Gross income in the year increased by 62.05% to 436,882 thousand euros and profit from operations by 40.83% to 42,641 thousand euros.

Total impairment losses (provision charges and other impairment losses) amounted to 350,227 thousand euros. Profit before tax amounted to 41,359 thousand euros and profit for the year to 31,248 thousand euros, up 32.99% from 2009. Net profit over ATA (i.e. ROA) was 0.5% in 2010 and 0.4% in 2009.

Research and development costs

ICO did not carry out any R&D activity in 2010.

Treasury shares

Not applicable.

Staff

ICO had 322 employees at 31 December 2010, 15 more than in 2009.

Events after the reporting period

As in previous years, the General State Budget Law 2010, under budget item 15.16.931M.871, earmarked 340,000 thousand euros to increase the Institute's capital.

As a result of the international financial crisis and prospects of the crisis continuing in 2011, the Institute, as a state financial agency, will continue to gear its efforts towards implementing counter-cyclical measures to cushion the impact of the crisis and support the recovery of economic activity and job creation.

In this respect, it will continue to promote direct lending to the self-employed and small businesses through the ICO Direct programme, as well as through the Financial Facilitator.

The relevant information to the shareholding in associate and dependent entities on December 31 2010 and 2009 as follows:

	At December 31 2010:										
			% of shareholding			Cost value of the shareholding			Entity data		
	Address	Activity	Direct	Indirectly	Total	Gross	Impairment	Net	Assets	Net Equity	Profit/Loss
Associated entities											
CERSA, Compañía Española de Reafianzamiento, S.A.	Paseo de la Castellana 151 - Madrid	Release of guarantee operations provided by the SS.GG.RR	24.04%	-	24.04%	26,134	-	26,134	268,200	108,951	
COFIDES, Compañía Española de Financiación del Desarrollo, S.A.	Príncipe De Vergara, 132 - Madrid	Financial support to private projects with interest Spanish carried out in developing countries	25.25%	-	25.25%	10,524	-	10,524	63,250	54,841	10,588
EFC2E GESTION S.L.	Paseo del Prado, 4 - Madrid	Asset management Purchase and leasing of aircraft	50.00%	-	50.00%	2	-	2	1,683	519	372
Arrendadora Aeronáutica AIE	Paseo de la Castellana 189 - Madrid	Support activities for air transportation at airports	17.21%	-	17.21%	16,495	(3,570)	12,925	340,484	75,124	(991)
Aviones Portacoli CRJ-200 AIE	Gran Vía - Madrid	Joined activities for air transportation at airports	25%	-	25%	888	(87)	801	17,203	3,400	259
Aviones Turia CRJ-200 I AIE	-	Joined activities for air transportation at airports	25%	-	25%	888	(88)	800	17,158	3,393	259
Aviones Carraixet CRJ - 200 AIE	-	Joined activities for air transportation at airports	25%	-	25%	888	(86)	802	17,129	3,393	259
Aviones Alfambra CRJ - 200 AIE	-	Joined activities for air transportation at airports	25%	-	25%	1,123	(365)	758	22,388	3,032	(51)
Aviones Gabriel CRJ - 200 AIE	-	Joined activities for air transportation at airports	25%	-	25%	1,123	(364)	759	22,377	3,036	(52)
Aviones Gorgos CRJ - 200 AIE	-	Joined activities for air transportation at airports	25%	-	25%	1,123	(364)	759	22,354	3,036	(52)
Aviones Sella CRJ - 200 AIE	-	Purchase and leasing of ships	25%	-	25%	1,123	(364)	759	22,302	3,038	(51)
Naviera Calliope AIE	-	Purchase and leasing of ships	13%	-	13%	9,858	(4,338)	5,520	266,387	42,461	(371)

	At December 31 2010:										
			% of shareholding			Cost value of the shareholding			Entity data		
	Address	Activity	Direct	Indirectly	Total	Gross	Impairment	Net	Assets	Net Equity	Profit/Loss
Naviera Attile AIE	-	Purchase and leasing of ships	12.61%	-	12.61%	33	(33)	-	39,558	(3,244)	(1,894)
Naviera Electra AIE	-	Purchase and leasing of ships	12.60%	-	12.60%	37	(37)	-	40,226	(3,369)	(1,930)
Naviera Lakme AIE	-	Purchase and leasing of ships	15.12%	-	15.12%	-	-	-	33,094	24	-
Naviera Alcione I AIE	-	Purchase and leasing of ships	20.30%	-	20.30%	712	(314)	398	12,323	1,959	(7)
Naviera Alcione II AIE	-	Purchase and leasing of ships	20.30%	-	20.30%	734	(299)	435	12,323	2,144	(55)
Naviera Alcione III AIE	-	Purchase and leasing of ships	20.30%	-	20.30%	764	(294)	470	12,323	2,319	(17)
Naviera Alcione IV AIE	-	Purchase and leasing of ships	20.30%	-	20.30%	1	(1)	-	12,323	(1,481)	(25)
Naviera Nadela AIE	-	Purchase and leasing of ships	16.70%	-	16.70%	672	(654)	18	11,786	108	(91)
Naviera Atios AIE	-	Purchase and leasing of ships	16.70%	-	16.70%	604	(597)	7	9,914	42	(42)
Naviera Moaña AIE	-	Purchase and leasing of ships	16.70%	-	16.70%	722	(710)	12	11,588	73	(64)
Naviera Poppea AIE	-	Purchase and leasing of ships	20%	-	20%	32	(32)	-	50,077	(4,091)	(3,327)
Naviera Kuriles AIE	-	Purchase and leasing of ships	3.70%	-	3.70%	2,942	(974)	1,968	278,154	53,189	(429)
Naviera Sollube AIE	-	Purchase and leasing of ships	49%	-	49%	1,909	(744)	1,165	12,896	2,377	-
Naviera Rusalka AIE	-	Purchase and leasing of ships	24.36%	-	24.36%	642	(70)	572	5,686	2,347	(1,085)

	At December 31 2010:										
			% of shareholding			Cost value of the shareholding			Entity data		
	Address	Activity	Direct	Indirectly	Total	Gross	Impairment	Net	Assets	Net Equity	Profit/Loss
Naviera Bolena AIE	-	Purchase and leasing of ships	24.36%	-	24.36%	621	(62)	559	5,655	2,296	(1,647)
Naviera Ludmille AIE	-	Purchase and leasing of ships	24.36%	-	24.36%	26	(26)	-	10,123	(467)	(410)
Naviera Parsifal AIE	-	Purchase and leasing of ships	24.36%	-	24.36%	65	(65)	-	11,229	(536)	(652)
Naviera Dalibor AIE	-	Purchase and leasing of ships	33.33%	-	33.33%	1,523	(217)	1,306	12,896	3,919	(412)
Naviera Alceste AIE	-	Purchase and leasing of ships	33.33%	-	33.33%	56	(56)	-	5,686	(688)	(409)
Naviera Isolda AIE	-	Purchase and leasing of ships	33.33%	-	33.33%	28	(28)	-	5,655	(117)	(230)
Naviera Tristán AIE	-	Purchase and leasing of ships	33.33%	-	33.33%	28	(28)	-	10,123	(117)	(230)
						82,324	(14,870)	67,454			
Subsidiaries AXIS Participaciones Empresariales Sociedad Gestora de Entidades de Capital Riesgo, S.A.	Los Madrazo, 38 - Madrid	Financial investment	100%	-	100%	1,940	-	1,940			
						84,264	(14,870)	69,394			

			At December 31 2009:								
			% of shareholding			Cost value of the shareholding			Entity data		
	Address	Activity	Direct	Indirectly	Total	Gross	Impairment	Net	Assets	Net Equity	Profit/Loss
Associated entities											
CERSA, Compañía Española de Reafianzamiento, S.A.	Paseo de la Castellana 151 - Madrid	Released of guarantee operations provided bythe SS.GG.RR	23.49%	-	23.49%	21,567	-	21,567	268,200	91,799	-
COFIDES, Compañía Española de Financiación del Desarrollo, S.A.	Príncipe De Vergara, 132 - Madrid	Financial support to private projects with interest Spanish carried out in developing countries	25.25%	-	25.25%	10,524	-	10,524	63,250	53,086	1,818
EFC2E GESTION S.L.	Paseo del Prado, 4 - Madrid	Asset management Purchase and leasing of aircraft	50.00%	-	50.00%	2	-	2	1,683	736	381
Arrendadora Aeronáutica AIE	Paseo de la Castellana 189 - Madrid	Support activities for air transportation at airports	17.21%	-	17.21%	16,494	(3,279)	13,216	340,484	76,812	(1,663)
Aviones Portacoli CRJ-200 AIE	Gran Vía - Madrid	Joined activities for air transportation at airports	25%	-	25%	888	(86)	802	17,203	3,207	138
Aviones Turia CRJ-200 I AIE	-	Joined activities for air transportation at airports	25%	-	25%	888	(86)	802	17,158	3,206	135
Aviones Carraixet CRJ - 200 AIE	-	Joined activities for air transportation at airports	25%	-	25%	888	(88)	800	17,129	3,199	135
Aviones Alfambra CRJ - 200 AIE	-	Joined activities for air transportation at airports	25%	-	25%	1,123	(331)	792	22,388	3,167	(100)
Aviones Gabriel CRJ - 200 AIE	-	Joined activities for air transportation at airports	25%	-	25%	1,123	(331)	792	22,377	3,168	(100)
Aviones Gorgos CRJ - 200 AIE	-	Joined activities for air transportation at airports	25%	-	25%	1,123	(330)	793	22,354	3,170	(100)
Aviones Sella CRJ - 200 AIE	-	Purchase and leasing of ships	25%	-	25%	1,123	(330)	793	22,302	3,171	(100)
Naviera Calliope AIE	-	Purchase and leasing of ships	13%	-	13%	1	(2,225)	(2,224)	266,387	(17,108)	(5,089)

	At December 31 2009:										
			% of shareholding			Cost value of the shareholding			Entity data		
	Address	Activity	Direct	Indirectly	Total	Gross	Impairment	Net	Assets	Net Equity	Profit/Loss
Associated entities											
Naviera Attile AIE	-	Purchase and leasing of ships	12.61%	-	12.61%	1,500	(236)	1,264	39,558	10,028	(1,133)
Naviera Electra AIE	-	Purchase and leasing of ships	12.60%	-	12.60%	38	(238)	(200)	40,226	10,021	(1,207)
Naviera Lakme AIE	-	Purchase and leasing of ships	15.12%	-	15.12%	-	-	-	33,094	30,750	2,342
Naviera Alcione I AIE	-	Purchase and leasing of ships	20.30%	-	20.30%	713	(136)	576	12,323	(668)	(257)
Naviera Alcione II AIE	-	Purchase and leasing of ships	20.30%	-	20.30%	1	(141)	(140)	12,323	(691)	(236)
Naviera Alcione III AIE	-	Purchase and leasing of ships	20.30%	-	20.30%	1	(155)	(154)	12,323	(759)	(220)
Naviera Alcione VI AIE	-	Purchase and leasing of ships	20.30%	-	20.30%	1	(176)	(175)	12,323	(863)	(204)
Naviera Nadela AIE	-	Purchase and leasing of ships	16.70%	-	16.70%	672	(347)	325	11,786	(1,950)	(10)
Naviera Atios AIE	-	Purchase and leasing of ships	16.70%	-	16.70%	605	(344)	261	9,914	1,568	(853)
Naviera Moaña AIE	-	Purchase and leasing of ships	16.70%	-	16.70%	722	(358)	364	11,588	2,181	(1,180)
Naviera Poppea AIE	-	Purchase and leasing of ships	20%	-	20%	32	(430)	(398)	50,077	12,846	(1,298)
Naviera Kuriles AIE	-	Purchase and leasing of ships	3.70%	-	3.70%	-	(449)	(449)	278,154	12,137	(3,337)
Naviera Sollube AIE	-	Purchase and leasing of ships	49%	-	49%	52	(447)	(395)	12,896	(115,645)	(520)
Naviera Rusalka AIE	-	Purchase and leasing of ships	24.36%	-	24.36%	11	(23)	(11)	5,686	2,529	(92)

	At December 31 2009:										
			% of shareholding			Cost value of the shareholding			Entity data		
	Address	Activity	Direct	Indirectly	Total	Gross	Impairment	Net	Assets	Net Equity	Profit/Loss
Associated entities											
Naviera Bolena AIE	-	Purchase and leasing of ships	24.36%	-	24.36%	17	(20)	(2)	5,655	2,446	(64)
Naviera Ludmille AIE	-	Purchase and leasing of ships	24.36%	-	24.36%	26	(80)	(54)	10,123	5,088	(104)
Naviera Parsifal AIE	-	Purchase and leasing of ships	24.36%	-	24.36%	65	(125)	(60)	11,229	5,244	(158)
						60,201	(10,792)	49,409			
Subsidiaries											
AXIS Participaciones Empresariales Sociedad Gestora de Entidades de Capital Riesgo, S.A.	Los Madrazos, 38 - Madrid	Financial investment	100.00%	-	100.00%	1,940	-	1,940			
						62,141	(10,792)	51,349			

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS AT December 31 2010

In accordance with prevailing legislation, the Chairman hereby approves the Institute's consolidated financial statements and consolidated management report for issue and presents the proposed appropriation of results, for the year ended December 31, 2010, consisting of the documents prior to this page and comprising 115 sheets.

Madrid, March 31 2011

D. José María Ayala Vargas
Chairman

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

Consolidated Financial Statements and Consolidated Management Report

for the year ended December 31 2010

Instituto de Crédito Oficial