

Independent Auditors' Report on the Consolidated Annual Accounts

To the General Council of Instituto de Crédito Oficial

Opinion

We have audited the consolidated annual accounts of **Instituto de Crédito Oficial** (hereinafter, the Parent Company or the Institute) and subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2018, the consolidated income statement, the consolidated statement of recognized income and expenses, the consolidated statement of changes in equity, the consolidated cash flows statement and the consolidated notes thereto for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU) and other provisions of the regulatory financial reporting framework in Spain (identified in note 1.2 to the accompanying consolidated annual accounts).

Basis for opinion

We conducted our audit in accordance with audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's responsibilities for the audit of consolidated annual accounts* section of our report.

We are independent of the Group in accordance with ethical requirements, including those regarding independence, that are relevant to our audit of consolidated annual accounts in Spain pursuant to audit regulations in force. In this regard, we have not provided any services other than the audit of the annual accounts, nor have any situations or circumstances arisen that, under the aforementioned audit regulations, might have affected the required independence in such a way as to compromise our independence.

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

Most relevant audit matters

Most relevant audit matters are those matters that, in our professional judgement, have been assessed as the most significant risks of material misstatement in our audit of the consolidated annual accounts of the current period. These risks were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these risks.

Estimate of impairment losses in the loan portfolio and advances

The estimate of impairment of Financial Assets at Amortized Cost is one of the most significant estimates made when preparing the accompanying consolidated annual accounts.

In estimating credit risk provisions, Circular 4/2017, of 27 November, and other compulsory standards approved by Bank of Spain are considered.

In general, the Institute estimates an objective impairment evidence when, after initial recognition, there is an event or the combined effect of several events that entail a negative impact on future cash flows of loans and advances to customers. The objective impairment evidence is individually determined for debt instruments identified by the Institute as significant, and collectively for the rest. In the collective assessment, the Institute includes groups of debt instruments with similar risk features, indicating the debtors' ability to pay the amounts of principal and interests, the type of instrument, the debtor's sector of activity, the type of guarantee and the ageing of overdue amounts, among others.

Our audit approach has included both the assessment of the most relevant controls established by the Institute in relation to the impairment calculation and the performance of tests of detail and substantive tests. The main audit procedures have included, among others, the following:

- Verification of the different internal control policies and procedures, according to applicable regulatory requirements.
- Examination of the different databases used, with a review of the reliability and coherence of data sources used in calculations.
- Evaluation of the review of borrowers' files to ensure their appropriate classification and, where applicable, possible impairment.
- For tests of detail, we have reviewed, for a sample of individualized loans, their appropriate accounting registration and classification and, where applicable, the corresponding impairment.
- Recalculation of provisions for loans classified as Normal or Normal Watch-list, valued based on alternative solutions established by Circular 4/2017 of Bank of Spain

Valuation criteria used and disclosures related to these items are included on notes 2 and 10 to the accompanying consolidated financial statements.

Information Technology risks

The nature of the Institute's activity and the financial reporting process largely depend on Information Systems.

The Information Systems' general internal control framework related to the financial reporting processing and accounting registration is considered key in our internal control assessment.

In this context, we believe it is necessary to evaluate the effectiveness of IT general controls.

Our audit approach has included the following procedures:

- Assessment of the most relevant general controls performed by the Institute in key processes. The main procedures have consisted in general control tests on the main applications, evaluating the following:
 - *Change management*
 - *Physical and logical security*
 - *Backup and Continuity*
 - *Information Systems' Operations*

- Review of existing interfaces between the main applications in the accounting reporting generation process.

Other matters

Article 168 of Law 47/2003 General Budget allocated to the General Intervention Board of the State Administration (IGAE) the audit of the consolidated annual accounts of INSTITUTO DE CRÉDITO OFICIAL, with the consequent issuance of the auditor's report, according to the Public Sector's Audit Standards. The contract entered into by Mazars Auditores S.L.P. and the Ministry of Tax and Public Function, to collaborate with the IGAE in the performance of the audit of the Institute's consolidated annual accounts, establishes the issuance of the present auditor's report in application of the regulations on auditing in force in Spain, as established therein.

Other information: consolidated Management Report

Other information only comprises the consolidated management report for the 2018 financial year, the formulation of which is the responsibility of the Institute's Chairman and is not an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility regarding the consolidated management report, in conformity with the audit regulation in force in Spain, consists of assessing and reporting on the consistency of information included in the consolidated management report with the consolidated annual accounts based on the Group's knowledge obtained by us during the audit of the aforementioned consolidated annual accounts, and does not include any information not obtained as evidence during such audit. In addition, our responsibility is to assess and report on whether the content and presentation of the consolidated management report are in accordance with applicable regulations. If, based on the work we have performed, we conclude that a material misstatement exists; we are required to report that fact.

Based on the work performed, as described in the previous paragraph, we have checked that the information included in the consolidated management report is consistent with that disclosed in the consolidated annual accounts for the 2018 financial year, and its content and presentation are in accordance with applicable regulations.

Responsibility of the Institute's Chairman for the consolidated annual accounts

The Institute's Chairman is responsible for the preparation of the accompanying consolidated annual accounts, such that they express the true and fair view of the Group's consolidated equity, consolidated financial position and consolidated financial performance in accordance with the IFRS-EU and other provisions of the regulatory financial reporting framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Institute's Chairman is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis unless the Institute Chairman either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with audit regulations in force in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and the related disclosures made by the Institute's Chairman.
- Conclude on the appropriateness of the use by the Institute's chairman of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our

auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the entities' financial information or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Institute's Chairman regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the significant risks communicated with the Institute's Chairman, we determine those risks that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the most significant assessed risks.

We describe these risks in our auditor's report unless laws or regulation preclude public disclosure about the matter.

Madrid, 5 April 2019

MAZARS AUDITORES, S.L.P.
ROAC N° S1189

(signed in the original report in Spanish)

Carlos Marcos Corral
ROAC N° 17577