ANNUAL REPORT

2017

FROB

Spanish Executive Resolution Authority

ANNUAL REPORT

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ABBREVIATIONS AND ACRONYMS

Act 11/2015	Act 11/2015 of 18 June on the recovery and resolution of credit institutions and investment firms
APS	Asset Protection Scheme
BMN	Banco Mare Nostrum
CBCM	Cross-border crisis management (groups), under the auspices of the FSB
CMG	Crisis management group
CNMV	Spanish Securities Market Regulator (CNMV)
CoCos	Contingent convertible bonds
NRA	National Resolution Authority
EBA	European Banking Authority
ECB	European Central Bank
ESM	European Stability Mechanism
EU	European Union
fmiCBCM	Cross-border crisis management group for financial market infrastructures, under the auspices of the FSB
FSB	Financial Stability Board
G-SIB	Global Systemically Important Bank
IF	Investment firm
IMF	International Monetary Fund
IRT	Internal Resolution Team
MAB	Spanish Alternative Equities Market (MAB)
MREL	Minimum requirement of eligible liabilities
NRF	National Resolution Fund
RC	Resolution college
REIT	Real estate investment trust
ResCo	Resolution Committee
ReSG	Resolution Steering Group of the FSB
Sareb	Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (Asset Management Company for Assets Arising from the Banking Sector Reorganisation)
SRB	Single Resolution Board
SRF	Single Resolution Fund
TLAC	Total loss-absorbing capacity

CHAIRMAN'S STATEMENT

It is a real pleasure for me to present FROB's 2017 Annual Report. We started publishing this report for the first time last year to systematically provide an insight into FROB's ordinary activity, providing the main elements on the actions taken by the organisation over the course of the year.

FROB, as an institution and myself as Chairman, must constantly report back to the Spanish Parliament and to the Government. This document aims to supplement this work and provide additional transparency, in this case for society as a whole, detailing the work performed by the organisation and the context in which it does so.

While the year 2016 was key to consolidating FROB's position as executive resolution authority both nationally and internationally, 2017 will be a major milestone in the history of FROB and the European Single Resolution Mechanism (SRM) we are a member of. As is well known, the SRM and through it, the Banking Union project itself, was first put to the test in June 2017 with the resolution by the Single Resolution Board (SRB) of a Spanish significant institution: Banco Popular Español.

Perhaps due to the practical experience gleaned by FROB, we have always acknowledged the enormous gravity of the powers conferred on resolution authorities. We are also aware that we intervene in critical moments, implementing extremely rigorous measures that do have negative consequences and are especially sensitive when many minority shareholders are affected by a bank's failure. However, we also assume the institutional responsibility of serving through a legal mandate, a higher public good: protecting the stability of the financial system, depositors, and, in the last instance, every citizen, avoiding the use of public funds. In this respect, even in a scenario such as that faced in June last year, which was extremely urgent and therefore complex, we can only say that the Single Resolution Board duly fulfilled its ultimate mission: ensuring public interest is not detrimentally affected by the failure of a private bank.

Next year, a decade will have passed since the first intervention of a Spanish institution during the recent financial crisis (Caja Castilla-La Mancha). Looking back, the time passed since those first steps at a national level and last year's action by the European authority provides us with a clear insight into the long journey travelled to strengthen the public authorities' ability to respond to banking crises. This experience has also reaffirmed two key ideas. First, that despite the experience accumulated and work already completed in Europe and Spain, there is still some way to go to complete the process based on the lessons learned. And second, that the collective concern for the «resolvability» *of institutions cannot be allowed to diminish over time because critical failure scenarios threatening the common good will, unfortunately, continue to arise, causing enormous damage. We must therefore remain staunchly committed to enhancing the structural capacity of our system to respond to these scenarios in the best way possible for the interests of society.*

While the launch of European Single Resolution Mechanism operations was undoubtedly crucial, 2017 also saw significant steps forward towards completing prior restructuring processes. Integration of the two investee credit institutions, repayment in full of the aid granted in the form of contingent convertible bonds, completion of most of the restructuring plans of the institutions receiving bailouts, and reactivation of Bankia's divestment have been key milestones in bringing to an end this ten-year chapter of the Spanish economy, which still faces important challenges, as those that arise from Sareb.

In short, 2017 has been a decisive year for FROB; a busy year as past work is gradually finalised and we prepare for a future that has arrived far more quickly than imagined. My final thoughts on progress thus far are two-fold. On the one hand, I believe that FROB fulfilled properly the important duties assigned to it under the regulation. This annual report is an evidence of this. On the other, I believe that as we move forward as a resolution authority, we are becoming increasingly aware of the need to constantly improve.

I therefore end emphasising that, today, we are a more experienced authority that is better prepared to carry out our work, and we are more aware than ever that we must continue to learn, together with our national and European colleagues. Fortunately, we have a team of professionals whose commitment to achieving our public objectives puts us in the best position possible to tackle the challenges that lie ahead.

Jaime Ponce Huerta

Chairman

EXECUTIVE SUMMARY

The year 2017 has been key in strengthening the Single Resolution Mechanism and FROB in its role as executive national resolution authority both at home and abroad.

This year saw the first resolution of a significant credit institution under the remit of the Single Resolution Board: the resolution of Banco Popular Español. In terms of achieving the resolution objectives laid down in legislation, the Single Resolution Board has fulfilled its institutional mandate to the letter: it managed the failure of the bank, protecting the stability of the financial system, mitigating the impact thereof on depositors, ensuring the continuity of the institution, and avoiding the need for a public bailout.

Meanwhile, as executive resolution authority, FROB implemented the decision taken by the Single Resolution Board (SRB) in accordance with Spanish legislation and the instructions issued by the SRB in what was an extremely complex and urgent situation. Despite the difficulties of any resolution process and the consequences thereof, this case has served to bolster the Single Resolution Mechanism as a pillar of the Banking Union.

FROB's work in resolution and restructuring processes prior to the entry into force of Act 11/2015 focused on: monitoring the financial position and fulfilment of the resolution or restructuring plans of entities; duly exercising FROB's rights in its investee credit institutions and Sareb; overseeing the legal disputes deriving from the resolution measures taken; managing the guarantees granted during the divestment of entities receiving bailouts; and divesting entities in which FROB continued to hold stakes.

In this respect, key events in 2017 were: the full recovery of the amount invested in contingent convertible bonds (CoCos) in Caja3 (now Ibercaja) and Banco CEISS (Unicaja Group); the reorganisation of the investee credit institutions (Bankia and Banco Mare Nostrum or BMN) through their merger, as the best strategy for fulfilling the mandate of maximising the ability to recoup public funds; and the sale through BFA of 7% of Bankia's capital in December, thereby restarting disinvestment of the bank.

Vis-á-vis the resolution funds, during 2017 FROB collected contributions from 100 credit institutions and 40 investment firms totalling EUR 677 million.

ACTIVITIES IN 2017

1. WORK WITHIN THE FRAMEWORK OF THE SINGLE RESOLUTION MECHANISM

1. Throughout 2017, FROB continued carrying out its duties within its remit established by the Single Resolution Mechanism[1]:

   - for significant or cross-border institutions, as representative in Spain of the governing bodies of the Single Resolution Board (SRB, from now on) and entity responsible for the implementation at a national level of the SRB's resolution decisions; and
   - for other banks and investment firms, as executive resolution authority charged with approving and executing the resolution schemes, and with certain advisory powers in the planning phase.

2. In 2017, the number of significant institutions in Spain dropped to 12 as a result of the resolution of Banco Popular in June 2017 and the takeover of BMN by Bankia at the end of the year.

Table 1. List of Spanish significant institutions

Spain
Santander
BBVA
La Caixa
Sabadell
Ibercaja
Liberbank
Unicaja
Cajamar
Bankinter
Kutxabank
Abanca
BFA-Bankia
Total: 12

Source: FROB

[1] Regulation (EU) No 806/2014 establishes a Single Resolution Mechanism (SRM) in which the Single Resolution Board (SRB) is appointed as the single resolution authority directly responsible for all significant credit institutions supervised by the Single Resolution Mechanism (SRM), and any others that, while not significant due to their size, operate in two or more countries in the Banking Union. In addition to the SRB, the regulation establishes a Single Resolution Fund (SRF) which all significant and less significant credit institutions in the Banking Union must pay into. This fund is managed by the SRB. The Single Resolution Mechanism is also made up of the National Resolution Authorities of each member state, which are responsible for the credit institutions outside the scope of the SRB's jurisdiction and investment firms not included in banking groups..

3. Meanwhile, regarding less significant institutions and investment firms (IFs), FROB has been responsible for a total of 54 credit institutions and 30 IFs (those not consolidated in banking groups[2]).

1.1. RESOLUTION PLANNING

4. The European resolution framework places considerable emphasis on preventative planning for the resolution of credit institutions and investment firms.

1.1.1. EARLY INTERVENTION AND RECOVERY

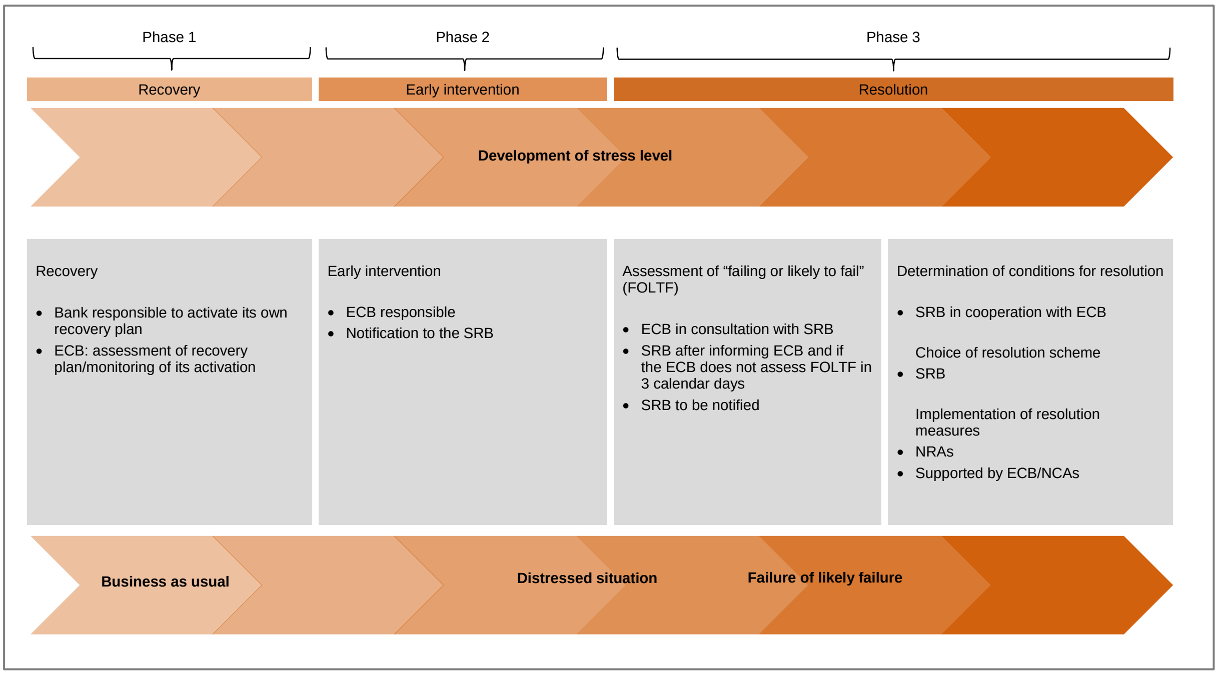
5. Without prejudice to the fact that these preventive powers are primarily exercised by the independent preventive resolution departments of the supervisors (the Bank of Spain and the Spanish Securities Market Regulator, the CNMV), the SRB and National Resolution Authorities have certain legal powers In this respect.

6. With regard to early intervention, Act 11/2015 requires all entities to prepare recovery plans that must be approved by the supervisor. Such plans must set out the measures that may be taken by the entity to re-establish its financial position in the event of a significant deterioration of its capital, liquidity or profitability or any other event that could jeopardise its viability.

7. In 2017, FROB analysed the recovery plans of 12 significant credit institutions and 41 less significant institutions submitted by the Bank of Spain, and of six investment firms received from the CNMV. The aim of FROB's review of these plans is to evaluate whether the content thereof could negatively affect the entities' resolvability.

[2] There are 10 IFs that are consolidated in banking groups.

Table 2. From recovery to resolution[3]



Source: FROB

1.1.2. RESOLUTION PLANNING

Less significant institutions and investment firms

8. In the case of less significant institutions and investment firms, Act 11/2015 establishes that the preventive resolution authority – the Bank of Spain and the CNMV, respectively – must prepare and revise a resolution plan for these entities on a yearly basis. Once these plans have been drawn up, they must be sent to FROB, the SRB and the competent authority so that they can analyse whether an entity is resolvable, i.e. if there would be no obstacles to either its liquidation through insolvency proceedings or its resolution, depending on each case.

9. During 2017, FROB reviewed and issued a report on the resolution plans of 25 less significant institutions and 16 investment firms.

[3] Significant Institutions

Significant credit institutions

10. The Single Resolution Board is responsible for the resolution of significant credit institutions, while their resolution plans are prepared by joint working groups (internal resolution teams or IRTs) comprising personnel from the SRB and the national resolution authorities (NRAs) headed up by a member of the SRB.

11. The resolution plans for these entities must be updated at least annually, whereby a new planning cycle starts each year, which does not have to coincide with the calendar year and ends with approval of the resolution plan for that year. The planning cycle for all Spanish significant institutions started at the beginning of 2017. During that cycle, FROB's work as a member of the IRTs involved reviewing and analysing the draft plans for 12 Spanish significant institutions.

12. The resolution plans of significant institutions are signed off by the SRB in the so-called Extended Executive Session involving the members of the board and representatives of the NRAs of the countries of the bank affected by the decision. FROB's chairman attends these sessions as a member with voting rights.

13. Regarding the resolution plans of significant institutions from the European Union that operate in other countries outside the Banking Union are previously endorsed in Extended Executive Sessions. A joint management process in a Resolution College (RC) must then be followed to definitively approve the resolution of credit institutions and their minimum requirement of eligible liabilities (MREL), once again in an Extended Executive Session of the SRB. FROB has participated as an observer in nine RCs (three for entities with parent companies in Spain[4] and the remaining six with parent companies in the Banking Union and with significant branches or subsidiaries in Spain).

14. During the 2017 planning cycle, which ended in April 2018 in the case of entities with a RC, FROB's Chairman participated in the Extended Executive Sessions approving the resolution plans of 12 Spanish significant credit institutions (only three of these plans included an MREL) and eight credit institutions from other European Union countries with significant branches or subsidiaries in Spain.

15. In the case of Global Systemic Banks (G-SIBs), certain agreements are also reached with the resolution authorities of non-EU countries in Crisis Management Groups (CMGs). FROB has participiated in a CMG during the year[5].

[4] Santander, BBVA and Sabadell
[5] The CMG for Santander

Table 3. Joint collaboration in preparing resolution plans of significant and cross-border institutions

ENTITIES	BANKING UNION	EUROPEAN UNION (outside Banking Union)	Third country	FROB investment
No resolution college				
- Significant institutions	Parent + subsidiary			Caixabank, Ibercaja, Liberbank, Unicaja, Cajamar, Bankinter, Kutxabank, Abanca, BFA-Bankia, Banque Degroof Petercam, Caixa Geral de Depósitos & Crédit Mutuel
- Cross-border institutions	Parent + subsidiary			Banco Finantia & Banco Mediolanum
With resolution college	Parent	Subsidiary		BBVA, Banco Santander, Banco Sabadell,ING, Deutsche Bank, BNP Paribas, Crédit Agricole, Société Générale
	Subsidiary	Parent		EFG (A&G Banca Privada)
With European resolution college	Subsidiary	Subsidiary	Parent	Citigroup
With crisis management group (CMG)	G-SIB	G-SIB	G-SIB	Banco Santander

Source: FROB

16. A crucial part of the SRB's work to review the resolution plans focuses on ensuring a higher degree of harmonisation between them and greater depth in their content. The SRB prepares manuals and guidelines to help the IRTs during this process. FROB has participated in the various working groups set up to look at the different technical aspects that help to improve entities' resolvability and make the plans easier to implement.

17. One of the most noteworthy components of the guidance published this year has been the methodology (method of calculation, calibration, subordination criteria, etc.) that the SRB has followed to determine the MREL. This methodology is available on the SRB's website[6]. Also of note has been the work to identify critical functions, assess public interest, maintain access to financial market infrastructures and operational continuity, select bridge banks as a preferred resolution strategy, and analyse liquidity recovery options in resolution.

18. As well as participating in the groups responsible for developing the guidelines for the IRTs, FROB has also played an active role in the other working groups set up to draft operational crisis management manuals and other key aspects to improve entities' resolvability and the SRB's work in the future.

[6] https://srb.europa.eu/en/content/mrel

19. The SRB has decided that as from 2018, the schedule for preparing resolution plans should be more closely aligned with supervisory activities to improve effectiveness and coherence. The SRB will therefore divide the annual resolution planning cycle into two groups: the planning cycle for entities without a resolution college will commence in January and end in December of the same year; for entities with a resolution college, the planning cycle will start in September and end midway through the following year.

1.2. RESOLUTION PHASE

20. The resolution of a credit institution or investment firm entails an extraordinary administrative procedure to manage its non-viability without having to resort to liquidation in normal insolvency proceedings. Its extraordinary nature means that three conditions must be fulfilled simultaneously for resolution to take place:

- Non-viability of the entity;
- Lack of private sector alternatives that could prevent failure; and
- Resolution action is in the public interest.

21. A resolution authority will only take the decision to open a resolution process if these three circumstances apply. Such a process will begin with an assessment of the entity and drafting of a resolution scheme setting out the measures to be adopted.

22. FROB is the authority responsible for executing the resolution decisions adopted by the SRB for significant institutions. For other entities, FROB is authorised to directly exercise its powers within the framework of the European Single Resolution Mechanism.

1.2.1 EUROPEAN RESOLUTION OF BANCO POPULAR[7]

23. When just two years old, the Single Resolution Mechanism was called into action to manage a banking crisis in 2017. On the night of 6 June 2017, the severe deterioration of Banco Popular's liquidity prompted the European Central Bank (ECB) to inform the SRB of the entity's non-viability as it deemed that it could not settle its debts or other liabilities on falling due or that there were objective indications that it would be unable to do so in the near future.

24. Some hours later, the SRB Extended Executive Session involving the five Permanent Members and the representatives of FROB and the Bank of Portugal (since Banco Popular had a Portuguese subsidiary) and the European Commission and Bank of Spain as observer with a voice but no vote, approved the resolution scheme for Banco Popular.

25. The scheme determined that the institution met the conditions established in the regulations required for resolution as it was concluded its inviability, that there was no reasonable prospect that any alternative private sector measures would prevent its failure within a reasonable time frame, and that the resolution action was necessary in the public interest.

26. A few days before, on June 3rd, in view of the deteriorating situation of the institution, the SRB had ordered FROB to initiate a sale procedure based on the basis of the private process previously developed by the entity itself. The aforementioned process accelerated, given the evolution of events on June 6, and culminated with the presentation of a single offer.

27. Finally, the SRB approved the resolution scheme, applying the sale of business tool, to better comply with the principles and objectives of the resolution[8], and therefore avoiding a bankruptcy proceeding and the consequences that this would have caused.

[7] During the year, multiple public information has been published in this regard, available at::
SRB web: https://srb.europa.eu/en/content/banco-popular
FROB web: http://www.frob.es/es/Lists/Contenidos/Attachments/522/QA14062017v13web.pdf
http://www.frob.es/es/Lists/Contenidos/Attachments/519/FROBImplementingActJune72017.pdf
http://www.frob.es/es/Lists/Contenidos/Attachments/518/170607_NP_Popular_Santander.pdf

[8] See table 4.

Table 4. Principles and objectives of Resolution

OBJECTIVES	Art. 14 Regulation (UE) nº 806/2014 - Art. 3 Spanish Law 11/2015
TO PROTECT FINANCIAL STABILITY	**To ensure the continuity of critical functions,** the interruption of which could disrupt the provision of essencial services for the real economy or for financial stabilty
	To avoid significant adverse effects on financial stability, in particular by preventing contagion, including to market infrastructures, and by maintaining market discipline.
TO MINIMISE USE OF PUBLIC FUNDS	To ensure an efficient use of public resources, by **minimising reliance on extraordinary public financial support.**
TO PROTECT DEPOSITORS AND OTHER FUNDS	**To protect depositors** covered by theDeposit Guarantee Fund of Credit Institutions and investors covered by the Investment Guaranty Fund.
	To protect **client funds and client assets.**

When pursuing this objectives, authorities shall seek to minimise the cost of resolution and avoid destruction of value unless necessary to achieve the resolution objectives.

PRINCIPLES	Art.15 Regulation (UE) nº 806/2014 - Art. 4 Spanish Law 11/2015
PRIVATE LOSS ABSORPTION	The **shareholders** of the institution bear first losses. **Creditors** of the institution bear losses after the shareholders in accordance with the order of priority of their claims. Creditors of the same class are treated in an equitable manner.
	No creditor shall incur greater losses than would have been incurred if an entity had been wound up under normal insolvency proceedings.
REPLACEMENT OF MANAGEMENT BODIES	They will be **replaced,** except in those cases where the retention of the management body and senior management is considered to be necessary for the achievement of the resolution objectives. They shall provide all necessary **assistance** for the achievement of the resolution objectives. Natural and legal persons are **made liable**, subject to national law, for their responsibility for the failure of the institution.
PROTECTION OF COVERED DEPOSITS	Covered deposits are **fully protected**.
SAFEGUARDS	Resolution actions are taken in accordance with the **safeguards** in this Regulation.

Source: FROB

28. The resolution scheme included the specific measures to be applied to Banco Popular. This involved selling off the institution, following execution of the powers to redeem the Banco Popular's shares and the Additional Tier 1 capital instruments and convert the shares into Tier 2 capital instruments, which were sold for a price of EUR 1 to Banco Santander as the institution selected in the competitive tender process to sell the institution conducted as per the procedural rules and instructions agreed by the SRB. The sale agreement was not subject to any conditions precedent and was fully effective from the moment it was adopted.

29. In the early hours of 7 June 2017, the European Commission formally endorsed the resolution scheme approved by the SRB. Subsequently, in accordance with articles 18.9 and 29 of Regulation (EU) No 806/2014, FROB's Governing Committee approved a decision by virtue of which FROB adopted the measures that would, on executing its powers as the executive resolution authority in Spain, enable the resolution scheme signed off by the SRB immediately beforehand to be implemented and take effect pursuant to national law.

30. On the morning of 7 June, Banco Popular opened its offices as an entity owned by Banco Santander Group. As a result of the purchase of one hundred percent

of Banco Popular's shares, Banco Santander acquired all the assets and liabilities of the entity and committed to guarantee the necessary liquidity to meet its obligations from the day of the operation.

31. Since then, Banco Popular's resolution has resulted in numerous administrative and legal proceedings being initiated at the appeals court of the National Court disputing the said decision of FROB's Governing Committee.

1.3. SINGLE RESOLUTION FUND AND NATIONAL RESOLUTION FUND

32. One of the pillars of the new resolution framework is the creation of resolution funds as funding tools that resolution authorities can use in certain circumstances to effectively carry out the various resolution measures put in place.

33. The funds comprise contributions of the credit institutions and investment firms established in Spain (as well as the contributions of the credit institutions of the other member countries of the Banking Union, in the case of the Single Resolution Fund). In the particular case of the Single Resolution Fund, an objective has been set to collect a minimum amount equivalent to 1% of the credit institutions' covered deposits by the end of the initial eight-year period as from 1 January 2016.

34. Spanish investment firms not in a banking group are required to contribute to the National Resolution Fund, as per Act 11/2015 transposing Directive 2014/59/EU into Spanish law, while the credit institutions and investment firms that are subsidiaries of credit institutions make contributions that are collected by FROB and transferred in full to the Single Resolution Fund. Using information provided by the affected entities, the fund itself, managed by the SRB, is responsible for calculating each entity's contribution.

35. Each entity's total liabilities excluding own funds less covered deposits as a percentage of the total for all entities are taken into consideration to calculate contributions. This result is then adjusted based on each entity's risk profile[9].

36. Regarding the National Resolution Fund, pursuant to Act 11/2015, FROB is authorised to set for each year the total contribution that institutions required to pay into the fund have to make, along with their individual contributions.

37. Regarding the Single Resolution Fund, pursuant to Regulation (EU) 806/2014, FROB is only authorised to collect the contributions comprising this fund and transfer them. Consequently, the annual contributions to the fund and ordinary contributions of each entity are set by the SRB.

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[9]Details of the calculation method are provided in Commission Delegated Regulation (EU) 2015/63 of 21 October 2014.

38. Given this distribution of authority with respect to the Single Resolution Fund, it is worth noting that the SRB and NRAs work closely together. In light of this, the joint effort of the NRAs and the SRB requires efficient cooperation mechanisms to coordinate the criteria and actions taken. These mechanisms include the *Contributions Composition section* of the *Funds Committee*, which meets monthly to plan and execute joint actions by the NRAs and the SRB. This committee is an important forum for discussing the various matters concerning the collection of contributions.

39. Within this coordination framework, as in the prior year, FROB's activity in 2017 primarily focused on announcing and carrying out the steps needed to effectively determine and collect contributions and, specifically:

- Act as the first port of call for any queries or requests from entities required to make contributions. The task involves complex calculations that have to be exhaustively explained to contributors, which FROB has done since the first cycle of contributions. In this regard, FROB held information sessions with the industry to set out the purpose of and method for calculating contributions.
- Obtain from entities the data needed to calculate the contributions for each entity.
- Perform an initial assessment of the quality of the data reported by institutions by comparing it with the equivalent information collated by the Bank of Spain, the CNMV and the Deposit Guarantee Fund.
- Declare and collect the contributions of Spanish credit institutions and investment firms that are subsidiaries of such entities, transferring the contributions to the Single Resolution Fund.
- Monitor the legal claims institutions may lodge against FROB or the SRB in relation to the calculation and collection of contributions to the Single Resolution Fund.

Table 5. Contributions of Spanish entities to the NRF and the SRF

EX-ANTE CONTRIBUTIONS	2017				2016			
	SRF		NRF	Total	SRF		NRF	Total
	CI(*)	IF	IF		CI(*)	IF	IF	
Number of entities	100	10	30	**140**	106	10	28	**144**
Contribution *(EUR thousand)*	676,297	65	1,090	**677,452**	726,295	64	1,790	**728,149**

(*) Commission Delegated Regulation (EU) 2015/63 establishes that in the case of entities affiliated to a Central Body and exempted from prudential requirements in national law, contributions should only apply to the Central Body. Pursuant to information provided by the supervisor, there are two entities considered to be Central Bodies, in which a total of 24 affiliated entities are included.

Source: FROB

40. According to information provided by the Bank of Spain and the CNMV, in 2017 140 entities were required to contribute, 100 of which were credit institutions and 40 investment firms[10].

41. In June 2017, FROB collected total contributions of EUR 677 million[11] (EUR 676.3 million for the Single Resolution Fund and EUR 1.1 million for the National Resolution Fund). The Single Resolution Fund therefore has a balance of EUR 17.4 billion provided by approximately 3,500 European entities. EUR 2.1 billion of this amount was contributed by Spanish entities[12].

42. Meanwhile, at the start of November, work started to gather information for calculating 2018 contributions. Entities had to furnish FROB with this information by 31 December 2017 and settle their contributions by the end of June.

1.4. INTERNATIONAL ACTIVITY

43. As the Spanish authority acting as contact for and coordinator with the international authorities and other European Union Member States regarding resolutions, FROB has continued to play an active role in defending Spain's position. It has worked in close collaboration with the Spanish preventive resolution authorities in the various international discussion forums that discuss, prepare and, where applicable, amend the resolution framework and rules.

[10] In 2016: 144 entities, 106 of which were credit institutions and 38 investment firms.
[11] http://www.frob.es/es/Lists/Contenidos/Attachments/526/Notadeprensarecaudacion2017final.pdf
[12] https://srb.europa.eu/en/node/362

SINGLE RESOLUTION BOARD

44. The most senior Spanish representative on the Single Resolution Board is FROB's Chairman, who attends both the SRB Plenary Session and the Extended Executive Sessions in which Spain is involved and that are attended by the Bank of Spain as an observer with a voice but no vote. Spain's participation (FROB and the Bank of Spain) also extends to the various sub-committees and working groups set up under the auspices of the Plenary Session. They focus on ensuring the resolvability of all banks and establishing a resolution framework that is fit for purpose, ensuring that it is applied effectively with a minimum impact on the real economy, financial system and public coffers.

45. In 2017, the SRB concentrated on strengthening the resolvability of institutions, managing effectively the various cases of resolution that have arisen, ensuring a robust resolution framework is in place, pushing forward with configuring and collecting SRF contributions, and establishing an optimal and efficient structure at the SRB.

46. Throughout the year, FROB has been involved in all SRB Plenary Session meetings, and in all the written procedures, contributing FROB's experience in a proactive and collaborative manner regarding organisational matters and resolution policy issues.

47. The plenary has three Committees that also draw on the support of groups of experts:

- The Resolution Committee, responsible for resolution planning and execution matters, and for the monitoring performed by the SRB of the activity of the National Resolution Authorities concerning entities in their countries;
- The Administrative and Budget Committee; and
- The Committee dedicated to the Single Resolution Fund[13].

48. The remit of these committees is to help the SRB fulfil its duties and devise policies that develop the various technical measures to enhance the planning and execution of resolutions and achieve a greater degree of harmonisation in the Banking Union.

[13] See section 1.3.

OTHER INTERNATIONAL FORUMS

49. FROB actively participates in other discussion forums within the European Union and around the world.

50. At European Union level, FROB is a member of the Resolution Committee (ResCo)[14] of the European Banking Authority (EBA). This committee draws up the rules, reports, manuals and technical guidelines related with the Bank Recovery and Resolution Directive. Some of these rules are subsequently enacted as level-two EU law. Key work in 2017 included the tasks performed to develop the technical rules regulating how assets and liabilities are measured in resolution processes.

51. Internationally, FROB is a member of the Resolution Group (ResG)[15] of the Financial Stability Board (FSB), which not only debates the resolution of banks but also examines the possible resolution of financial market infrastructure and insurance firms.

52. This Group oversees the “Cross-Border Crisis Management Working Group” (CBCMs) along with its various sub-groups, and the “Cross-Border Crisis Management Working Group” for financial market infrastructures (fmiCBCM). FROB is a member of these bodies.

53. In 2017, the CBMCs work focused on preparing manuals and guidelines on the key aspects concerning the resolution of credit institutions. These include: internal recapitalisation; how funding can be secured during resolution; analysing how to ensure operational continuity and access to financial market infrastructures; and internal total loss-absorbing capacity (TLAC) – a similar concept to MREL but with differences in the way it is calculated and applied. Noteworthy is the final publication of the documents on access to financial market infrastructures for institutions subject to resolution and on internal total loss-absorbing capacity.

54. The work of the fmiCBCM has included publication of the guidance on central counterparty resolution and resolution planning, while work continues in several areas concerning central counterparties under resolution.

55. Lastly, in 2017 FROB provided advice to the Spanish delegation led by the Spanish General Secretariat of the Treasury and Financial Policy in meetings arranged by the Council of the European Union concerning resolutions and especially, the proposal to review the European Bank Resolution and Recovery Directive and the SRM Regulation. The main developments in this regard concern introducing total loss-absorbing capacity (TLAC) in the EU, creditor hierarchy harmonisation, and the possibility of suspension of payments

[14] https://www.eba.europa.eu/about-us/organisation/resolution-committee
[15] http://www.fsb.org/what-we-do/policy-development/effective-resolution-regimes-and-policies/

(moratorium). FROB provided technical advice on the proposals included in the new package of regulations and will continue to do so as they are thrashed out. FROB also provides support to the General Secretariat of the Treasury and Financial Policy in the negotiations of the working group of the Economic and Financial Committee (Ecofin) on a common European funding mechanism for the Single Resolution Fund and the options to bolster liquidity in resolution.

56. Moreover, FROB continues to work with the Ministry of Economy, Industry and Competitiveness in the framework of the ordinary regular analysis by the International Monetary Fund of the Spanish economy and other analysis over longer periods of the Spanish financial system.

57. Further, FROB hosts the missions comprising members of the European Commission, European Central Bank and the European Stability Mechanism (ESM) that monitor every six months fulfilment of the commitments of the Spanish State under the bailout programme for Spanish credit institutions in 2012-2013.

2. RESTRUCTURING AND RESOLUTION PROCESSES[16]

58. On 31 December 2017, the restructuring plans were completed for the BFA-Bankia Group, Banco Mare Nostrum (BMN), Liberbank and Caja3 (a member of the Ibercaja Banco Group). All commitments undertaken on receiving the financial assistance have been satisfactorily fulfilled. These obligations basically comprised:

- Transferring to Sareb problem assets related with the real-estate sector;
- Managing hybrid instruments;
- Adjusting capacity through streamlining (the balance sheet, workforce and branches) and certain asset disinvestments; and
- Assuming during the recovery period commitments related with restricting activities and enhancing corporate governance, including imposing certain prohibitions and/or limitations.

59. In addition, although it did not fall within the period covered in this annual report, given its importance, it is worth mentioning that the plans for Catalunya Banc and CEISS were completed on 24 April 2018 and all commitments assumed were fulfilled.

[16] A record of the assistance provided by the FROB is attached as an appendix to this report. It sets out all injections of capital or eligible instruments (EUR 56.545 billion) and those recouped to date (EUR 5.911 billion, EUR 4.477 billion of which from selling off institutions (EUR 1.565 billion) and redemption of capital instruments (EUR 2.912 billion), and EUR 1.434 billion in interest on the CoCos and preference shares subscribed by the FROB).

Table 6. Recovery and restructuring plans at 31/12/2017

Institution	European Commission decision		Plan end date	Plan fulfilment
	Date	*Reference number*		
CajaSur(*)	08/11/2010	N392/2010	31/05/2015	Yes
UNNIM(*)	26/03/2012	SA.33733 2012/N	31/12/2015	Yes
CAM(*)	30/05/2012	SA.34255 2012/N	31/12/2015	Yes
Banco de Valencia	28/11/2012	SA.34053 2012/N	31/12/2015	Yes
BFA / Bankia	28/11/2012	SA.35253 2012/N	31/12/2017	Yes
BMN	20/12/2012	SA.35488 2012/N	31/12/2017	Yes
Caja3	20/12/2012	SA.35489 2012/N	31/12/2017	Yes
Liberbank	20/12/2012	SA.35490 2012/N	31/12/2017	Yes
Banco Gallego	25/07/2013	SA.36500 2013/N	31/12/2015	Yes
CEISS	13/03/2014	SA.36249 2014/N-3	24/04/2018	In progress
NCG	20/06/2014	SA.38143 2014/N	31/12/2016	Yes
Catalunya Banc	17/12/2014	SA. 39402 2014/N	24/04/2018	In progress

(*) *Institution that received assistance prior to the implementation of the programme to restructure the financial sector.*

2.1. ENTITIES SUBJECT TO RESTRUCTURING OR RESOLUTION

2.1.1 Credit institutions in which FROB holds a stake

BFA-Bankia

60. At 31 December 2017, following the sell-off of 7% of Bankia's capital at the start of that month, completion of the Bankia and BMN merger, and FROB's contribution to BFA (capital increase through non-monetary contributions) of the shares received through the exchanging of BMN shares (both in January 2018), BFA (and therefore, indirectly, FROB) held 60.98% of Bankia's shares.

Capital reduction and reverse split

61. On 24 March 2017, the General Shareholders' Meeting approved the reduction of capital to set aside voluntary reserves, by reducing the par value of the shares from EUR 0.80 per share to EUR 0.25 per share.

62. Following this capital reduction, a reverse split was executed, also approved by the General Meeting on 24 March 2017. The reverse split entailed grouping four old shares in one new share with a par value of EUR 1 each.

63. Execution of these transactions– which did not affect the volume of equity only the distribution thereof and widens the gap between the trading price and par value of the shares – has ensured the structure of Bankia's equity is similar to that of its competitors and enables it to access the markets to issue shares where necessary, or instruments capable of absorbing losses (AT1), to optimise its capital structure and met the future MREL.

AT1 issuance

64. As part of its capital strategy, on 6 July Bankia completed its first placement of AT1 instruments: contingent convertible bonds (CoCos). The placement comprised EUR 750 million of perpetual bonds, with a redemption option after five years and paying a variable coupon of 6.00% in the first year (5.8% of the 5Y mid-swap in subsequent years). This involved the issuance of a subordinated instrument to absorb losses after shares and before other liability instruments.

65. The placement was very well received by the market and was three times oversubscribed, while the coupon obtained was below that of its comparables in similar placements executed in the past.

66. At year-end 2017, the BFA Group (which includes Bankia) posted attributable profit of EUR 282 million, after recognising the restructuring costs deriving from the BMN merger.

Bankia-BMN merger

67. On 14 March 2017, following exhaustive analysis and based on the findings of external advisors, FROB's Governing Committee approved the reorganisation of its investee credit institutions (Bankia and BMN) through their merger. This was the best future divestment strategy for maximising the capacity to recover the public bailouts.

68. FROB therefore informed the entities of the agreement so that they could begin work within the management remit and powers of their governing bodies. Subsequently, on 26 June 2017 the board of directors of BMN and Bankia greenlighted the Joint Merger Project for both entities, which included the exchange formula determining the number of Bankia shares to be received in exchange for BMN shares following the latter's wind-up: 1 Bankia share for every 7.82987 BMN shares.

69. On 28 December 2017, Bankia obtained all the authorisations required by the regulatory bodies and authorities in connection with the BMN merger. It was therefore able to start proceedings to complete the operation, with the merger taking effect for accounting purposes in December 2017.

70. BMN shares were exchanged for the newly issued Bankia shares in January 2018 after the public merger deed was executed before a notary, Bankia's capital was increased, and the merger deed was filed in the Valencia Companies Register. A total of 1,610,062,544 BMN shares were exchanged for 205,630,814 new shares issued by Bankia, with FROB receiving 134,013,851 of the new shares.

71. On 16 January 2018, as sole partner, FROB approved the increase in BFA's capital through a non-monetary contribution of the Bankia shares received through the exchange of BMN shares as a result of the merger of the latter two institutions. The capital increase was entered in the Madrid Companies Register on 2 February 2018[17].

Divestment

72. Pursuant to Act 9/2012, FROB must finalise the divestment of its stake in Bankia within five years from the public bailout. Nonetheless, Royal Decree-Law 4/2016, of 2 December, extends this period to seven years and establishes a deadline of December 2019. It also offers the Council of Ministers the option of extending this period further to facilitate better fulfilment of the resolution objectives.

73. Honouring its mandate, FROB sold 7% of Bankia's capital through the BFA on 11 December 2017. This disinvestment saw FROB resuming the process to divest its stake in Bankia held indirectly through BFA, with an accelerated bookbuild exclusively targeting institutional investors. To achieve this, BFA sold 201,553,250 million Bankia shares, equal to 7% of the bank's capital, for EUR 818.3 million[18].

Restructuring Plan and 2018-2020 Strategic Plan

74. The BFA-Bankia Group Restructuring Plan was completed on 31 December 2017 with all commitments fulfilled satisfactorily.

75. Following fulfilment of said undertakings, Bankia unveiled its 2018-2020 Strategic Plan in February 2018. The cornerstones of this plan are to strengthen Bankia's position as a leader in Spain in terms of efficiency and shareholder remuneration, through the distribution of dividends and repayment of excess capital over the plan period.

[17] See point 2.5.1.
[18] See point 2.5.2.

Legal contingencies

76. **Minority shareholder tranche in the institution's stock market flotation:** As a result of the Supreme Court Judgement of 27 January 2016, the institution agreed an out-of-court settlement to reimburse its minority shareholders. At year-end 2017, this settlement entailed payouts of approximately EUR 700 million for 135,000 claims. Added to this are the reimbursements by Bankia as a result of a number of court rulings that went against it. The charge against equity for the Group totalled EUR 1.847 billion at 31 December.

77. **Mis-selling of hybrid instruments:** Between 2013 and 2017, the BFA-Bankia Group set aside provisions for this contingency of EUR 2.910 billion (EUR 1.126 billion for the arbitration proceedings initiated by the institution and EUR 1.784 billion for unfavourable court judgements), EUR 2.719 billion of which had been used at 31 November 2017.

78. **Floor clauses:** On 21 December 2016, the European Court of Justice ruled that when floor clauses in mortgage loan agreements are rendered null and void due to a lack of transparency of said clauses, any amounts unfairly charged should be calculated retrospectively from the moment the aforesaid clauses were applied.

    Only 3% of the mortgage loans granted by Bankia included floor clauses, given that the institution had decided not to include them in any loan agreements as from September 2015. A Royal Decree-Law was also enacted in January 2017 establishing the measures institutions must take to reimburse the unduly charged amounts. Bankia therefore put in place a process to quickly refund the amounts unduly charged, whereby at the end of May 2017 it had closed around 34,000 cases, refunding over EUR 170 million.

Banco Mare Nostrum

79. At the beginning of 2017, FROB held a 65% stake in BMN, with the remaining shares primarily held by the foundations of the former savings banks and the holders of hybrid instruments.

80. As explained beforehand, on 14 March 2017 FROB's Governing Committee approved the reorganisation of its investee credit institutions (Bankia and BMN) through their merger. This was the best future divestment strategy for maximising the capacity to recover the public bailouts.

81. The resolution by the board of directors of the two entities approving the Joint Merger Project for both entities included the exchange formula of 1 Bankia share for every 7.82987 BMN shares. A total of 1,610,062,544 BMN shares were exchanged for 205,630,814 new shares issued by Bankia, with FROB receiving 134,013,851 new shares. In January 2018, Bankia's capital was increased, the merger deed was filed in the Valencia Companies Register, and the BMN shares were exchanged, resulting in the winding up of this institution.

82. FROB has closely and continuously monitored BMN's Restructuring Plan, which was completed on 31 December 2017 with all commitments having been fulfilled.

2.1.2 Institutions in which FROB held CoCos during 2017

83. At the beginning of 2017, FROB had contingent convertible bonds (CoCos) issued by Caja3 (merged with Ibercaja) and CEISS (Unicaja Group) on its balance sheet. During 2017, these CoCos were fully repurchased and therefore, at year-end both institutions had completely repaid the assistance received by virtue of the CoCo subscription.

Banco Caja 3 (taken over by Ibercaja Banco)

84. In March 2013, Caja3 received a total of EUR 407 million through the subscription by FROB of contingent convertible bonds (CoCos), issued to bolster the institution's required capital. While the CoCos were on FROB's balance sheet, they generated interest of EUR 143 million, fully paid out by the entity.

85. On 24 March 2017, Ibercaja redeemed the amount outstanding at the start of the year of EUR 224 million, whereby at that date all of the CoCos subscribed by FROB had been redeemed.

86. The institution's Restructuring Plan was also completed on 31 December 2017, with all the commitments included in the plan having been fulfilled.

Banco CEISS (taken over by the Unicaja Banco Group)

87. Banco de Caja España de Inversiones, Salamanca y Soria S.A. (CEISS) received a bailout in the form of capital instruments totalling EUR 1.129 billion, EUR 525 million of which was injected as preferred participating securities convertible into capital in 2010. These securities were converted and redeemed by way of a capital reduction to zero in 2013. The remaining EUR 604 million was injected in the form of CoCos subscribed by FROB in April 2013 and acquired from FROB by Unicaja Banco at the end of August 2017.

88. While the CoCos were on FROB's balance sheet, they generated interest of EUR 240 million, fully paid out by the institution.

89. On 30 June 2017, Unicaja Banco honoured its commitment to float on the stock market, carrying out a capital increase of EUR 688 million. This capital increase (as indicated by the institution in its announcement to list its shares for trading on the Madrid, Barcelona, Bilbao and Valencia stock exchanges, published on 1 June 2017) was earmarked to bolster its capital following the full redemption of the CoCos held by FROB of EUR 604 million, to finance the acquisition of the stake in EspañaDuero from FROB for EUR 62 million, and for other general corporate purposes.

90. On 13 December 2017, the compensation mechanism ended, by virtue of which FROB and CEISS had shared the negative impacts that could derive from legal claims lodged by retail investors holding CEISS hybrid instruments who did not accept the Unicaja Banco exchange offer. Consequently, FROB paid EUR 241 million for this guarantee and returned in full all the CEISS shares it had held temporarily.

91. At the 2017 close, the institution was progressing towards fulfilling all the undertakings assumed under the Restructuring Plan, having complied will several of them ahead of schedule.

2.1.3 Other restructuring and resolution plans in force

Catalunya Banc (taken over by BBVA)

92. Catalunya Banc was sold to BBVA in July 2014 for EUR 1.165 billion. Sufficient progress had been made by year-end to fulfil all the commitments assumed in the institution's Resolution Plan which ended in April 2018. Indeed, the levels set out in the plan were easily surpassed. Pending the final report, the expectation is that all the aforesaid commitments will be fulfilled; they basically related to reaching an agreed number of branches and employees.

2.2. MONITORING OF GUARANTEES GIVEN IN DIVESTMENT PROCESSES

93. As part of the credit institutions' sale and resolution processes, FROB granted a series of guarantees securing certain contingencies, with a view to maximising sales prices and minimising the use of public funds due to the application of large haircuts on sales prices. The guarantees extended cover very different contingencies: some merely cover the volume of losses to be assumed by the buyer with regard to certain loan books, while others are intended to hold the buyer harmless or assume jointly with the buyer the cost of certain lawsuits or future events[19].

94. FROB constantly monitors the status of these guarantees, confirming that the claimed disbursements are justified and within the parameters agreed with the buyer.

[19] Main guarantees given: Asset Protection Scheme (APS) to cover any losses on a certain asset portfolio (only in Banco de Valencia process); Sareb guarantee covering a number of potential contingencies deriving from the transfer of the entities' assets to Sareb; tax credits, through which the FROB will ensure these credits can be used by the entities in the future; mis-selling, in light of possible liabilities that could arise from lawsuits for mis-selling of hybrid instruments, floor clauses or interest-rate hedge agreements; legal/damages, holding the entity harmless of any damages stemming from final legal rulings; equity stakes, compensation for amounts due for price of stake or any possible future claims concerning the early cancellation of significant contracts, based on a change in control of the acquired entity, to finance certain payment obligations of entities.

95. The main guarantees and the status thereof in 2017 are set out hereon:

2.2.1. APS arranged in sale of Banco de Valencia

96. On 27 November 2012, FROB arranged an Asset Protection Scheme (APS) for the buyer of Banco Valencia (CaixaBank), maturing on 30 September 2022, covering 72.5% of any losses on a closed loan book, which initially totalled EUR 6.424 billion, with a first-loss threshold of EUR 402 million. As a result of two write-downs and a correction of scope in April and August 2013 and October 2016, respectively, these amounts were reduced to EUR 5.192 billion and EUR 212 million, respectively.

97. At year-end 2017, net losses incurred (EUR 263 million) exceeded the first-loss threshold (EUR 212 million), resulting in FROB being required to pay CaixaBank approximately EUR 37 million. According to the Protocol on Financial Assistance Measures in the Banco de Valencia, S.A. Resolution Plan (document regulating the terms and conditions of the APS), FROB is required to settle this payment by 30 June 2018.

98. On the other hand, to date, FROB has collected a total of approximately EUR 2 million for the annual APS commission.

2.2.2. Other guarantees

99. As explained, FROB has also extended other guarantees as part of the sales processes. In order to ensure the guarantees are used as effectively as possible, beneficiaries must submit formal compensation claim requests to FROB. In order to ensure compliance with the terms and conditions of the relevant guarantee agreements, these requests, which are reviewed exhaustively, must specify individually and in a detailed manner the case for which each claim is being lodged and the corresponding amount thereof. FROB's technical services team uses this information to closely and continuously monitor and review each claim.

2.3. Sareb

100. The Asset Management Company for Assets Arising from the Banking Sector Reorganisation (Sareb) was incorporated on 28 November 2012 as a limited company for a finite period to November 2027. Its original own funds totalled EUR 4.8 billion, EUR 1.2 billion of which was capital and EUR 3.6 billion, deriving from two issues of unsecured subordinated debt contingently convertible into shares subscribed by shareholders.

101. FROB subscribed 45% of the shares and 45.9% of the subordinated debt (EUR 540 million and EUR 1.652 billion, respectively). The current shareholder structure is practically unchanged from the original structure, with some insignificant differences in terms of percentages held (due to the conversion of subordinated debt in 2016). FROB holds 45.9% of capital and outstanding subordinated debt.

102. The total value of assets transferred to Sareb was EUR 50.781 billion. Payment for the transfer was effected through the delivery of six senior debt issues by Sareb with an irrevocable state guarantee, signed by the recipients of bailouts. The bonds received as payment are non-transferable and may be redeemed on expiration in cash or through the delivery of newly issued bonds, as Sareb so decides.

Financial position at 31 December 2017

103. The loss of EUR 565 million in 2017 takes Sareb's own funds at year-end 2017 to EUR 2.055 billion, comprising EUR 304 million of capital and EUR 2.316 billion of reserves. EUR 1.430 billion of outstanding subordinated debt needs to be added to this amount, taking total own funds to EUR 3.485 billion.

Table 7. Key financials of Sareb at year-end 2017 (EUR million)

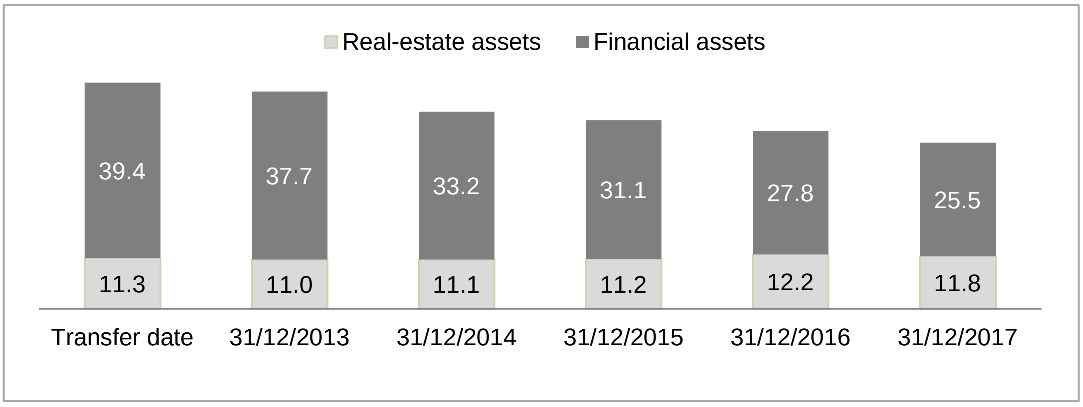
2017 results	
Total income	3,833
Income from financial assets	*2,642*
Income from real-estate assets	*1,191*
Total gross income	767
Gross income from financial assets	*563*
Gross income from real-estate assets	*204*
Operating expenses	(683)
Amortisation and depreciation charges and others	(77)
Finance costs	(541)
Taxes	(31)
Loss for the year	**(565)**

104. While own funds were a positive EUR 2.055 billion, equity was a negative EUR 3.707 billion, given the marking to market of interest-rate hedging derivatives (a negative EUR 1.533 billion) and the impairment of financial assets (a negative EUR 4.229 billion). These items do not include the gains on real-estate assets.

105. The remaining senior debt amounted to EUR 39.369 billion at the 2017 year-end (78% of the initial total), following repayment of EUR 2.229 billion in 2017. Consequently, at 31 December 2017 a total of EUR 11.412 billion of the senior debt had been repaid since the start.

106. The remaining balance of assets transferred at their carrying amount (taking accumulated depreciation and amortisation and impairment into account) totalled EUR 36.9 billion, 68% of which are financial assets and 32% real-estate assets. Changes in the carrying amounts of the financial and real-estate assets on Sareb's balance sheet (excluding the estimated impairment losses on Sareb's 2017 annual accounts) were as follows:

Table 8. Changes in the financial and real-estate assets on Sareb's balance sheet (EUR thousand million)



Sareb's performance

107. In 2017, Sareb generated total income of EUR 3.833 billion, EUR 2.622 billion of which was from financial assets (sales, cancellations, redemptions and interest on loans) and EUR 1.191 billion from property sales. This enabled the generation of enough cash flow during that financial year to allow the repayment of EUR 3.050 billion of government-backed debt.

108. Real-estate activity in particular stood out in 2017: Sareb sold 18,025 properties – 10,864 directly and 8,061 through agreements with developers. It also developed 5,209 new homes, 1,458 of which have been completed.

109. Over the five years since it was established, Sareb has pared back its balance sheet by 27%, generating total income of EUR 20.700 billion and repaying EUR 11.400 billion of government-backed senior debt (22% without considering

additional repayments to be made in 2018). It has also sold over 68,000 properties.

110. The three pillars of Sareb's business plan are: to accelerate divestments, forge alliances with specialist players, and search for new revenue streams and diversification. As part of this, Sareb has incorporated "Témpore": a REIT with an initial scope of EUR 175 million and 1,383 dwellings, with new contributions envisaged. The REIT was listed on Spain's Alternative Equities Market, the MAB, in April 2018.

Corporate Social Responsibility

111. In line with its social remit, Sareb continued its efforts in the area of corporate social responsibility during the year 2017. This primarily entailed:

- Improving the lives of groups at risk of social exclusion, granting financial aid for social housing and emergency funds, distributed through agreements with local councils and regional governments;
- Providing alternative affordable rented accommodation, with a view to offering especially vulnerable groups alternatives to asset repossession processes; and
- Providing support to entrepreneurs, in partnership with local councils, to tackle unemployment.

112. Sareb has put a stock of 4,000 homes at the disposal of these institutions through these programmes, which can be ceded for social use, subsequent to signing an agreement. In this regard, Sareb continued to sign agreements in 2017 with several local and autonomous governments. At year-end, the company had signed or was close to signing agreements involving 2,500 dwellings. Close to 6,000 individuals have already benefited from the plans to provide affordable rented accommodation.

2.4. LEGAL AFFAIRS

113. FROB actively participates in and monitors legal proceedings related with restructuring and resolution processes and any action associated therewith. FROB's activity can, in this regard, be classified in the four major blocks of law comprising Spanish legislation: criminal law, administrative appeals, civil-commercial law; and lastly, labor law. In addition to this, this report also covers the activity related to the processing of requests under Spanish Transparency Law.

2.4.1. Criminal law

114. FROB has continued with its regular efforts to detect and analyse transactions at credit institutions receiving a public bailout that could involve criminal acts, and in taking legal action to prosecute for any irregular conduct detected.

115. Following on from the work in the previous year with institutions subject to restructuring or resolution, the internal audits of these institutions have been exhaustively reviewed, looking at both transactions involving real estate and the institutions' internal remuneration practices. Where irregularities in transactions have been detected, a far more in-depth analysis has been performed with the preparation of forensic reports by consultancy firms expert in such matters. The objective of this work is to pass on to the Special Prosecutor for Corruption and Organised Crime any transactions that could be subject to criminal sanction, along with any information collated and related documentation, so that they can be investigated if the prosecutor determines that there is evidence of criminal activity.

116. Specifically, in March 2017, FROB's Governing Committee agreed to send the prosecutor a total of 10 forensic reports analysing certain transactions deemed to be irregular or of doubtful economic logic prior to 2010: nine at the former savings banks Caja España and Caja Duero (now Banco CEISS), and one at the former Sa Nostra (BMN, today integrated with Bankia). A total of 57 forensic reports on irregular transactions have been sent to the Special Prosecutor for Corruption and Organised Crime.

117. Also at year-end 2017, FROB was involved in a total of 25 criminal cases, 21 filed by the entity itself, either directly with the prosecutor or through the entities involved, during the period in which they were administrated by FROB.

2.4.2. Administrative appeals

118. The legal action in this area in which FROB has been involved has derived from FROB's administrative activity in its capacity as a resolution authority, with the powers granted to it as per article 64 of Act 9/2012 of 14 November, on the restructuring and resolution of credit institutions (now repealed and replaced by the same article of Act 11/2015 currently in force).

119. In particular, the administrative appeals concluded in 2017 derived from: (i) claims lodged against FROB for pecuniary responsibility, the rejection or dismissal of which was contested at the appeals court; or (ii) appeals filed by various affected parties against rulings passed by FROB, all within the administrative powers granted to it under Act 11/2015.

120. The majority of the cases filed contesting action performed by FROB during restructuring and resolution processes within the framework and as authorised under Act 9/2012, relate to steps taken to manage hybrid instruments, increase or decrease capital without preferential subscription rights, or transfer assets to Sareb. All legal rulings to the date of this report have upheld the legality and compliance of the administrative actions of FROB.

121. The most notable appeals in relation to the area of activity governed under Act 11/2015, are the numerous appeals against the 7 June 2017 resolution of FROB's Governing Committee on the measures needed to execute the Single Resolution Board's decision taken at an extended executive session on 7 June 2017 adopting the resolution scheme for Banco Popular Español, S.A., in accordance with article 29 of Regulation (EU) No 806/2014 of the European Union and of the Council of 15 July 2014 establishing standard rules and a standard procedure for the resolution of credit institutions and certain investment firms within the framework of the Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) 1093/2010.

122. Specifically, a total of 144 appeals for reconsideration were lodged in relation to the aforesaid 7 June resolution, none of which have been successful as they were either rejected or dismissed by FROB Governing Committee.

123. At the date of this report, a total of 259 appeals for a judicial review were being heard at the National Court. The court is issuing orders on these cases suspending the hearing thereof until the final ruling is issued on the actions for annulment taken against the SRB's decision at its 7 June 2017 extended executive session adopting the resolution scheme for Banco Popular Español, S.A., which is pending at the General Court of the European Union.

2.4.3. Civil-commercial law

124. In this area, the lawsuits involving FROB have been in connection with FROB's actions under the powers bestowed upon it by article 63 of Act 9/2012 (now repealed and replaced by the same article of Act 11/2015 currently in force). These include cases in which petitions were filed to annul agreements to buy and sell shares the shares of entities subject to restructuring or resolution to a third party. These concern lawsuits that were filed in prior years and were still being heard in 2017, although judgements have been passed confirming the legality of the agreements, the first of which is an outright ruling after the appeal to the Supreme Court was rejected.

125. Another area of civil legal action in prior years and still outstanding in 2017, although primarily finalised and pending acceptance by the Supreme Court (subject to motions to vacate), concerns the implementation of the so-called "Review Mechanism" in the resolution of Banco CEISS, since a number of this entity's customers who disputed this mechanism decided to submit their case to the courts. All legal rulings to the date of this report have upheld the legality and compliance of the actions of FROB.

126. Lastly, in this area of law, three other lawsuits have been filed and are in the very early stages, related with the scope or due interpretation of certain clauses included in the agreements entered into by FROB with buyers in restructuring processes.

2.4.4. Labor law

127. Lastly, alongside its work to prosecute irregular conduct detected in the entities receiving state aid, FROB has also analysed any cases that could involve irregularities in the remuneration practices of said entities, submitting them to the courts.

128. Several major labor law cases are still being heard, which had been filed in the previous year against directors and senior executives who, due to irregular remuneration practices, may have been responsible for a decline in their entity's financial positions and, in short, aggravated the circumstance leading to the entity requiring a public bailout.

129. Lastly, in other labor lawsuits filed by affected staff in previous years against FROB as a result of workforce measures adopted by the institutions receiving bailouts and subject to judicial control, the courts have ruled that FROB is not liable as it has no employment relationship with these employees who are claimants in the cases.

2.4.5. Requests under Transparency Law

130. During 2017, FROB received 63 requests for access to information under Law 19/2013, of 9 December, on transparency, access to public information and good governance. Within the aforementioned applications, 16 applicants withdrew their request and 4 requests were not admitted.

131. Three of the Resolutions adopted by the Governing Committee of FROB in relation to the requests for access to information related to the implementation of the resolution scheme of Banco Popular Español, S.A. were the subject of a complaint to the Council of Transparency and Good Governance, in accordance with article 24 of Law 19/2013, of 9 December, on transparency, access to public information and good governance.

132. The first of the submitted claims was partially upheld by the Council of Transparency and Good Governance. FROB lodged a contentious-administrative appeal against that partial upheld, and the Central Contentious-Administrative Court processing the appeal decided to suspend the process until a final decision of the Court of Justice of the European Union on issues that deal with the accordance to Law of the Decision of the Single Resolution Board is taken.

133. Regarding the other two claims submitted, the Council of Transparency and Good Governance has agreed to suspend the time-limit for deciding on them, until the pertinent judicial decisions are taken.

2.5. DIVESTMENT OF INVESTEE CREDIT INSTITUTIONS

2.5.1. BANKIA AND BMN MERGER AS A DIVESTMENT STRATEGY

134. At the beginning of 2017, FROB held a direct stake in BFA and an indirect stake through BFA in Bankia, on the one hand, and in Banco Mare Nostrum, on the other.

135. Since FROB's strategy for exiting its investees is primarily aimed at maximising recovery of the bailouts to minimise the cost of resolution to the taxpayer, FROB began work in 2016 to analyse the possible reorganisation of its investments. The work performed had to look at the option of Bankia taking over BMN to then divest a single institution, compared to the other option of selling off the stakes in each institution individually and separately.

136. In order to carry out this exercise, FROB's Governing Committee approved the appointment of AFI Consultores de las Administraciones Públicas. The analysis drew on the results of the work performed independently by Société Générale to evaluate market interest in BMN.

137. As explained in the 2016 Annual Report, the independent experts engaged by FROB concluded that a merger was the best option to maximise the value of FROB's investment and recovery of the bailouts. At its meeting on 14 March 2017, FROB Governing Committee therefore approved the aforesaid recommendation.

138. On 26 June 2017, the boards of directors of BMN and Bankia voted to approve the joint project to merge Bankia (as acquirer) and BMN (as acquiree). FROB abstained from the vote. Previously, the two institutions had agreed that the merger would be overseen by committees of independent directors.

139. The project was submitted for approval at the extraordinary general meetings of Bankia and BMN held on 14 September 2017, with favourable votes representing 99% and 95%, respectively, of capital present and by proxy.

140. The approved merger entailed exchanging one new Bankia share for 7.82987 BMN shares which, at the reference exchange date, put BMN's value at EUR 825 million. The new shares were issued and entered in the companies register in 2018 and were listed on 11 January 2018.

Table 9. Terms of the Bankia-BMN merger

TERMS OF THE MERGER	
BMN valuation	EUR 825 million
Exchange ratio	1 Bankia share for 7.82987 BMN shares
BMN shares	1,610,062,544
New shares issued by Bankia	205,630,814
Shares held by FROB	134,013,851

Source: FROB

2.5.2. BANKIA DIVESTMENT

141. In order to review the strategy behind FROB selling off Bankia, FROB launched a tender process to appoint a financial advisor. At a meeting on 27 July 2017, FROB's Governing Committee approved the awarding of the financial advisory contract to Nomura International, plc Sucursal en España.

142. The new framework based on Nomura's proposal, which updated the prior proposal (approved in February 2014), was signed off by the Governing Committee of FROB on 12 September 2017. The proposed divestment strategy entailed a phased process through capital market transactions.

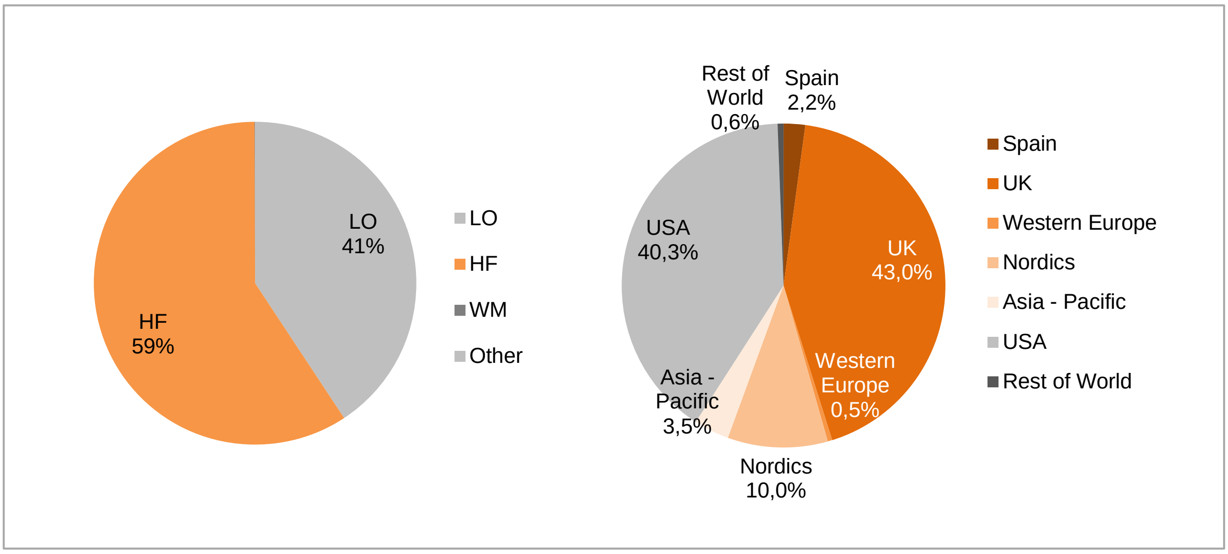
143. In order to improve access to market information and establish a procedure for selecting banks based on objective criteria, FROB called on BFA to create a panel of banks that could act as placing banks in a transaction. Participation in this panel was voluntary, although certain requirements had to be met, including the regular provision of market updates enabling FROB to decide on its strategy based on the best information available.

144. Having observed the market and assisted by the panel of banks and FROB and BFA advisors, and after analysing the Bankia share valuation and strategic opportunity to complete a transaction, FROB took the decision on 11 December 2017 to sell a package of Bankia shares. The selected instrument to do this was to sell, at the market close, a block of shares equivalent to 7% of the institution's (pre-merger) capital.

145. The sale went ahead at a price of EUR 4.06 per share, representing a 2.71% discount on the price at the end of trading, in line with similar operations on the market. The 7% stake was sold for EUR 818.3 million.

146. At the offer price, demand in the order book outstripped supply by 2.32 times. In order to place the shares, a strategy was chosen that favoured the future performance of the share, avoiding sharp call or put movements in subsequent trading sessions.

Table 10. Placement of shares based on type of investor (hedge fund, long only or wealth manager) and their country of origin



Source: FROB

ORGANISATION OF FROB

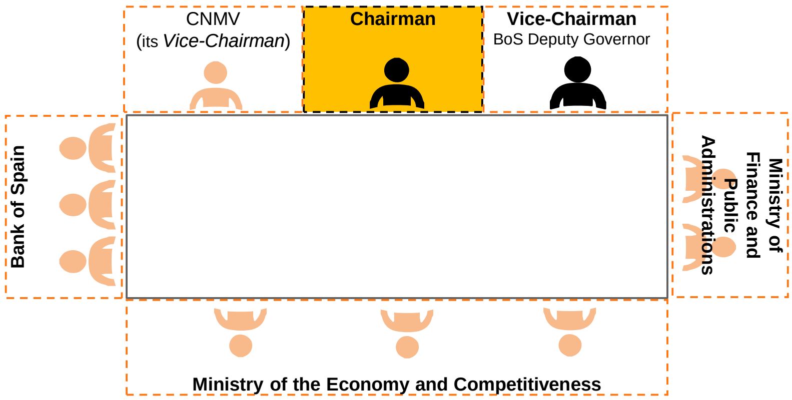
1. CONTROL AND GOVERNANCE BODIES

1.1 Governing Committee

147. FROB is governed and managed by a Governing Committee of 11 members:

- Chairman of the Governing Committee: FROB Chairman;
- Vice-Chairman: Deputy Governor of the Bank of Spain, standing in for the Chairman in the event of the latter's absence or illness or if the chairmanship becomes vacant;
- Three members of the Bank of Spain, appointed by the Bank of Spain's Executive Committee. These positions are currently held by the Director General of Banking Supervision, Director General of Financial Stability, Regulation and Resolution, and the General Secretary of the Bank of Spain;
- Vice Chairman of the CNMV;
- Three representatives of the Ministry of the Economy, Industry and Competitiveness, appointed by the Ministry. These representatives are currently the Deputy Secretary of the Ministry, the General Secretary of the Treasury and Financial Policy, and the Chairman of the Spanish Institute of Accountants and Auditors (ICAC); and
- Two representatives of the Ministry of Finance and Public Administrations, appointed by the Ministry. These representatives are currently the Ministry's Deputy Secretary and the Director General for Budgeting.

Table 11. FROB Governing Committee



148. Sessions of the Governing Committee are also attended by a representative of the Auditor General and another of the Attorney General – Director of the State Legal Service, who have a voice but no vote.

Table 12. Governing Committee composition at 31 December 2017

Name	Job title	GC position
Mr. Jaime Ponce Huerta	FROB Chairman	Chairman
Mr. Javier Alonso Ruiz-Ojeda	Deputy Governor of the BoS	Vice Chairman
Mr. Julio Durán Hernández[1]	Director General of Banking Supervision of the BoS	Committee member
Mr. Jesús Saurina Salas[2]	Director General of Financial Stability, Regulation and Resolution of the BoS	Committee member
Mr. Francisco Javier Priego Pérez	General Secretary of the BoS	Committee member
Mr. Alfredo González-Panizo Tamargo	Deputy Secretary of Economy, Industry and Competitiveness	Committee member
Ms. Emma Navarro Aguilera	General Secretary of the Treasury and Financial Policy	Committee member
Mr. Enrique Rubio Herrera	ICAC Chairman	Committee member
Ms. Ana María Martínez-Pina García	Vice Chairman of the CNMV	Committee member
Mr. Felipe Martínez Rico	Deputy Secretary of Finance and Public Administrations	Committee member
Mr. Jaime Iglesias Quintana	Director General for Budgeting	Committee member
Ms. Rosario Martínez Manzanedo	Director of the National Accounting Office	Global Economic Activity Indicator (IGAE) representative
Mr. Julio José Díez Menéndez[3]	Chief State Attorney at the Ministry of Economy, Industry and Competitiveness	Attorney General representative

1. Mariano Herrera García Canturri sat on the committee as Director General of Supervision of the Bank of Spain, serving as committee member until Governing Committee meeting 05/2017 on 21 February 2017.

2. Julio Durán Hernández sat on the committee as Director General of Financial Stability and Resolution of the Bank of Spain, serving as committee member until Governing Committee meeting 08/2017 on 14 March 2017.

3. Mr. Julio José Díez Menéndez joined as a representative of the Attorney General from the Governing Committee 05/2017 on 21 February 2017.

149. Irrespective of the aforesaid, decisions affecting the General State Budgets are made by a reduced number of members of the Governing Committee:

- Chairman;
- The three representatives of the Ministry of the Economy, Industry and Competitiveness; and
- The two representatives of the Ministry of Finance and Public Administrations.

150. The plenary session of the Governing Committee met on 35 occasions in 2017, while ten meetings were held in its reduced format.

151. An Audit Committee has been set up under the auspices of the Governing Committee comprising three members of the Governing Committee: the Bank of Spain's Director General of Financial Stability, Regulation and Resolution (acting as chair), the Director General for Budgeting, and the representative appointed by the Auditor General of the Spanish central government.

2. ORGANISATION

152. FROB has four divisions led by its Chairman. At the time of writing of this report, are as follows:

- The Administration and Control Division, led by Mr. Daniel Avedillo;
- The Finance and Investees Division, headed up by Mr. Leopoldo Puig;
- The Legal Affairs Division, led by Ms. Alba María Taboada; and
- The Resolution and Strategy Division, overseen by Javier Torres.

153. The divisions are split into departments for the purpose of exercising the powers and conducting the activities assigned to each of them.

154. There is also a unit reporting to the Chairman's office that is headed up by a director, Mr. Alberto García[21], and is responsible for legal relations with investees.

[21] Starting date: 22 January 2018.

FROB

Autoridad de Resolución Ejecutiva

Table 13. Map of FROB's functions

Resolution functions	Resolution process phases: I Preparation of resolution	II Resolution	III Supervision of resolution	IV Exit strategy
Resolution management	• In-house planning and preparation to optimise resolution measures • Preparation and updating of crisis management manuals and action protocols • Performance of simulations • Collaboration with preparing and updating resolution plans • Reporting on resolution plans and exercising Spanish vote on the SRB	• Launching resolution process (less significant institutions) after declaration that an institution is no longer viable: analysis of alignment with public interest and lack of private sector solutions • Evaluation of need to begin viability analysis • Collaboration with the SRB to launch resolution schemes for significant institutions • Design and approval of resolution scheme for less significant institutions • Execution of resolution powers and instruments	• Supervision of implementation and fulfilment of commitments of resolution schemes • Supervision and control of banks placed into resolution • Supervision and management of guarantees given in divestments • Handling of legal disputes related with institutions placed into resolution • Supervision of bridge institutions or asset management vehicles (AMV) and business restructuring plans • AMV oversight • Updating of manuals	• Design of sell-off or divestment of institutions, bridge institutions, portfolios or business lines • Execution and supervision of sell-offs • Monitoring of markets and economy • Investor relations
	Coordination of analytical capabilities and supervision of institutions			
	Design and implementation of *Resolution Policy*			

Support functions					
Legal	Legal advice on action by the FROB and Governing Committee Secretary	Acting on behalf of the FROB in legal proceedings to defend its interests	Supervision of and participation in drafting rules related with the FROB's work		
Corporate resource management and control	Training	Training	Administration and general services	Regulatory compliance and internal control (risks,	Liaison with external control bodies
	Knowledge management	Contracting and outsource framework	ITC strategy and management	In-house procedures	
Financial	Budget and finance management	Cash management	Management of Resolution Fund		
Communications	Design and implementation of in-house and external communications strategy	Management of image and institutional culture	Institutional relations and events		
Reporting	Coordination of institutional reporting	Quarterly reports to Congress	Submission accounts to Gov. Committee	Appearances of Chairman before Parliament	Reporting to investors
Strategy	Monitoring of strategic plan	Design of corporate strategy	Market scanning of market agents		

155. At 31 December 2017, FROB had 48 members of staff, including the Chairman and directors. The following tables show the distribution of its workforce by professional category and gender:

Table 14. Distribution of personnel by professional category

Category	Headcount
Senior Management[22]	6
Group II	21
Group III	11
Group IV	6
Group V	4
Total	**48**

Of the 48 employees, 25 are women and 23 men.

[22] As defined in Royal Decree 451/2012 of 5 March, regulating the remuneration of senior executives and directors in state-owned companies and other entities.

156. During 2017, FROB continued to build up the resources needed to ensure it can meet the challenges arising from the new resolution framework in the European Union and as a result of the launch of the Single Resolution Mechanism.

157. Moreover, in the second quarter of 2017 the six selection processes started in December 2016 were completed to fill eight full-time vacancies. These selection processes were solely aimed at civil servants or permanent staff working in state agencies or departments, pursuant to article 20.3 of Act 48/2015 of 29 October on General State Budgets for 2016.

FINANCIAL MANAGEMENT

1. TREASURY MANAGEMENT

158. FROB's Finance and Investees Division manages the entity's funds as per the requirement to invest in highly liquid, low risk assets. This means holding current accounts with the Bank of Spain and acquiring short-term treasury bonds and bills.

159. In 2017, FROB's Treasury team handled a number of payments and collections, the most relevant being as follows:

- On 3 February 2017, FROB received the final payment for the sale of NGC totalling EUR 300 million.
- In February, FROB paid Abanca EUR 327 million (EUR 300 million on 6 February and EUR 27 million on 28 February) for guarantees extended in connection with the sale of NCG.
- On 24 March 2017, Ibercaja Banco redeemed early the outstanding amount of Caja3 CoCos, amounting to EUR 223.6 million (55% of the total).
- On 30 April 2017, FROB's last issue was redeemed on maturity for an amount of EUR 520 billion.
- On 31 August 2017, FROB received payment of EUR 604 million from Unicaja for the sale of Banco CEISS CoCos to this institution.
- On 25 October 2017, FROB made indemnity payments to FTA2015 and Alcmena Bidco in connection with the Failed Credit Guarantee, for a total of EUR 37.5 million.
- On 14 December 2017, FROB paid EUR 63.6 million to Banco CEISS in relation with the Compensation Mechanism.
- Also, FROB received over the course of the year, payments corresponding to the coupons and interest on CoCos and the public debt portfolio, totalling around EUR 87 million.

160. At 31 December 2017, FROB's unrestricted cash reserves totalled EUR 1,311 billion; sufficient to cover expected cash outlays.

Table 15. FROB's cash reserves at year-end 2017

PRODUCT	31/12/2017 Nominal (EUR million)
Public debt portfolio	610
Bank of Spain accounts	653
Other accouns in CI	4
Total	**1,311**

2. FEE TO FUND FROB'S ACTIVITY

161. Article 53.4 of Act 11/2015 introduces the so-called "fee for activities performed by FROB in its capacity as a resolution authority". This fee is intended to cover the entity's operating costs and is charged to the entities required to contribute to either the Single Resolution Fund or the National Resolution Fund.

162. This funding system is in line with that established for the Single Resolution Board, the administrative expenses of which are also covered by the entities through the pertinent annual payments.

Table 16. Main features of the fee collected by FROB

- ***Chargeable event*** Performance of supervisor and reporting functions and application of resolution tools during the preventive and execution phases of resolutions.
- ***Accrual*** The fee is accrued on 1 January each year, except for the incorporation of entities, in which case it is accrued from the incorporation date.
- ***Fee payers*** Credit institutions and investment firms established in Spain.
- ***Calculation base*** The ordinary annual contributions payable by each entity to the National Resolution Fund or, where applicable, the Single Resolution Fund.
- ***Tax liability*** Result of applying a rate of 2.5% to the taxable fee.

163. As per Royal Decree 1012/2015, FROB's Governing Committee approved in its 27 April 2017 meeting, the proposed fee breakdown for activities performed by FROB as resolution authority in 2017, and delivery of the corresponding payment form to the fee payers.

164. All the fee payers paid the fee within the stipulated deadline, with a total of EUR 16.9 million collected in 2017, some EUR 1.2 million less than in 2016.

3. STATE LOAN FOR FINANCIAL SECTOR RECAPITALISATION

165. On 3 December 2012, the Spanish State granted FROB a loan to execute the European financial assistance programme for the restructuring of Spain's financial system. This loan acted as a vehicle through which funds from the European Stability Mechanism (ESM) could be channelled to the Kingdom of Spain and subsequently through FROB to Spanish credit institutions.

166. The loan was paid out in two tranches, the first in 2012 (EUR 39.468 billion) and the second in 2013 (EUR 1.865 billion), through the contribution of financial instruments (bills and bonds) issued by the ESM.

167. The key developments concerning the loan in prior years were as follows:

- Following the ESM's approval, part of the loan from the Spanish State was converted on 9 December 2013 into a contribution to FROB's capital of EUR 27.170 billion.
- In 2014, unused funds held by Sareb of EUR 307.54 million were returned. EUR 1.304 billion of the loan was also repaid voluntarily, EUR 399 million of which was provided by FROB.
- In 2015 and 2016, the Spanish Treasury made a further three voluntary repayments.

168. Steps taken in relation to the loan in 2017 involved the following:

- The Treasury made two voluntary repayments totalling EUR 3 billion, on top of the three repayments in 2015 and 2016. This took the total amount repaid to EUR 8 billion.
- Following the ESM's approval, part of the loan from the Spanish State was converted on 30 June 2017 into a contribution to FROB's capital of EUR 3 billion.
- Interest, arrangement fees and other associated costs of EUR 136 million were settled.

169. At 31 December 2017, the outstanding balance on the loan awarded to FROB by the Spanish State totalled EUR 10.456 billion: EUR 8.591 billion corresponding to the first payout and EUR 1.865 billion to the second. The first repayment of the remaining loan principal corresponding to the first tranche will be on 11 December 2022, and annually thereafter until it matures in 2027. The second tranche will fall due in two equal parts on 11 December 2024 and 2025, respectively.

4. 2017 ANNUAL ACCOUNTS

170. On 21 May 2018, FROB Governing Committee approved the entity's annual accounts for 2017, previously authorised for issue by the Chairman, in fulfilment of articles 54.5 c) and 55.4 c) of Act 11/2015.

171. FROB's 2017 annual accounts show assets of EUR 11.777 billion, liabilities of EUR 11.341 billion and equity of EUR 436 billion, including the loss for the year of EUR 950 billion. This primarily derives from the valuation at year-end of FROB's investment in Sareb comprising both capital and subordinated debt, considering the recovery projections deriving from the business plan approved by the company, based on increasingly conservative assumptions.

172. In order to redress FROB's equity position, during the year 2017 a further EUR 3 billion of the Spanish State loan to FROB[23] was converted into a contribution to FROB's capital, as per article 53.4 of Act 11/2015 and as stipulated in the corresponding loan agreement, following approval by the ESM. Subsequent to this conversion, FROB's endowment fund had a positive balance of EUR 1.385 billion.

173. FROB's annual accounts are audited by an independent auditor. The auditor stipulates in its audit report on the 2017 annual accounts that, in its opinion, FROB's annual accounts give, in all material respects, a true and fair view of the assets and liabilities and financial position of FROB at 31 December 2017.

[23]This loan was granted in 2012 to execute the European financial assistance programme and acted as a vehicle through which funds from the European Financial Stability Facility (EFSF) of the European Stability Mechanism (ESM) could be channelled to the Kingdom of Spain and subsequently to Spanish credit institutions. The first partial conversion of the loan into a contribution to FROB's capital took place on 9 December 2013 for an amount of EUR 27.170 billion.

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ANNEX

Record of FROB aid

Entities involved	APS and guarantees	Shares, preference securities or CoCos	Recoveries (FROB)[(*)]
Catalunya Banc Catalunya, Tarragona, Manresa	526	12,052	782
CEISS Caja España-Duero	430	1,129	604
Nova CaixaGalicia Galicia, Caixanova	382	9,052	783
*Banco Gallego (spun off from NCG)	95	245	-
BFA-Bankia Madrid, Bancaja, Laietana, Insular, Rioja, Ávila, Segovia	-	22,424	-
Banco Mare Nostrum Murcia, Penedés, Sa Nostra, Granada	-	1,645	-
Banca Cívica Navarra, Cajasol-Guadalajara, General de Canarias, Municipal de Burgos	-	977	977
Banco de Valencia	666	5,498	-
Liberbank G. Cajastur, C. Extremadura, C. Cantabria	-	124	124
Caja3 CAI, C. Círculo, C. Badajoz	-	407	407
Caja Sur	392	800	800
Interest collected through coupons and others	-	**-**	**1,434**
FROB injection	**2,491**	**54,353**	**-**
Sareb	**-**	**2,192**	**-**
Total	**2,491**	**56,545**	**5,911**

[(*)]TFinal aid recovered will depend on the performance and final divestment of FROB's investees (BFA/Bankia with BMN, and Sareb). This column does not include: EUR 1.304 billion from the sale of 7.5% of Bankia in January 2014; EUR 818.3 million recently divested through the sale of 7% of Bankia; and EUR 535 million of dividends paid out by Bankia for 2014, 2015 and 2016, as in all three cases, the amounts received are retained in BFA.

TABLES

2017