
2017 Annual Accounts of FROB and the National Resolution Fund

Madrid, 22/05/2018. FROB's Governing Committee has approved the annual accounts and the directors' report of FROB and the National Resolution Fund (NRF) for 2017.

FROB's annual accounts

FROB's 2017 annual accounts reflect a significant reduction in **losses** compared with those recorded in 2016. **FROB recorded a loss for the year of EUR 950 million, a reduction of over 40% on the figure recorded for 2016, which amounted to EUR 1.69 billion.**

This fall is mainly the result of a reduction in the impairments recorded in the carrying amount of its investee (especially in BFA).

FROB recorded an **operating profit** of EUR 38 million compared with the **operating loss** of EUR 48 million recorded in 2016. This was mainly as a result of a reduced need to record provisions for APS and guarantees as a result of the evolution of their expected losses.

The **assets side** of the balance sheet mainly includes its stakes in BFA Tenedora de Acciones, S.A.U. (BFA, the holding company for Bankia shares) and its investment in Sareb (Asset Management Company for Assets Arising from the Banking Sector Reorganisation), in addition to its cash position.

On the **liabilities** side, FROB is essentially financed through the loan received from the State, which on 31 December 2017 had a balance of EUR 10.46 billion. This means that FROB recurrently records a net finance expense as the assets do not generate enough finance income to offset said expense. These expenses were reduced in 2017 as a result of the conversion of the loan in the middle of the year for EUR 3 billion. This conversion reduces FROB's liabilities and increases the equity fund heading by that same amount.

In 2017, FROB's **equity** was positive, standing at a total of EUR 436 million, with **assets** amounting to EUR 11.78 billion and **liabilities** of EUR 11.34 billion.

The **main movements** recorded in FROB's 2017 financial statements compared with the previous year are:

- (i) With regard to the valuation of **investees**:

- Following approval of the merger of BMN and Bankia, FROB estimated the recoverable value of its stake in the BFA Group after taking over BMN. For this purpose, in accordance with accounting standards, the consolidated equity of the BFA Group (adjusted for minority interests) recorded in its consolidated annual accounts was compared with the carrying amount of BFA and BMN recorded by FROB at the end of the previous year. The result was a positive impact on the income statement of EUR 60 million, which contrasts with the negative impact of EUR 1.39 billion euros that they had separately in 2016.
 - In addition, an impairment was recorded in FROB's investment in Sareb for a total of EUR 947 million (841 million corresponding to the capital stake and 106 million of the subordinated debt). This impairment is a result of comparing the carrying amount of FROB's stake in Sareb's capital and subordinated debt with the present value of forecast future cash flows, considering the recovery forecasts obtained from the business plan approved by the company.
- (ii) As for the financial support that was granted through the subscription of contingent convertible bonds (**CoCos**) to Banco CEISS, S.A. (part of the Unicaja Group) and Banco Grupo Caja 3, S.A. (currently integrated into Ibercaja Banco, S.A.), recorded in the 2016 balance sheet, these assets no longer appear in the 2017 balance sheet:
- Of an initial amount subscribed by FROB of EUR 407 million in CoCos, Ibercaja repaid a total of EUR 183.4 million in 2016, while the remainder - EUR 224 million - was fully repaid on 24 March 2017.
 - On 31 August 2017, Unicaja acquired in advance all of the issue of convertible bonds issued by CEISS in April 2013 held by FROB for a total of EUR 604 million.
- During the period in which the CoCos were on FROB's balance sheet, they generated interest of EUR 143 and 240 million, which the banks paid in full.
- (iii) In 2017, movements were recorded in the provisions relating to **guarantees** granted by FROB in various bank sales processes. These had a total net positive impact on the income statement of EUR 20 million. These include the slight increase in the provision for the estimated cost of the asset protection scheme granted in the sale of Banco de Valencia, which was the result of the unfavourable evolution of the losses recorded and expected from said portfolio, for a value of EUR 10 million, and the reduction of guarantees relating to the sale of Catalunya Banc, for a value of EUR 32 million.
- (iv) FROB has a sufficient **cash** position to meet its planned commitments over the medium term. At 31 December 2017, the amount of FROB's non-committed cash totalled EUR 1.31 billion, which is placed in Government Debt assets and in deposits in the Bank of Spain.

- (v) FROB finances its operating expenses without any charge to the General State Budget, but rather through a **fee** paid by the financial industry. This resulted in income of around 17 million euros in 2017.

Annual accounts of the National Resolution Fund

For its part, the National Resolution Fund (NRF) recorded a profit of EUR 1.1 million resulting from the collection of contributions to the NRF by investment firms not included under the scope of the consolidated supervision of their parent company by the European Central Bank. The net assets of the fund amount to EUR 4 million, comprising the contributions made in 2015, 2016 and 2017.

Both FROB and the NRF (managed by FROB) prepare their annual accounts in accordance with general Spanish accounting standards (which use criteria that are not comparable to those used in national accounting) and are subject to an audit of accounts.

The annual accounts and directors' reports of FROB and the FRN together with their auditor's reports are available at the website: www.frob.es