

Independent Auditor's Report

**FONDO DE RESOLUCIÓN NACIONAL**

Annual Accounts and Directors' Report  
for the year ended at December 31, 2016

*(Translation of a report originally issued in Spanish.  
In the event of discrepancy,  
the Spanish-language version prevails.)*

## INDEPENDENT AUDITOR'S REPORT ON THE ANNUALS ACCOUNTS

To the FROB's Governing Committee

### Report on annual accounts

We have audited the accompanying annual accounts of **Fondo de Resolución Nacional** (hereinafter "the Fund"), which comprise the balance sheet as at December 31, 2016, and the income statement, statement of recognized income and expenses, statement of total changes in equity, statement of cash flows, and notes to the financial statements for the year then ended.

#### *Chairman's responsibility in relation to the annual accounts*

The Fund's Chairman is responsible for preparing the accompanying annual accounts so that they fairly present the equity, financial position and financial performance of Fondo de Resolución Nacional, in accordance with the regulatory financial reporting framework applicable to the Fund in Spain, identified in Note 1 and 2 to the accompanying annual accounts, and for such internal control as Chairman determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require us to comply with ethical requirements and to plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the annual accounts. The selected procedures depend on the auditor's judgment, including the assessment of risks of material misstatements of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the preparation by the Fund's Chairman of the annual accounts, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of annual accounts.

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

#### *Opinion*

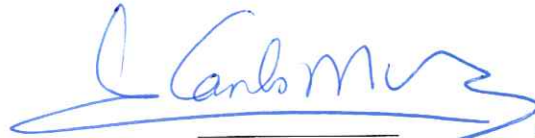
In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of Fondo de Resolución Nacional as at December 31, 2016 and its results and cash flows for the year then ended, in accordance with the regulatory financial reporting framework applicable to the Fund and, in particular, with the accounting principles and criteria set forth therein.

## Report on Other Legal and Regulatory Requirements

The accompanying directors' report for 2016 contains the explanations which the Chairman considers appropriate about the Fund's situation, the evolution of its business and other matters, but is not an integral part of the annual accounts. We have checked that the accounting information in the Chairman's report is consistent with that contained in the annual accounts for 2016. Our work as auditors was confined to checking the Chairman's report with the aforementioned scope, and did not include a review of any information other than that drawn from the Fund's accounting records.

Madrid, June 27, 2017

MAZARS AUDITORES, S.L.P.



Carlos Marcos



Breogán Porta

# **FONDO DE RESOLUCIÓN NACIONAL**

Annual Accounts for the year ended as at  
31 December 2016  
and Management Report

*Translation of a report originally issued in Spanish. In the event of a discrepancy,  
the Spanish-language version prevails.*

**FONDO DE RESOLUCIÓN NACIONAL**  
**BALANCE SHEET AT 31 DECEMBER 2016 AND DECEMBER 2015**  
 (Thousands of Euros)

ASSETS	Notes	2016	2015(*)	EQUITY AND LIABILITIES	Notes	2016	2015(*)
<b>CURRENT ASSETS</b>				<b>EQUITY</b>			
Cash and cash equivalents				CAPITAL AND RESERVES	7	2,891	936
Cash				Equity fund		936	-
				Profit/(Loss) for the period		1,955	936
				Total equity		2,891	936
<b>Total current assets</b>				<b>CURRENT LIABILITIES</b>			
<b>TOTAL ASSETS</b>	6	2,891	690,755	Trade and other accounts payable	9	-	669,819
		2,891	690,755	Contributions to be transferred to the Single Resolution Fund		-	669,819
				Total current liabilities		-	669,819
				<b>TOTAL EQUITY AND LIABILITIES</b>		2,891	690,755

(\*) Presented solely and exclusively for comparative purposes.

## FONDO DE RESOLUCIÓN NACIONAL

### INCOME STATEMENT FOR THE YEAR ENDED AT 31 DECEMBER 2016 AND 31 DECEMBER 2015

(Thousands of Euros)

	Notes	Income / (Expenses)	
		2016	2015 (*)
<b>CONTINUING OPERATIONS</b>			
Income	10	1.790	889
Contributions by required entities		1.790	889
Other operating expenses		-	(2)
Losses, impairment and changes in trade provisions		-	(2)
Finance Income	6	165	49
Banking interests		165	49
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>1.955</b>	<b>936</b>

(\*) Presented solely and exclusively for comparative purposes and corresponding to the period comprised between 20 June (Fund's creation date) and 31 December 2015

Translation of financial statements originally Issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

**FONDO DE RESOLUCIÓN NACIONAL**  
**STATEMENT OF CHANGES IN EQUITY AT 31 DECEMBER 2016 AND 2015**

**A) STATEMENT OF RECOGNIZED INCOME AND EXPENSES**  
(Thousands of Euros)

	Notes	Income / (Expenses)	
		2016	2015 *
PROFIT/(LOSS) FOR THE PERIOD	3	1.955	936
TOTAL RECOGNIZED INCOME AND EXPENSES		1.955	936

(\*) Presented solely and exclusively for comparative purposes and corresponding to the period comprised between 20 June (Fund's creation date) and 31 December 2015

**B) STATEMENT OF TOTAL CHANGES IN EQUITY**  
(Thousands of Euros)

	Equity fund	Previous periods' Profit/(Loss)	Profit/(Loss) for the period	Valuation adjustments	TOTAL
Balance at 20 June 2015	-	-	-	-	-
Total recognized income and expenses	-	-	936	-	936
Other variations in equity	-	-	-	-	-
Balance at 31 December 2015	-	-	936	-	936
Total recognized income and expenses	-	-	1.955	-	1.955
Operations with Fund's promoters	936	-	(936)	-	-
- Allocation of Equity Fund (Note 3)	936	-	(936)	-	-
Other variations in equity	-	-	-	-	-
Balance at 31 December 2016	936	-	1.955	-	2.891

FONDO DE RESOLUCIÓN NACIONAL

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED AT 31 DECEMBER 2016 AND FOR THE PERIOD COMPRISED BETWEEN 20 JUNE (FUND'S CREATION DATE) AND 31 DECEMBER 2015

(Thousands of Euros)

	Notes	Collections / (Payments)	
		2016	2015 (*)
<b>CASH FLOWS FROM OPERATING ACTIVITIES (I)</b>		<b>(687.864)</b>	<b>690.755</b>
Profit/(loss) for the period before tax		1.955	936
Adjustments for:		(165)	(47)
- Valuation allowances for impairment losses		-	2
- Finance income		(165)	(49)
<b>Changes in operating assets and liabilities</b>		<b>(689.819)</b>	<b>689.817</b>
- Trade and other receivables		-	(2)
- Trade and other payables		(689.819)	689.819
<b>Other cash flows from operating activities</b>		<b>165</b>	<b>49</b>
- Interests received		165	49
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES (II)</b>		<b>-</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES (III)</b>		<b>-</b>	<b>-</b>
<b>EFFECT OF EXCHANGE RATE FLUCTUATIONS (IV)</b>		<b>-</b>	<b>-</b>
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)</b>		<b>(687.864)</b>	<b>690.755</b>
Cash and cash equivalents at beginning of period		690.755	-
Cash and cash equivalents at end of period		2.891	690.755

(\*) Presented solely and exclusively for comparative purposes and corresponding to the period comprised between 20 June (Fund's creation date) and 31 December 2015



## Notes to the financial statements corresponding to the year ended at 31 December 2016

### 1. Activity

The Fondo de Resolución Nacional (hereinafter, the Fund) is created by Law 11/2015, of 18 June, of recovery and resolution of credit entities and investment service entities (hereinafter, Law 11/2015), for an indefinite period of time, and is incorporated as separate equity, devoid of legal personality, which management, administration and representation is entrusted to the FROB.

The Fund's purpose is to finance resolution measures run by the FROB as Executive Resolution Authority, for which the Fund will have the following sources of funding:

- a) ordinary or extraordinary contributions of credit institutions and investment services companies, when regular contributions are insufficient to finance the planned measures,
- b) credit applications of funding mechanisms to other Member States of the European Union and
- c) income and benefits that can be derived from the investments that materialize its uncommitted assets, which shall consist of government bonds or other assets of high liquidity and low risk.

As indicated in Law 11/2015, these funds will be used to ensure the effective implementation of resolution instruments, which may be implemented through one or more of the following measures:

- a) Issuing of guarantees.
- b) Granting of loans or credits lines.
- c) Acquisition of assets or liabilities, which management may be assumed by the Fund or commissioned to a third party.
- d) Making contributions to a bridge institution or the asset management company.
- e) Payment of compensation to shareholders and creditors.
- f) Making contributions to the entity when deciding to exclude certain liabilities of internal recapitalization.
- g) Granting of loans to other funding mechanisms.
- h) Recapitalization of an entity under the terms and limitations provided in Law 11/2015.

In addition, subject to certain conditions, loans with charge to the Fund to financing mechanisms similar of other European Union Member States may also be granted. In addition, the Fund' resources may be applied to meet the expenses incurred for its own operation.

As for the legal regime applicable to the Fund and contributions to it, according to the report issued at the FROB's request by the Ministry of Finance and Public Administrations, on 4 December 2015, the contributions are not considered public resources and the Fund is not integrated into the State Budget, being its budget, accounting and control standards subjected to the rules approved by the FROB's Governing Committee.

The FROB's Governing Committee is composed of eleven members: the Chairman; four members appointed by the Bank of Spain, one of which, the Deputy Governor acts as first Vice-Chairman; three representatives of the Ministry of Economy and Competitiveness; the Vice-Chairman of the National Stock Market Commission; and two representatives of the Ministry of the Finance and Public Administrations. Also, attend to sessions, with voice but no vote, a representative appointed by the General Comptroller of the State Administration and another by the Attorney General - Director of the State Legal Service.

The FROB's registered office is at Avenida General Perón 38, Madrid.

### Collection of Contributions

In 2016, the main development has been effectiveness, on January 1, 2016, of Regulation (EU) no. 806/2014 of the European Parliament and Council, of 15 July, which establishes uniform standards and procedure for the resolution of credit entities and of certain investment service entities within a Single Resolution Mechanism and a Single Resolution Fund and modifies Regulation (EU) no. 1093/2010. By virtue of this Regulation, the Single Resolution Board substitutes National Resolution Authorities in the management of financing mechanisms of resolution measures of credit entities and certain investment service entities within the frame of the Single Resolution Mechanism.

With this Regulation, the Single Resolution Fund started operating, being managed by the Single Resolution Board, and drawing on contributions by credit entities established in participating member States; parent companies, including financial holding companies and financial holding mix companies based on one participating member State, when being subject to consolidated supervision by the ECB; and investment service entities and the financial entities established on a participating member State, when included on the parent company's ECB scope of consolidated supervision.

Consequently, the Board assumes jurisdiction over the management and administration of the Single Resolution Fund, as well as the calculation of the ex-ante contributions corresponding to entities contributions within its scope.

In turn, contributions to be collected by the FROB for the Fondo de Resolución Nacional are limited to those entities that, within the scope of application of Law 11/2015, must not contribute to the Single Resolution Fund. Thus, entities that must contribute to the Fund are investment service entities which minimum legally enforceable share capital is below 730,000 Euros, or which activity does not meet features described in art. 1.3.b) of Law 11/2015, which are not included on the parent company's scope of consolidated supervision by the ECB, and que which are registered as authorized entities at January 1, 2016.

Contributions received by the Fund are regulated by the provisions of Royal Decree 1012/2015 of 6 November, implementing Law 11/2015, amending Royal Decree 2606/1996 of 20 December, on deposit guarantee funds of credit institutions, as well as the Commission Delegated Regulation (EU) 2015/63 of 21 October. These regulations govern, among others, the following:

- The financial resources raised by the Fund shall reach at least 1 percent of all entities' guaranteed deposits before December 31, 2024.
- The FROB may agree to extend, for a maximum period of 4 years, the initial period ending December 31, 2024 if the Fund has made disbursements above 0.5 percent of all entities' guaranteed deposits.
- If after the initial period, the Fund's financial resources decrease below the target level, the regular contributions will resume until reaching that level.
- The FROB will determine, before 1 May each year (November 30, 2015 regarding the contributions to be paid in 2015), the total contribution that the committed entities should make on the basis of guaranteed deposits' average amount for the previous year.
- The FROB will raise annual ordinary contributions from entities, including its branches in the European Union, in accordance with the following criteria:
  1. The contribution of each entity corresponds to the proportion of entities' total aggregate, from the following concept: entity's total liabilities, excluding its own resources and the guaranteed amount of deposits in accordance with the provisions of Royal Decree-Law 16/2011 of 14 October.
  2. The contributions will be adjusted to the risk profile of each entity in accordance with the criteria to be determined by the regulations.
- Entities must pay before 30 June of each year the annual contribution (December 31, 2015 regarding the contributions of 2015).
- Part of the Fund's equity will be constituted by both ordinary and/or extraordinary contributions and by income and profits from the materialized investment of non-committed assets.
- The lack of deposit, total or partial, of contributions on the date set for it, will constitute a very serious infringement.

In turn, article 53.1.a) of Law 11/2015, in line with the community regulations, expects the possibility for available financial resources to be considered to reach the target level to include irrevocable payment commitments fully supported by asset guarantees at risk free of charge, freely disposable and allocated for exclusive use by the FROB, for purposes entrusted by Law, where the portion of irrevocable payment commitments cannot exceed 30 per cent of the total collected amount. Such commitments consist on the entity's unconditional obligation to pay future contributions, as required. Also, the entity must deposit a portion of the annual contribution as collateral for

such future payment commitment.

Regarding the collection of contributions for the year 2016:

- The funding level of the Fondo de Resolución Nacional for 2016 was of 679,846 thousand Euros (691,171 thousand Euros in 2015), corresponding to one tenth of 1% of deposits guaranteed at December 31, 2015, for an amount of 679,845,881 thousand Euros (691,171,325 thousand Euros in 2015), as per communication from the Deposits Guarantee Fund of February 4, 2016.
- The FROB, by virtue of article 49 of RD 1012/2015, before May 1, 2016, has calculated and notified ordinary contributions to be settled in 2016 to the Fund by entities required to contribute to the Fondo de Resolución Nacional, which in aggregate contributed an amount of 1,790 thousand Euros.
- As approved by the Single Resolution Board, the FROB's Governing Committee, in session held on April 19, 2016, agreed to authorize 15% as maximum limit for each entity's total contribution to be covered by irrevocable payment commitments, only accepting cash collateral. Entities not being compelled to settle contributions to the Fondo de Resolución Nacional have not used this alternative.

The breakdown of contributions by type of entity for the year 2016 and 2015 is as follows (in thousands of Euros):

	2016		2015	
	Quantity	Amount	Quantity	Amount
Credit entities (within the scope of supervision of the ECB)	106	726,295	133	690,208
Investment service entities (within the scope of supervision of the ECB)	10	64	10	73
Other investment service entities (included in the scope of application of Law 11/2015)	28	1,790	28*	889*
<b>Total</b>	<b>144</b>	<b>728,149</b>	<b>171</b>	<b>691,170</b>

\* Initially, the above included an investment services company under the scope of Law 11/2015, extinguished before the date of the obligation to contribute in 2015, which contribution amounted to 1 thousand Euros.

The total amount collected as ex-ante contributions corresponding to 2016 is of 728,149 thousand Euros, of which 726,359 thousand Euros (less the effect negative interest rates) were transferred to the Single Resolution Fund on June 29, 2016, by virtue of the fourth additional provision of Law 11/2015 and, in turn, 1,790 thousand Euros will remain in the Fund (see note 10).

The following chart presents the detail of contributions (in thousands of Euros):

	2016	2015*
<b>Collected ex-ante contributions</b>	<b>728,149</b>	<b>690,730</b>
Total amount SRF	726,359	689,843
Total amount NRF	1,790	887
<b>Total amount to be transferred to the SRF</b>	<b>726,288</b>	<b>689,819</b>
Ex-ante contributions	726,359	689,843
<i>Of which, collaterals corresponding to irrevocable payment commitments</i>	72,465	-
Adjustment for the effect of negative interest rates	(71)	(25)

\*At December 31, 2015, all required entities had paid the contribution to the Fund, except for two of them, that are undergoing arrangements with creditors and which joint contributions amount to 440 thousand Euros.

## **2. Basis of presentation of the annual accounts and other information**

### **2.1 Applicable financial regulatory reporting framework**

These annual accounts were prepared by the FROB's Chairman in accordance with the applicable regulatory financial reporting framework established in the following:

- a) The Spanish Commercial Code and all other applicable Spanish corporate law.
- b) The Spanish General Accounting Plan approved by Royal Decree 1514/2007 of 16 November, and subsequent modifications.
- c) The mandatory rules approved by the Spanish Accounting and Audit Institute in order to implement the Spanish General Accounting Plan and the relevant secondary legislation.
- d) All other applicable Spanish accounting legislation.

### **2.2 Functional currency and presentation currency**

The annual accounts are presented in thousands of Euros, which is the Fund's functional and presentation currency.

### **2.3 True and fair view**

The Fund's annual accounts, which were obtained from its accounting records, are presented in accordance with the financial reporting framework applicable to the Entity (see 2.1) and, in particular, with the accounting principles and rules contained therein (see Note 4) and, accordingly, they present fairly the Entity's equity and the financial position at December 31, 2016, and its results, the changes in its equity and its cash flows in the year then ended, in accordance with the applicable regulatory framework and, in particular, with the accounting principles and rules contained therein.

The Fund's annual accounts corresponding to 2015 were approved by the FROB's Governing Committee on June 21, 2016, and those corresponding to 2016, formulated by the FROB's Chairman on June 26, 2017, will be submitted to the approval by the FROB's Governing Committee, estimating that they will be approved without modification.

### **2.4 Accounting policies applied**

The Fund's annual accounts were prepared taking into account all mandatory accounting principles and rules with a material effect on the annual accounts (see Note 4). All mandatory accounting principles with a significant effect on the annual accounts were applied. No non-mandatory accounting principles were applied in the preparation of the annual accounts.

### **2.5 Key issues in relation to the measurement and estimation of uncertainty**

The information contained in these financial statements is the responsibility of the FROB's Chairman.

In preparing these financial statements were made estimates to measure certain assets, liabilities, income, expenses and commitments reported herein. These estimates refer to:

- The assessment of possible impairment losses on certain assets (Note 6).

These estimates were made on the basis of the best information available at the date of preparation of these annual accounts; there is no fact that could change these estimates. Any future event not known at the date of preparation of these estimates could lead to changes (upwards or downwards), which would be made, if applies, prospectively.

## 2.6 Comparison of information

The information contained in these annual accounts corresponding to 2015 is solely and exclusively presented for comparison purposes together with figures for 2016.

## 2.7 Environmental impact

In view of the Fund's business activities, it does not have a significant impact on the environment. Therefore, these annual accounts do not contain any disclosures relating to environmental issues.

## 3. Application of results

Pursuant to article 53.6 of Law 11/2015, any benefits accrued and recorded in the Fund's financial statements will become part of its equity. Therefore the application of results from 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
<b>Basis of distribution:</b> Balance from the profit and loss account	1,955	936
<b>Application:</b> Equity fund	1,955	936
	<b>1,955</b>	<b>936</b>

## 4. Accounting policies and measurement bases

The principal accounting policies and measurement bases used by the Fund in preparing the annual accounts for 2016, in accordance with the Spanish General Accounting Plan approved by Royal Decree 1514/2007, of 16 November ("the Spanish General Accounting Plan"), were as follows:

### 4.1 Financial assets - Categories of financial assets

#### Loans and receivables

This category of financial instruments includes debt instruments arising from the provision of services and those that, while not arising from this type of activity, represent receivables with fixed or determinable amounts that are not traded in an active market.

#### *Initial recognition –*

Generally speaking, loans and receivables are initially recognized at fair value which, in the absence of evidence to the contrary, is the transaction price, which is the fair value of the consideration given, plus any directly attributable transaction costs.

However, certain items established under applicable legislation and included in this financial asset category and maturity within one year are initially recognized at their nominal value when the effect of not updating the cash flows is not significant.

#### *Subsequent measurement -*

The assets included in this category are measured at their amortized cost. The accrued interest on these assets is recognized in the income statement using the effective interest rate method.

However, the financial assets included in this financial assets category which, as described above, are initially recognized at their nominal value, continue to be measured at this value after their initial recognition.

Any impairment losses on these assets are recognized as described in Note 4.3.

#### 4.2 Cash

The cash balances, all of which are denominated in Euros, are measured at their nominal value in these annual accounts.

The accrued interests earned by the bank accounts and bank deposits held by the Fund are calculated using the effective interest rate method on the basis of their contractual rates and are recognized under "Finance Income - Bank Interest" in the enclosed income statement.

#### 4.3 Impairment of financial assets

The Fund monitors its financial assets in order to have information enabling it to identify evidence of their possible impairment and, where necessary, to perform the related impairment test. Impairment is considered to exist when the recoverable amount of a financial asset is lower than its carrying amount. When this occurs, the impairment (difference between the recoverable value and the carrying amount of said asset) is recognized in the income statement.

When the recovery of any recognized amount is considered unlikely, the amount is written off, without prejudice to any actions that the Fund may initiate to seek collection until its contractual rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or any other cause.

Financial assets recognized in the income statement (loans and debt securities) are considered impaired and therefore its carrying amount is adjusted to reflect the effect of impairment- when there is a negative impact on future cash flows that were estimated at transaction date.

As a general rule, the carrying amount of impaired financial instruments is adjusted with a charge to the income statement for the year in which the impairment becomes evident, and the reversal, if any, of previously recognized impairment losses is recognized in the income statement for the year in which the impairment is reversed or reduced.

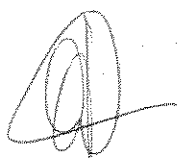
#### 4.4 Creditors and other payables

This item includes the amount of contributions ex-ante by entities to be transferred to the Single Resolution Fund.

Debits and payables included here are measured at cost, meaning that it corresponds to the consideration received in exchange for incurring the debt or, in some cases, the amount of cash and equivalent liquid assets expected to settle a debt in the normal course of business (see Note 9).

#### 4.5 Tax regime

During 2015, a binding consultation was issued to the Directorate General of Taxes regarding the direct taxation corresponding to the Fund, in particular whether the income allocation system foreseen by article 6 of Law 27/2014, of 27 November, of the Corporate Income Tax (CIT Law) is applicable.



On July 13, 2016, after the formulation of the annual accounts of 2015, the response to the consultation was received, concluding that, since it is a financing mechanism for the FROB and considered as its instrument, article 6 of the CIT Law with regards to entities in income allocation system would not be applicable. Consequently, income obtained by the Fund will be understood as obtained by the FROB. In this sense, the Fund is fully exempt from the Corporate Income Tax.

#### 4.6 Recognition of revenue and expenses

Revenue and expenses are recognized in the income statement on an accrual basis, i.e. when the actual flow of the related acquisition or provision of goods and services occurs, regardless of when the resulting monetary flow arises.

#### 4.7 Provisions and contingencies

In preparing its annual accounts, the Fund makes a distinction between:

- a) Provisions: credit balances covering present obligations arising from past events, the settlement of which is likely to give rise to an outflow of resources, and the amount and/or timing of which cannot be determined. These obligations may arise from a legal provision, a contractual requirement or an implicit or implied obligation assumed by the Fund.
- b) Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not within the Fund's control.

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences, and registering the adjustments arising from the updating of said provisions as a financial expense on an accrual basis.

The compensation receivable from a third party on settlement of the obligation is recognized as an asset, provided there is no doubt that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been outsourced, as a result of which the Fund is not liable, in which case, the compensation will be taken into account when estimating, if appropriate, the amount of the related provision.

At December 31, 2016 and throughout the Fund's life since its incorporation, no provision has been constituted for any cause.

#### 4.8 Definition of fair value and amortized cost

For the purposes of the preparation of these annual accounts, fair value is understood to be the amount for which an asset may be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Fair value is determined without any deduction for transaction costs that may be incurred on disposal. In no case shall fair value be that resulting from a forced or urgent transaction or from a situation of forced liquidation.

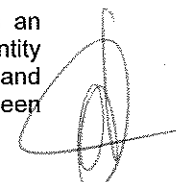
Fair value is generally calculated by reference to a reliable market value, which is understood to be the price quoted in an active market, in which the goods or services exchanged are homogeneous, buyers and sellers may be found at practically any time for certain goods or services and the prices are known and easily accessible to the public, and reflect actual, current and regular market transactions.

Amortized cost of a financial instrument is understood to be the amount at which it was initially recognized, minus any principal repayments and interest arisen, plus or minus, as appropriate, the portion allocated to the income statement, calculated using the effective interest rate method, of its accrued interest and of the difference between the initial cost and the reimbursement of the instrument's value. In the case of financial assets, amortized cost also includes any impairment losses recognized thereon.

The effective interest rate is the discount rate that matches a financial instrument's initial value to the estimated cash flows' present value during its expected life, based on its contractual conditions and excluding future credit losses. This calculation includes any loan arrangement fees, where appropriate, charged prior to granting the loan.

#### 5. Trade and other receivables – Receivables for entities' contributions

At December 31, 2016, all required entities have paid their contribution to the Fund. However, there is an outstanding amount of 2 thousand Euros corresponding to the contribution of 2015 of an investment service entity which undergoes arrangements with creditors. This circumstance implied the recognition of a loss in the profit and loss account of 2015 for such amount. At December 31, 2016, the bankruptcy proceedings have not been resolved.



## 6. Cash and cash equivalents - Cash

At December 31, 2016 and 2015, this caption of the enclosed balance sheet corresponds to the following detail:

	Thousand Euros	
	2016	2015
Current account held in Bank of Spain	-	35
Current accounts in other entities	2,891	-
Deposits constituted in credit entities	-	690,696
Accrued interests receivable	-	49
Accrued interests payable	-	25
<b>TOTAL</b>	<b>2,891</b>	<b>690,755</b>

During 2016, 165 thousand Euros have been accrued (49 thousand Euros in 2015) as banking interests (average rate of 0.32%), booked in caption "Finance income – Banking interests" of the enclosed profit and loss account, which have been fully collected at December 31, 2016 (at December 31, 2015, 49 thousand Euros remained receivable, liquidated on January 27, 2016).

## 7. Equity

### Equity fund

The Fund's Equity at December 31, 2016 amounts to 2,891 thousand Euros (936 thousand Euros in 2015) and is fully comprised by results generated by the Fund from its incorporation to December 31, 2016.

The Fund equity is composed by:

- a) Contributions, ordinary or extraordinary, to be made by the entities.
- b) Income and benefits from the investments obtained from the not committed equity and those instruments issued by entities in the application of resolution instruments.

## 8. Information on the nature and level of risk of financial instruments

A detail of the Fund's main risk factors associated with financial instruments and the policies adopted to manage them are as follows:

### Liquidity risk

Liquidity risk is defined as the risk that the Fund might not have sufficient funds to meet its debt repayments at their maturity dates.

At December 31, 2016, the Fund has sufficient liquid assets available to meet its current liabilities.

### Credit risk

Credit risk is defined as the risk assumed by the Fund that payments of the financial assets it holds are not made on maturity by its counterparties due to insolvency.

At December 31, 2016, no credit risk is considered to exist in the Fund's accounts.



### Interest rate risk

The structural interest rate risk of the balance sheet is defined as the exposure of the Fund's financial and economic situation to adverse movements in interest rates derived from the different term structure of maturities and depreciation of balance sheet items.

At December 31, 2016, financial assets subject to interest rate risk are those held in cash (see Note 6).

### Market risk

Market risk is defined as the risk that affects results or equity as a result of adverse changes in the prices of bonds and securities it owns and of its hypothetical own issues.

At December 31, 2016, given the composition of the Fund's financial statement exposure to this risk is null.

### Other risks

The Fund does not have any significant direct exposures to other risks associated with its financial instruments that have not already been disclosed in these annual accounts.

## **9. Creditors and other payables – Contributions to be transferred to the Single Resolution Fund**

At December 31, 2016 and 2015 this item in the accompanying balance includes the following:

	Thousands of Euros	
	2016	2015
Contributions to the Single Resolution Mechanism	-	689,843
Negative interests accrued by the current account in Bank of Spain (see Note 6)	-	(25)
<b>TOTAL TO BE TRANSFERRED TO THE SINGLE RESOLUTION FUND</b>	-	<b>689,819</b>

The item "Contributions to the Single Resolution Fund" reflects the amount of ex-ante contributions that the credit institutions and investment services have to make to the Single Resolution Fund (SRF). The transfer to the SRF of ex-ante contributions corresponding to 2016, for an amount of 653,824 thousand Euros (See Note 1) was made on June 29, 2016; therefore, at December 31, 2016 there is no amount to be transferred to the SRF for this concept.

At December 31, 2015, this item included the amount of ex-ante contributions corresponding to 2015, and which, in accordance with the Agreement on the transfer and mutualisation of contributions to the SRF, entered into on May 21, 2014, was transferred to the SRF on January 28, 2016.

## **10. Revenue - Contributions by required entities**

This item recognizes at 2016 closing an amount of 889 thousand Euros (889 thousand Euros in 2015), corresponding to the accrued amount of regular contributions in 2016 by investment services companies which are not included in the scope of supervision of the European Central Bank and, therefore, must remain in the Fund. In 2016, all entities have paid their contribution within the established period of time.

#### **11. Other disclosures**

Fees for audit services and other services provided by the Fund's auditor, Mazars Auditores, SLP., or company related to the auditor for control, common ownership or management, corresponding to 2016 are borne by the FROB as entity in charge of its management, and have accounted for the following amounts (thousands of Euros), regardless of the invoicing date. The previous auditor's fees for 2015 are presented for comparison purposes:

	Services rendered by the Auditor and Related Companies 2016	Services rendered by the Auditor and Related Companies 2015
Audit services	3	4
Other assurance services	-	-
<b>Total audit and related services</b>	<b>3</b>	<b>4</b>

Neither senior management of the FROB or members of its Governing Commission have received any amount as remuneration, allowances, services or any other concept in 2016 for their work related to the Fund.

#### **12. Fair value of financial instruments**

Given the composition of the Fund's assets and liabilities at December 31, 2016, the fair value of assets and liabilities not measured at fair value are not significantly different compared to that for which they were recognized in the financial statements for 2016.

#### **13. Information on deferred payments to suppliers. Third additional provision. "Disclosure obligation" provided for in Law 15/2010, of 5 July**

In 2016, the Fund has not carried out any operation involving payments to suppliers.

#### **14. Subsequent events**

After the communication of April 12, 2017 by the Single Resolution Board on its Decision on ex-ante contributions of 2017 to the Single Resolution Fund, the FROB, pursuant to the Regulation (EU) no. 806/2014 and to the Regulation (EU) 2015/81, has notified the Board's Decision to each entity, which calculates the annual contribution debited for each entity for collection purposes. The collected amount must be transferred to the SRF by June 30, 2017.

In turn, the FROB, pursuant article 49 of Royal Decree 1012/2015 and Delegated Regulation, by May 1, 2017, has calculated and notified ordinary contributions to be settled to the Fund before June 16, 2017. At these annual accounts' formulation date, the totality of the amount has been received.

For these purposes, previously, the initial annual financing level for 2017 has been established at 694,549 thousand Euros. Therefore, once the corresponding portion to be contributed to entities which contribute to the SRF has been deducted, the final financing target of the Fondo de Resolución Nacional for 2017 would be of 1,090 thousand Euros.

As for the irrevocable payment commitments, set by Article 53 of Law 11/2015, the maximum limit of 15% of the each entity's contribution is maintained, only accepting cash collateral.

#### **15. Explanation added for translation to English**

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Fund (see Note 2). Certain accounting practices applied by the Fund that conform to that regulatory framework may not conform to other generally accepted accounting principles and rules. In the event of a discrepancy, the Spanish-language version prevails.

# Fondo de Resolución Nacional

Directors' Report corresponding to the year ended at 31 December 2016

## 1.- EXECUTIVE SUMMARY

One of the pillars of the new framework of resolution of credit entities and investment service entities established at European level by the Directive 2014/59/EU of the European Parliament and Council, of 15 of mayo of 2014, is the creation of resolution funds as financing mechanisms with which the resolution authorities may effectively undertake the various resolution measures set, for which they must have adequate financial resources, enabling Member States to collect ex-ante contributions from authorized entities within its territory, including branches within the Union.

In 2016, the main development in this matter has been the effectiveness, on January 1, 2016, of Regulation (EU) 806/2014 by the European Parliament and Council, of 15 July, which establishes uniform standards and procedures for the resolution of credit entities and of certain investment service entities within a Single Resolution Mechanism (SRM) and a Single Resolution Fund (SRF).

Based on such Regulation, the SRF was constituted, managed by the Single Resolution Board which is, from such moment, in charge of calculating contributions by credit institutions and certain investment service companies (those subject to parent company's consolidated supervision by the European Central Bank), which will be integrated into this Single Fund, which will be subject to progressive mutualisation based on the Agreement on the Transfer and Mutualisation of the Contributions to the Single Resolution Fund signed on May 21, 2014.

Within this field, during 2016, the FROB has closely collaborated with the Single Resolution Board and other National Resolution Authorities in the collection of ex-ante contributions of 2016, as well as in the implementation of works to calculate contributions of 2017.

At national level, the FROB, as entity entrusted with the management of the Fondo de Resolución Nacional (NRF), has carried out all actions and formalities necessary for the collection of 2016 contributions within the time limits, for those entities which, being within the scope of application of Law 11/2015, of 18 June, of recovery and resolution of credit entities and investment service entities, are not called to contribution to the SRF. In particular, investment service entities which minimum legally required share capital is at least of 730,000 Euros, or which activity does not meet characteristics described in article 1.3.b) of Law 11/2015, which are not included on the scope of parent company's consolidated supervision by the European Central Bank, and which are registered as authorized entities at January 1, 2016.

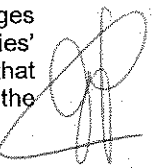
The total amount of contributions to the NRF during 2015 and 2016 for required investment service entities is of 2.7 million Euros. To date, it has not been necessary to use this financing mechanism to execute any resolution measure. With regards to the SRF, Spanish entities have contributed above 1,416 million Euros.

## 2.- ACTIVITY DEVELOPED IN 2016. RELEVANT MATTERS

In relation to the determination of annual contributions, article 4.2 of the Delegated Regulation 2015/63 of the Commission indicates that the resolution authority will determine them (i) on the basis of the annual financing level of the resolution financing mechanism, and on the basis of the financing level to be reached at December 31, 2024, thus, within ten years; and (ii) on the basis of the average amount of the previous year's guaranteed deposits, calculated each quarter, for all required entities in the territory, where this information must be provided by deposits guarantee systems, by virtue of article 16 of said Delegated Regulation.

Accordingly,

- First of all, contributions must be staged in time, during the initial period (2015) until December 31, 2024, in the most uniform manner possible until the target level is reached, thus establishing, in general, the application of a linear criterion. However, the standard also recognizes that the economic cycle stages must be considered, as well as the pro-cyclical impact of contributions in the contributing entities' financial situation. In this sense, for contributions corresponding to 2016, it has been considered that there are no circumstances justifying a criterion other than the linear criterion, and therefore the



contribution of 2016 has been established at one tenth of 1% of the average amount of the previous year's guaranteed deposits, calculated each quarter.

- Secondly, in relation to the determination of the basis of the average amount of the previous year's guaranteed deposits, the Deposits Guarantee Fund of Credit Entities informed the FROB that the average amount of the previous year's guaranteed deposits, quarterly calculated, amounted to 679,845,881 thousand Euros.

Consequently, the initial annual financing level for 2016 was established in 679,846 thousand Euros, corresponding to one tenth of 1% of 679,845,881 thousand Euros. On this basis, as established in article 49 of RD 1012/2015, ordinary contributions to be settled in 2016 to the Fondo de Resolución Nacional by required entities have been calculated and notified, reaching the amount of 1,790 thousand Euros.

With regards to the calculation of contributions, article 53.1 of Law 11/2015 indicates that each entity' contribution will be collected on the basis of the following criteria:

- Each entity's contribution will correspond to each entity's proportion representing on the total aggregate of the following concepts: entity's total liabilities, excluding own resources and the guaranteed amount of deposits in accordance with the provisions of Royal Decree -Law 16/2011 of 14 October, thus the Deposits Guarantee Fund of Credit Entities is created.
- Contributions will be adjusted to each entity's risk profile, in accordance with criteria determined by Royal Decree 1025/2015.

The number of Spanish entities required to contribute, in 2016, has been of 144, with the following detail per type of entity:

- Contribution to the SRF: 106 credit entities and 10 investment service entities.
- Contribution to the NRF: 28 investment service entities.

With regards to irrevocable payment commitments, as approved by the Single Resolution Board, the FROB's Governing Committee agreed to authorize 15% as maximum limit for each entity's total contribution to be covered by irrevocable payment commitments, solely accepting cash collaterals. During 2016, none of the entities compelled to contribute to the NRF have employed this modality.

The period to settle contributions ended on June 24, 2016, when all entities had settled their corresponding contributions. Also, the transfer to the SRF of entities' contributions under the scope of application of Regulation 806/2014 was made on June 29, 2016, thus complying with the established deadline.

### 3.- SUBSEQUENT EVENTS

The main events that took place in the period from the reporting date to the date on which these annual accounts were issued were as follows:

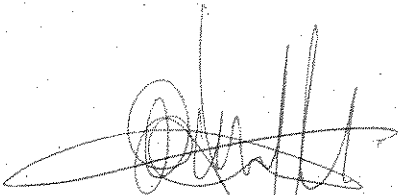
- By virtue of Regulation 806/2014, entities have been informed about ex-ante contributions for 2017 to be settled to the Single Resolution Fund for collection purposes, based on the Decision by the Single Resolution Board, which has powers for their calculation, on the annual contribution debited for each entity. The amount collected by the FROB will be transferred to the SRF by June 30, 2017.
- Regarding contributions for 2017 to the National Resolution Fund, the FROB, once information submitted by the 30 required investment service companies was gathered and analyzed, has calculated, according to the Delegated Regulation, and notified the ordinary contributions they have to make before June 16, 2017. For this purpose, it has set as a final funding target for 2017 of 1,090 thousand Euros for the Fondo de Resolución Nacional.

### 4.- OTHER DISCLOSURES

During 2016, no research and development activities were performed.

## Fondo de Resolución Nacional

The undersigned, Chairman of the FROB, authorizes for issue on June 26, 2017 these Annual Accounts of the Fondo de Resolución Nacional corresponding to the year ended at December 31, 2016 and the Directors' Report for 2016, which are printed on the accompanying 18 pages, duly countersigned by me for the purpose of their identification, and which will be submitted for approval by the FROB's Governing Committee.

A handwritten signature in black ink, appearing to be 'Jaime Ponce', written in a cursive style with a large loop at the beginning.

Signed: Jaime Ponce  
Chairman of the FROB