

Independent Auditor's Report

FONDO DE RESOLUCIÓN NACIONAL

Annual Accounts and Directors' Report
for the year ended at December 31, 2018

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



Independent Auditors' Report on the Annual Accounts

To the FROB's Governing Committee

Opinion

We have audited the annual accounts of the FONDO DE RESOLUCIÓN NACIONAL (hereinafter, the Fund), which comprise the balance sheet as at December 31, 2018, the income statement, the statement of recognized income and expenses, the statement of total changes in equity, cash flows statement and the notes thereto for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Fund as at December 31, 2018, and its financial performance and cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Fund (identified in note 2 to the accompanying annual accounts) and, in particular, with accounting principles and criteria set forth therein.

Basis for opinion

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

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

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

Most relevant audit matters

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

Income from collection of contributions

Notes 1 and 9 to the accompanying financial statements respectively indicate the Fund's Legal System and the figure of contributions from obliged entities, received from investment service companies that are not included within the European Central Bank's supervisory scope, which constitutes its turnover and most significant activity during 2018.

Due to the fact that the Fund's results fully correspond to contributions obtained from obliged entities, we have considered that this aspect is relevant in our audit. Our audit procedures have included, among others:

- Obtaining an understanding of procedures and controls established in the Fund to collect ordinary contributions in agreement with Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms, as well as their verification, among which:
 - Verification and review of the follow-up table of entities' contributions elaborated by the Fund, based on documentation received from the competent European Institution, with amounts payable by each entity.
 - Review of the approval by the FROB's Governing Committee of the liquidation of the fee corresponding to the year in progress, which allows sending the corresponding communications to entities subject to this contribution.
 - For a selected sample, review and inspection of the pro-forma statements sent to each Spanish Entity for their fulfilment.
- Performance of a recalculation based on entities which, due to their volume, must contribute to the Fund based on the contribution fee to validate income registered on the Fund's annual accounts.
- Analysis, on a sample of sent communications to entities subject to such contribution, to validate whether data included for the recalculation are correct.

Finally, we have verified whether the accompanying notes to the financial statements include disclosures required by the financial reporting framework applicable to the Fund.

Other information: Management report

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

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

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

Responsibility of the FROB's President for the annual accounts

The FROB's President is responsible for the preparation of the accompanying annual accounts, such that they fairly present the Fund's equity, financial position and financial performance in accordance with the regulatory financial reporting framework applicable to the Fund in Spain, and for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the annual accounts

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

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

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

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

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.


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

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

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

Madrid, 10 May 2019

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



Carlos Marcos Corral
ROAC N° 17.577



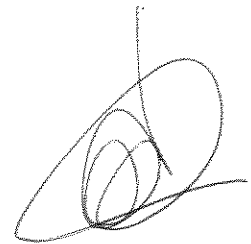
Breogán Porta Macía
ROAC N° 22.151



FONDO DE RESOLUCIÓN NACIONAL

Annual Accounts corresponding to
the year ended at
31 December 2018 and
Directors' Report

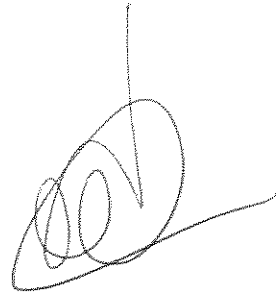
*Translation of annual accounts and directors' report originally issued
in Spanish. In the event of a discrepancy, the Spanish-language
version prevails.*

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FONDO DE RESOLUCIÓN NACIONAL
BALANCE SHEET AT 31 DECEMBER 2018 AND 2017
 (Thousands of Euros)

| ASSETS | Notes | 2018 | 2017(*) | EQUITY AND LIABILITIES | Notes | 2018 | 2017(*) |
|---------------------------|-------|-------|---------|-------------------------------------|-------|-------|---------|
| CURRENT ASSETS | | | | EQUITY | | | |
| Cash and cash equivalents | 6 | 4.024 | 3.982 | CAPITAL AND RESERVES | 7 | 4.024 | 3.982 |
| Cash | | 4.024 | 3.982 | Equity fund | | 3.982 | 2.891 |
| | | | | Profit/(loss) for the period | | 42 | 1.091 |
| | | | | Total equity | | 4.024 | 3.982 |
| Total current assets | | 4.024 | 3.982 | | | | |
| TOTAL ASSETS | | 4.024 | 3.982 | TOTAL EQUITY AND LIABILITIES | | 4.024 | 3.982 |

(*) Solely and exclusively presented for comparison purposes.



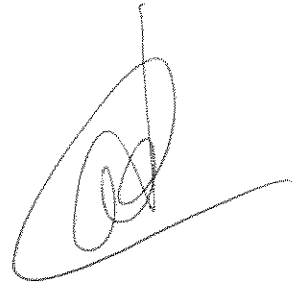
FONDO DE RESOLUCIÓN NACIONAL

PROFIT AND LOSS ACCOUNT CORRESPONDING TO THE YEAR ENDED AT 31 DECEMBER 2018 AND 2017

(Thousands of Euros)

| | Notes | Income / (Expenses) | |
|---------------------------------------|-------|---------------------|--------------|
| | | 2018 | 2017(*) |
| CONTINUING OPERATIONS | | | |
| Revenue | 10 | 58 | 1.090 |
| Contributions from obliged entities | | 58 | 1.090 |
| Other operating expenses | 5 | - | 2 |
| Financial income | 6 | - | 5 |
| Bank interests | | - | 5 |
| Financial expenses | 6 | (16) | (6) |
| Bank interests | | (16) | (6) |
| PROFIT / (LOSS) FOR THE PERIOD | | 42 | 1.091 |

(*) Solely and exclusively presented for comparison purposes.



FONDO DE RESOLUCIÓN NACIONAL
STATEMENT OF CHANGES IN EQUITY AT 31 DECEMBER 2018 AND 2017

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

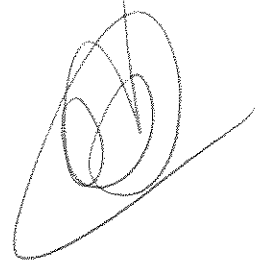
| | Notes | Income / (Expenses) | |
|--------------------------------------|-------|---------------------|---------|
| | | 2018 | 2017(*) |
| PROFIT / (LOSS) FOR THE PERIOD | 3 | 42 | 1,091 |
| TOTAL RECOGNIZED INCOME AND EXPENSES | | 42 | 1,091 |

(*) Solely and exclusively presented for comparison purposes.

Notes 1 to 13 to the accompanying financial statements are an integral part of the Statement of Recognized Income and Expenses for the year ended at December 31, 2018

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

| | Equity Fund | Prior periods' profit and loss | Profit / (loss) for the period | Valuation adjustments | TOTAL |
|--------------------------------------|-------------|--------------------------------|--------------------------------|-----------------------|-------|
| Balance at 31 December 2016 (*) | 936 | - | 1,955 | - | 2,891 |
| Total recognized income and expenses | - | - | 1,091 | - | 1,091 |
| Operations with Fund sponsors | 1,955 | - | (1,955) | - | - |
| - Allocation to Equity Fund (Note 3) | 1,955 | - | (1,955) | - | - |
| Other variations in equity | - | - | - | - | - |
| Balance at 31 December 2017 (*) | 2,891 | - | 1,091 | - | 3,982 |
| Total recognized income and expenses | - | - | 42 | - | 42 |
| Operations with Fund sponsors | 1,091 | - | (1,091) | - | - |
| - Allocation to Equity Fund (Note 3) | 1,091 | - | (1,091) | - | - |
| Other variations in equity | - | - | - | - | - |
| Balance at 31 December 2018 | 3,982 | - | 42 | - | 4,024 |



FONDO DE RESOLUCIÓN NACIONAL

STATEMENT OF CASH FLOWS CORRESPONDING TO THE YEAR ENDED AT 31 DECEMBER 2018 AND 2017

(Thousands of Euros)

| | Collections / (Payments) | |
|---|--------------------------|--------------|
| | 2018 | 2017 (*) |
| CASH FLOWS FROM OPERATING ACTIVITIES (I) | 42 | 1.091 |
| Profit/(loss) for the period before tax | 42 | 1.091 |
| Adjustments for: | 16 | (1) |
| - Valuation allowances for impairment losses | - | (2) |
| - Finance income | - | (5) |
| - Finance expenses | 16 | 6 |
| Changes in operating assets and liabilities | - | - |
| - Trade and other payables | - | - |
| Other cash flows from operating activities | (16) | 1 |
| - Interests paid | (16) | (4) |
| - Interests received | - | 5 |
| CASH FLOWS FROM INVESTMENT ACTIVITIES (II) | - | - |
| CASH FLOWS FROM FINANCING ACTIVITIES (III) | - | - |
| EFFECT OF EXCHANGE RATE FLUCTUATIONS (IV) | - | - |
| NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV) | 42 | 1.091 |
| Cash and cash equivalents at beginning of period | 3.982 | 2.891 |
| Cash and cash equivalents at end of period | 4.024 | 3.982 |

(*) Solely and exclusively presented for comparison purposes.

Notes to the financial statements corresponding to the year ended at 31 December 2018

1. Activity

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 funding sources:

- a) ordinary contributions, to be at least annually collected, or extraordinary contributions -when regular contributions are insufficient to finance planned resolution measures - from reporting institutions,
- b) credit applications of funding mechanisms to other Member States of the European Union, and
- c) loans it may receive from analogous funding mechanisms in other European Union's Member States.

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 2017, 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 Business; the Vice-Chairman of the National Stock Market Commission; and two representatives of the Ministry of the Finance. 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

Since January 1, 2016, with the effectiveness 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, 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.

Thus, the Single Resolution Fund (SRF), managed and administered by the Single Resolution Board draws on contributions from the following entities; 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. In this sense, the Board is the competent authority to calculate ex-ante contributions corresponding to the abovementioned entities.

In turn, at national level 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 SRF. 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, 2018.

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, 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.

Nevertheless, article 10 of the Delegated Regulation (EU) 2015/63 regulates a fixed-installment contribution system for certain entities, based on their total assets and total liabilities, excluding equity and the guaranteed amount of deposits.

- Entities must pay before 30 June of each year the annual contribution.
- 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.

Additionally, on November 24, 2018, the State's Official Bulletin published the Royal Decree-Law 19/2018, of 23 November, on payment services and other urgent financial measures which final eight provision amends, among others, articles 1.2.e) and 53.1.a) of Law 11/2015. This amendment will determine, from the collection corresponding to the contribution cycle of 2019, the FROB's obligation to collect contributions from Spanish branches of credit institutions and investment service companies established outside the European Union.

Regarding the collection of contributions for the year 2018:

- The Fund's funding level for 2018 was of 696,394 thousand Euros (694,549 thousand Euros in 2017), corresponding to one tenth of 1% of deposits guaranteed at December 31, 2017, that is to say 696,394,219 thousand Euros (694,548,962 thousand Euros in 2017), as per communication from the Deposits Guarantee Fund of January 31, 2018.
- In 2018, all entities subject to ex-ante contribution have contributed a fixed amount in application of the contribution determination methodology established by the Delegated Regulation (EU) 2015/63.
- The FROB, by virtue of article 49 of RD 1012/2015, before May 1, 2018, has calculated and notified ordinary contributions to be settled in 2018 to the Fund by the 28 required entities, which in aggregate have contributed an amount of 58 thousand Euros (1,090 thousand Euros in 2017).
- As approved by the Single Resolution Board, the FROB's Governing Committee, in session held on April 12, 2018, 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 total amount collected as ex-ante contributions corresponding to 2018 is of 735,698 thousand Euros, of which 735,640 thousand Euros (minus the effect negative interest rates) were transferred to the Single Resolution Fund on June 28, 2018, by virtue of the fourth additional provision of Law 11/2015 and, in turn, 58 thousand Euros will remain in the Fund (see notes 9 and 10). Amounts collected for ex-ante contributions, which are perceived and subsequently distributed to the Single Resolution Fund, are netted on the Fund's statement of cash flows, since the Fund only acts as intermediary in this operation.

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

| | 2018 | 2017 |
|---|----------------|----------------|
| Collected ex-ante contributions | 735,698 | 677,453 |
| Total amount SRF | 735,640 | 676,363 |
| Total amount NRF | 58 | 1,090 |
| Total amount to be transferred to the SRF | 735,467 | 676,219 |
| Ex-ante contributions | 735,640 | 676,363 |
| <i>Of which, collaterals corresponding to irrevocable payment commitments</i> | <i>56,320</i> | <i>40,254</i> |
| Adjustment for the effect of negative interest rates | (173) | (144) |

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, 2018, and its results, the changes in its equity and its cash flows in the year then ended.

The Fund's annual accounts corresponding to 2017 were approved by the FROB's Governing Committee on May 21, 2018, and those corresponding to 2018, formulated by the FROB's Chairman on May 10, 2019, 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 5).

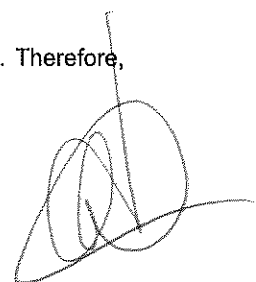
These estimates were made on the basis of the best information available at the date of preparation of these annual accounts; there is no fact that could change these estimates. Any future event not known at the date of preparation of these estimates could lead to changes (upwards or downwards), which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

2.6 Comparison of information

The information contained in these annual accounts corresponding to 2017 is solely and exclusively presented for comparison purposes together with figures for 2018.

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 2018 and 2017 is as follows:

| | Thousands of Euros | |
|---|--------------------|--------------|
| | 2018 | 2017 |
| Basis of distribution: Balance from the profit and loss account | 42 | 1,091 |
| Application: Equity fund | 42 | 1,091 |
| | 42 | 1,091 |

4. Accounting policies and measurement bases

The main accounting policies and measurement bases used by the Fund in preparing the annual accounts for 2018, in accordance with the Spanish General Accounting Plan approved by Royal Decree 1514/2007, of 16 November, and subsequent modifications, 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.

Revenue 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 Interests" or "Financial expenses – Bank interests", as applicable, on the enclosed income statement.

Note 6 provides significant information regarding cash.

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 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.

At December 31, 2018 and 2017, there are no outstanding amounts for this concept.

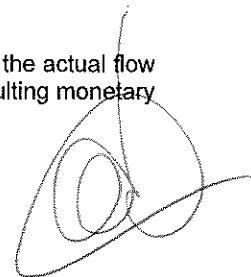
4.5 Tax regime

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, the response to such 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, 2018 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, 2018, all required entities have paid the annual contribution to the Fund. In 2017, on September 27, 2017, within the frame of bankruptcy proceedings on an investment service entity, the Fund collected the amount of 2 thousand Euros corresponding to the contribution from 2015, which was fully impaired at December 31, 2016, since it was considered as credit against the estate. This circumstance implied the recognition of an income for such amount on the profit and loss account of 2017.

6. Cash and cash equivalents - Cash

At December 31, 2018 and 2017, this caption of the enclosed balance sheet corresponds to the following detail:

| | Thousands of Euros | |
|------------------------------------|--------------------|--------------|
| | 2018 | 2017 |
| Current accounts in Bank of Spain | 4,025 | 3,983 |
| Current accounts in other entities | - | - |
| Accrued interests receivable | - | - |
| Accrued interests payable | (1) | (1) |
| TOTAL | 4,024 | 3,982 |

During 2018, 16 thousand Euros have been accrued (6 thousand Euros in 2017) as negative bank interests (average rate of -0.4%) registered under caption "Financial expenses – Bank interests" of the enclosed profit and loss account, out of which, at December 31, 2018, 1 thousand Euros were payable and have been settled on January 8, 2019.

Additionally, during 2017, 5 thousand Euros were accrued as bank interests (average rate of 0.21%), registered on caption "Financial income – Bank interests" of the accompanying profit and loss account, which were fully collected.

7. Equity

Equity fund

The Fund's Equity at December 31, 2018 amounts to 4,024 thousand Euros (3,982 thousand Euros in 2017) and is fully comprised by results generated by the Fund from its incorporation to December 31, 2018.

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, 2018, the Fund has liquid assets available and, due to the composition of the Fund's balance sheet, the exposition to this risk is nil.

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, 2018, 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, 2018, the single 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, 2018, 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. Revenue - Contributions from required entities

This item recognizes at 2018 closing an amount of 58 thousand Euros (1,090 thousand Euros in 2017), corresponding to the accrued amount of regular contributions in 2018 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 2018, all entities have paid their contribution within the established period of time.

10. 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 2018 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:

| | Services delivered by Auditor and Related Companies | |
|---|---|----------|
| | 2018 | 2017 |
| Audit services | 3 | 3 |
| Other assurance services | - | - |
| Total audit and related services | 3 | 3 |
| Tax advisory services | - | - |
| Other services | 1 | 1 |
| Total professional services | 4 | 4 |

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 2018 for their work related to the Fund.

11. Fair value of financial instruments

Given the composition of the Fund's assets and liabilities at December 31, 2018, 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 2018.

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

In 2018, the Fund has not carried out any operation involving payments to suppliers.

13. Subsequent events

After the communication of April 17, 2019 by the Single Resolution Board on its Decision on ex-ante contributions of 2019 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 27, 2019.

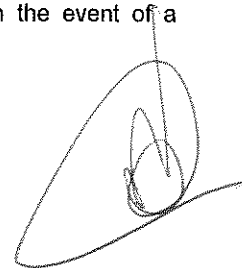
In turn, the FROB, pursuant article 49 of Royal Decree 1012/2015, of 6 November, and Delegated Regulation (EU) 2015/63, by May 1, 2019, has calculated and notified ordinary contributions to be settled by entities to the Fund before June 13, 2019.

For these purposes, previously, the annual financing level for 2019 has been established at 684,847 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 2019 would be of 784 thousand Euros.

Irrevocable payment commitments, set by Article 53 of Law 11/2015, are maintained in order to dispose of an analogous system, consistent with the one instrumented by the Single Resolution Board for contributions to the Single Resolution Fund, for 2019 the maximum limit of 15% of the each entity's contribution is maintained, only accepting cash collateral.

14. 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.

A handwritten signature or mark consisting of a large, loopy 'O' shape with a smaller loop inside, and a horizontal line extending to the right from the bottom of the 'O'.

Fondo de Resolución Nacional

Directors' Report corresponding to the year ended at 31 December 2018

1.- EXECUTIVE SUMMARY

One of the pillars of the Banking Union and 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 such purpose, 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.

At national level, the above has been materialized in the creation, through Law 11/2015, of 18 June, on recovery and resolution of credit entities and investment service entities of the Fondo de Resolución Nacional (FRN), which management is entrusted to the FROB.

At Community level, on January 1, 2016, Regulation (EU) 806/2014 of the European Parliament and Council, of 15 July, became effective, establishing 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). Thus, the SFR was incorporated and started operating, being managed by the Single Resolution Board, which is in charge of calculating contributions from credit entities and investment service entities subject to the European Central Bank's supervision under consolidation with the parent company.

In this context, during 2018, all necessary actions and procedures have been followed to collect contributions from 2018, within established terms, from entities in application of Law 11/2015, of 18 June, which are not required to contribute 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 on article 1.3.b) of Law 11/2015, which are not subject to the European Central Bank's supervision under consolidation with the parent company, and which are not listed as authorized entities at January 1, 2018.

Additionally, and as in previous years, the FROB has closely collaborated with the Single Resolution Board and other National Resolution Authorities in the collection of ex-ante contributions of 2018, as well as in the implementation of works to calculate contributions of 2019.

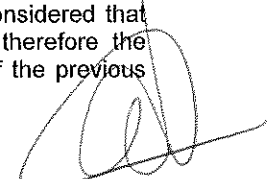
Since the incorporation of the FRN, in 2015, the total amount of contributions by subject investment service entities is of 3.8 million Euros. To date, it has not been necessary to use this financing mechanism to execute any resolution measure. With regards to the SRF, Spanish entities have contributed above 2,828 million Euros.

2.- ACTIVITY DEVELOPED IN 2018. RELEVANT MATTERS

In relation to the determination of annual contributions, article 4.2 of the Delegated Regulation (EU) 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.

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 2018, it has been considered that there are no circumstances justifying a criterion other than the linear criterion, and therefore the contribution of 2018 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 696,394,219 thousand Euros.

Consequently, the initial annual financing level for 2018 was established in 696,394 thousand Euros (one tenth of 1% of 696,394,219 thousand Euros).

On this basis, as established in article 49 of Royal Decree 1012/2015, of 6 November, which develops Lay 11/2015, of 18 June, ordinary contributions to be settled in 2018 to the Fondo de Resolución Nacional by required entities have been calculated and notified, reaching the amount of 58 thousand Euros.

With regards to the calculation of the contribution corresponding to entities, article 53.1 of Law 11/2017 indicates that each entity's 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.

However, article 10 of the Delegated Regulation (EU) 2015/63 regulates a fixed-installment contribution system for certain entities, based on total assets and total liabilities, excluding equity and the guaranteed amount of deposits. In 2018, all entities subject to ex-ante contribution have contributed the established fixed amount.

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 2018, none of the entities compelled to contribute to the NRF have employed this modality.

The number of Spanish entities required to contribute, in 2018, has been of 138, with the following detail per type of entity:

- Contribution to the SRF: 99 credit entities and 11 investment service entities.
- Contribution to the NRF: 28 investment service entities.

The period to settle contributions ended on June 14, 2018, 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 28, 2018, thus complying with the established deadline.

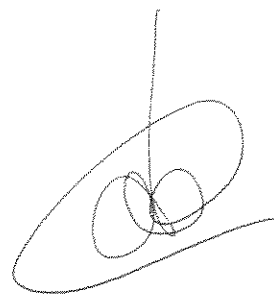
3.- SUBSEQUENT EVENTS

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:

- Regarding contributions for 2019 to the Fondo de Resolución Nacional, the FROB, once information submitted by the 29 investment service companies, as well as the 3 branches in Spain of obliged credit institutions established outside the European Union, according to the amendment introduced in Law 11/2015, by Royal Decree-Law 19/2018, of 23 November, of payment services and other urgent financial measures, has been calculated, according to the Delegated Regulation, and notified the ordinary contributions they have to make before June 13, 2019. For this purpose, it has set as a final funding target for 2019 in 684,847 thousand Euros for the Fondo de Resolución Nacional.
- With regards to the Single Resolution Fund, by virtue of Regulation 806/2014, entities have been informed about ex-ante contributions for 2019 to be settled to the SRF 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 27, 2019.

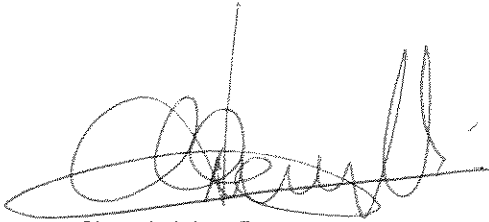
4- OTHER DISCLOSURES

During 2018, no research and development activities were performed.

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Fondo de Resolución Nacional

The undersigned, Chairman of the FROB, authorizes for issue on May 10, 2019 these Annual Accounts of the Fondo de Resolución Nacional corresponding to the year ended at December 31, 2018 and the Directors' Report for 2018, which are printed on the accompanying 17 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 initial 'J' and a long horizontal stroke at the end.

Signed: Jaime Ponce
Chairman of the FROB