

FROB

Annual Accounts for the year ended
31 December 2015 and Management Report

Includes Auditor's report on financial statements

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Fund (see Notes 2 and 18). In the event of a discrepancy, the Spanish language version prevails.

Auditors' report on financial statements

To the Governing Committee of FROB:

We have audited the financial statements of FROB (hereinafter "the Fund"), which comprise the balance sheet at 31 December 2015 and the related income statement, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

Responsibility of the President concerning the annual accounts

The President of the FROB is responsible for the preparation of the accompanying FROB's financial statements so that they present a fair image of the equity, financial position and results of the FROB, in accordance with the regulatory financial reporting framework applicable to the Fund in Spain (identified in Notes 1 and 2 of the accompanying financial statements), and the internal control it deems necessary to allow the preparation of financial statements free of material inaccuracies due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the attached financial statements based on our audit work. Our work has been performed in accordance with the audit regulations in force in Spain, which demands that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements.

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

We believe that the audit evidence we have obtained provides a sufficient and adequate base for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all significant respects, a faithful image of the equity and financial position of the FROB at 31 December 2015 as well as its results and cash flows for the year ended on that date, in accordance with the regulatory financial reporting framework that is applicable and, in particular, the principles and criteria contained therein.

Emphasis of matter

We draw attention to the matters detailed in Notes 2.4 and 7 to the accompanying financial statements, which indicate that in preparing these financial statements, estimates were made for the purpose of measuring the investments in form of equity shareholding and financing provided to certain credit institutions and SAREB, and determining the possible existence of impairment thereof.

These estimates were made on the basis of the best information available at the date of preparation of these financial statements, although the recovery of these assets at the value at which they were recognized will depend on the effective fulfilment of the key assumptions considered in the respective business plans, if this is the valuation method used, and the price which, in case, may be obtained from the sale of the entities in which the FROB maintains equity interests.

Additionally, at the date of preparation of these financial statements there are certain uncertainties about the overall effect on the investee or financed by the FROB entities, may have certain facts among which are the outcome of litigations related to the Public Offering Subscription of shares held in 2011 on the occasion of the IPO of Bankia, SA and the final outcome of the lawsuits filed by the holders of hybrid instruments and subordinated debt of Grupo BFA. Reference is also made to the recapitalization and restructuring plan approved by the competent authorities and the Board of Directors of the Grupo Banco Mare Nostrum, SA and the commitments made by the Kingdom of Spain to the European Commission for the restructuring of BMN Group as well as the actions taken to generate own resources and compliance with these commitments.

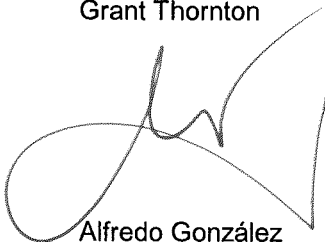
The above facts, along with the evolution of the entities, could affect the valuation of the investments of the FROB reflected in these financial statements. This issue does not change our opinion.

Moreover, we draw attention to Notes 2.4 and 13, where it is described that the FROB has granted various guarantees in the framework of the different processes of restructuring and resolution of credit institutions, mainly to carry out the selling processes of certain entities. The FROB has estimated the amount of the provisions made according to the method indicated in that Note 13. These estimates were made based on the best information available at the date of preparation of the annual accounts, although the adequacy of the provisions made for these items will depend on the effective performance of the key assumptions used in their determination as well as the future development of the contingencies covered by these warranties. This issue does not alter our opinion

Report on other legal and regulatory requirements

The accompanying management report for the year 2015 contains the explanations which the President considers appropriate concerning the situation of the Fund, the evolution of its business and other matters and does not form part of the annual accounts. We have checked that the accounting information contained in the aforementioned report is consistent with the financial statements for 2015. Our work as auditors was confined to the verification of the management report with the scope mentioned in this paragraph and does not include information other than that drawn from the accounting records of the Fund.

Grant Thornton



Alfredo González

16 June 2016



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FROB

**Annual Accounts
for the year ended
31 December 2015 and
Management Report**

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the FROB (see Notes 2 and 18). In the event of a discrepancy, the Spanish-language version prevails.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the FROB (see Notes 2 and 16). In the event of a discrepancy, the Spanish-language version prevails.

FROB
BALANCE SHEET AT 31 DECEMBER 2015
(Thousands of Euros)

| ASSETS | Notes | 2015 | 2014 | Notes | 2015 | 2014 |
|---|-------|-------------------|-------------------|-------|------|------|
| NON-CURRENT ASSETS | | | | | | |
| Intangible assets | | 180 | 65 | | | |
| Property, plant and equipment | | 269 | 348 | | | |
| Non-current investments in Group companies and associates | 7 | 11,416,834 | 12,739,484 | | | |
| Equity instruments | | 11,416,934 | 12,739,464 | | | |
| Non-current financial assets | 7 | 3,741,792 | 4,813,514 | | | |
| Loans to third parties | | 298,180 | 568,489 | | | |
| Debt instruments | | 3,405,881 | 4,241,150 | | | |
| Other financial assets | | 36,731 | 3,675 | | | |
| Total non-current assets | | 15,159,176 | 17,553,391 | | | |
| CURRENT ASSETS | | | | | | |
| Non-current assets classified as held for sale | 6 | - | 781,728 | | | |
| Trade and other receivables | | 2,677 | 401 | | | |
| Current financial assets | 7 | 1,858,708 | 1,244,134 | | | |
| Loans to third parties | | 300,089 | - | | | |
| Debt instruments | | 1,352,194 | 965,122 | | | |
| Other financial assets | | 16,425 | 275,012 | | | |
| Current prepayments and accrued income | 5 | 2,956,690 | 2,242,896 | | | |
| Cash and cash equivalents | | 2,956,690 | 2,242,896 | | | |
| Cash | | - | 30 | | | |
| Total current assets | | 4,827,975 | 4,265,189 | | | |
| TOTAL ASSETS | | 19,787,150 | 21,822,580 | | | |
| EQUITY AND LIABILITIES | | | | | | |
| EQUITY | | | | | | |
| OWN FUNDS- | | | | | | |
| Equity fund | | 307,036 | 307,036 | | | |
| Loss for the year | 9 | 1,596,874 | 1,596,874 | | | |
| | | (1,282,838) | (1,282,838) | | | |
| VALUATION ADJUSTMENTS- | | | | | | |
| Available-for-sale financial assets | 9 | (17,900) | (17,900) | | | |
| | | (17,900) | (17,900) | | | |
| NON-CURRENT LIABILITIES | | | | | | |
| Non-current provisions | | 289,138 | 289,138 | | | |
| Non-current payables | 13 | 1,110,511 | 1,110,511 | | | |
| Debt instruments and other marketable securities | 3 | 13,926,860 | 13,926,860 | | | |
| Other non-current payables | | 520,000 | 520,000 | | | |
| | | 13,405,560 | 13,405,560 | | | |
| CURRENT LIABILITIES | | | | | | |
| Current provisions | 13 | 226,876 | 226,876 | | | |
| Current payables | 8 | 4,236,005 | 4,236,005 | | | |
| Debt instruments and other marketable securities | | 2,567,967 | 2,567,967 | | | |
| Current bank borrowings | | 1,599,371 | 1,599,371 | | | |
| Other current payables | | 67,667 | 67,667 | | | |
| Trade and other payables | | 1,062 | 1,062 | | | |
| Sundry accounts payable | 12 | 932 | 932 | | | |
| Other accounts payable to public authorities | 11 | 130 | 130 | | | |
| TOTAL EQUITY AND LIABILITIES | | 19,787,150 | 21,822,580 | | | |

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the FROB (see Notes 2 and 18). In the event of a discrepancy, the Spanish-language version prevails.

FROB

INCOME STATEMENT FOR THE YEAR

ENDED 31 DECEMBER 2015

(Thousands of Euros)

| | Notes | Income / (Expenses) | |
|---|-------|---------------------|------------------|
| | | 2015 | 2014 |
| CONTINUING OPERATIONS | | | |
| 1. Net amount of the turnover | | | |
| Fees for the activities carried on by the FROB as Resolution Authority | 14 | 17,279 | - |
| | | 17,279 | - |
| 2. Other income | | 845 | 782 |
| 3. Staff costs | | | |
| Wages and salaries | 14 | (3,569) | (4,095) |
| Employee benefit costs | | (3,072) | (3,477) |
| | | (497) | (618) |
| 4. Other operating expenses | | | |
| External services | 14 | (3,632) | (6,736) |
| Losses, impairment and provision changes because of commercial transactions | | (3,399) | (6,622) |
| Other current operating expenses | | (11) | - |
| | | (122) | (114) |
| 5. Fixed assets depreciation | | (111) | (96) |
| 6. Surplus provisions | 13 | 151,109 | 10,316 |
| 7. Period provisions | 13 | (16,716) | (934,948) |
| Period provisions for APS and other responsibilities | | (16,716) | (934,948) |
| OPERATING RESULT | | 145,405 | (934,777) |
| 8. Finance income | | | |
| Bank interest | | 182,558 | 238,118 |
| Loan interest | 5 & 7 | 14,541 | 50,914 |
| Public debt interest | 7 | 30,779 | 6,245 |
| Convertible bonds interest | 7 | 43,567 | 82,689 |
| Other interest | 7 | 91,943 | 88,280 |
| | | 1,728 | - |
| 9. Finance costs | | | |
| Interests and commissions | 8 | (298,270) | (401,921) |
| Provisions adjustments | 13 | (277,138) | (396,186) |
| | | (21,132) | (5,735) |
| 10. Changes in fair value of financial instruments | | | |
| Allocation to profit or loss of fair value changes in available-for-sale financial assets | 7 | - | 16,411 |
| | | - | 16,411 |
| 11. Impairment and gains or losses on disposals of financial instruments | | | |
| Impairment and other losses | | (1,322,531) | 220,676 |
| Gains or losses on disposals and other | 6 y 7 | (1,322,531) | 220,676 |
| | | - | - |
| FINANCE RESULT | | (1,438,243) | 73,284 |
| LOSS FOR THE YEAR | | (1,292,838) | (861,493) |

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the FROB
(see Notes 2 and 16). In the event of a discrepancy, the Spanish-language version prevails.

FROB

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

A) STATEMENT OF RECOGNISED INCOME AND EXPENSE (Thousands of Euros)

| | Income / (Expense) | |
|--|--------------------|------------------|
| | 2015 | 2014 |
| LOSS PER INCOME STATEMENT (I) | | |
| | (1,292,838) | (861,493) |
| Income and expense recognised directly in equity | | |
| - Measurement of financial instruments | (31,427) | 17,858 |
| Available-for-sale financial assets | (31,427) | 17,858 |
| - Tax effect | - | - |
| TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY (II) | (31,427) | 17,858 |
| Transfers to income statement | | |
| - Measurement of financial instruments | - | (16,411) |
| Available-for-sale financial assets | - | (16,411) |
| - Tax effect | - | - |
| TOTAL TRANSFERS TO INCOME STATEMENT (III) | - | (16,411) |
| TOTAL RECOGNISED INCOME AND EXPENSE (I+II+III) | (1,324,265) | (860,048) |

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

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

| | Equity | Profits (losses) | Valuation Adjustments | TOTAL |
|--|-------------|------------------|-----------------------|-------------|
| Balance at 31 December 2013 | 5,248,478 | (2,787,112) | 12,082 | 2,473,449 |
| Total recognised income and expense | - | (861,493) | 1,445 | (860,048) |
| Operations with Fund promoters | (2,787,112) | 2,787,112 | - | - |
| - Allocation of prior year loss (Note 3) | (2,787,112) | 2,787,112 | - | - |
| Other changes in equity | - | - | - | - |
| Balance at 31 December 2014 | 2,461,367 | (861,493) | 13,527 | 1,613,401 |
| Total recognised income and expense | - | (1,292,838) | (31,427) | (1,324,265) |
| Operations with Fund promoters | (861,493) | 861,493 | - | - |
| - Allocation of prior year loss (Note 3) | (861,493) | 861,493 | - | - |
| Other changes in equity | - | - | - | - |
| Balance at 31 December 2015 | 1,599,874 | (1,292,838) | (17,900) | 289,135 |



FROB

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2015
(Thousands of Euros)

| | Notes | Proceeds / (Payments) | |
|---|--------|-----------------------|--------------------|
| | | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES (I) | | 334,672 | (606,308) |
| Loss for the year before tax | | (1,292,838) | (861,493) |
| Adjustments for: | | 1,303,981 | 839,070 |
| - Depreciation and amortisation charge | | 111 | 98 |
| - Impairment losses | 6 | 1,322,531 | (220,676) |
| - Changes in provisions | 8 & 13 | (134,393) | 912,258 |
| - Finance income | 7 | (182,558) | (238,118) |
| - Finance costs | 8 | 298,270 | 401,921 |
| - Changes in fair value of financial instruments | | - | (16,411) |
| Changes in working capital | | 323,549 | (344,351) |
| - Trade and other receivables | 7 | (2,176) | 165 |
| - Other current assets | | 275,042 | (18,423) |
| - Trade and other payables | | 80 | (2,147) |
| - Other current liabilities | | 49,174 | 103,915 |
| - Other non-current assets and liabilities | | 1,429 | (427,861) |
| Other cash flows from operating activities | | - | (239,531) |
| - Interest paid | 8 | - | (496,069) |
| - Interest received | 7 | - | 256,538 |
| CASH FLOWS FROM INVESTING ACTIVITIES (II) | | 778,461 | 4,686,776 |
| Payments due to investments | | (6,025) | (2,769,291) |
| - Group companies and associates | | - | - |
| - Intangible assets | | (138) | (59) |
| - Property, plant and equipment | | (9) | (59) |
| - Real-estate investment | | - | - |
| - Other financial assets | | (4,878) | (2,789,173) |
| - Non-current assets classified as held for sale | | - | - |
| Proceeds on divestments | | 783,488 | 7,366,067 |
| - Other financial assets | | 1,758 | 7,069,476 |
| - Non-current assets classified as held for sale | 6 | 781,728 | 286,591 |
| CASH FLOWS FROM FINANCIAL ACTIVITIES (III) | | (296,200) | (5,660,667) |
| Proceeds and payments from financial liabilities | 8 | (296,200) | (5,660,667) |
| - Bonds issuance and other marketable securities | | - | - |
| - Debt issuance with credit entities | | 1,599,492 | 1,895,538 |
| - Redemption and amortisation of debt instruments and other marketable securities | | - | (6,290,000) |
| - Redemption and amortisation of debts with credit entities | | (1,895,692) | (559,440) |
| - Redemption and amortisation of other debts | | - | (706,765) |
| Dividends and returns on other equity instruments paid | | - | - |
| - Dividends | | - | - |
| - Returns on other equity instruments | | - | - |
| EFFECT OF VARIATIONS IN CURRENCY CONVERSION (IV) | | - | - |
| NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV) | | 816,933 | (1,680,196) |
| Cash and cash equivalents at beginning of the year | | 2,242,898 | 3,923,092 |
| Cash and cash equivalents at year-end | | 2,958,690 | 2,242,896 |

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the FROB (see Notes 2 and 18). In the event of a discrepancy, the Spanish-language version prevails.

Notes to the financial statements for the year ended 31 December 2015

1. Activity

The FROB is a public entity with legal personality and full public and private capacity to fulfil its purpose, which was incorporated on 14 July 2009 in accordance with the provisions of Royal Decree-Law 9/2009, of 26 June, on bank restructuring and reinforcement of credit entities' equity¹. Currently, the legal regime under which the FROB operates is on Law 11/2015, of 18 June, of recovery and resolution of credit institutions and investment firms (hereinafter, Law 11/2015) which, together with Royal Decree 1012/2015, of 6 November 6 implementing it, transposes into Spanish law the Directive 2014/59/EU of the European Parliament and the Council of 15 May 2014, establishing a framework for the recovery and resolution of credit institutions and investment firms.

The main features of the resolution framework established by Law 11/2015 are indicated below, although the Act gives the greatest possible continuity to Law 9/2012, of 14 November, completing only what to the correct transposition of Directive 2014/59/EU is essential:

- The subjective scope broadens to investment services companies that meet certain requirements.
- The preventive phase of the resolution is strengthened, by requiring all entities, whether inviable or not, to have recovery and resolution plans for the event that they may incur in a non-viability.
- The shareholders and creditors must be the ones, or the industry if this is the case, who bear the cost of resolution of an entity, especially protecting depositors and public resources. To this end, internal loss absorption mechanisms, such as internal recapitalization, as well as the establishment of a national resolution fund financed by the entities themselves, are included.
- The responsibility of the resolution in its preventive phase is attributed to the Banco de España for credit institutions and to the Comisión Nacional del Mercado de Valores for business investments services, both through their respective operationally independent bodies, while the FROB is appointed as executive resolution Authority.

Under this new framework, the FROB aims to manage the resolution processes of the entities in the executive phase and to exercise the powers under Law 11/2015 and the rest of national law and European Union law.

The objectives pursued by these resolution processes, are as follows:

- To ensure the continuity of any activities, services and operations whose interruption could disrupt the economy or the financial system and, in particular, the financial services of systemic importance, and payment, compensation and settlement systems, taking into account the size, market share, internal or external connections, complexity or cross-border nature of the entity or its group.
- To avoid adverse effects on the stability of the financial system, preventing contagion of the difficulties of one institution to the system as a whole and maintaining market discipline.
- To ensure the most efficient use of public resources, minimising the extraordinary public financial support, which may be necessary to grant.

¹Repealed by the Royal Decree-Law 24/2012, of 31 August, on restructuring and resolution of credit institutions. This Royal Decree-Law was, also repealed by Law 9/2012, of 14 November, on restructuring and resolution of credit institutions, converting into a law what was established therein, this Law 9/2012 also being repealed by Law currently in force 11/2015 of 18 June, on restructuring and resolution of credit institutions and investment services companies.

- To protect depositors whose funds are guaranteed by the Deposits Guarantee Fund for Credit Institutions and investees covered by the Deposits Guarantee Fund.
- To protect the repayable funds and other assets of credit institutions' customers.

The achievement of these objectives will try, in any case to minimize the cost of resolution and avoid any destruction of value, except when necessary to achieve the objectives of the resolution.

To finance the expected resolution measures, the FROB will have the following funding mechanisms:

- A National Resolution Fund without legal personality, managed by the FROB and established as separate assets, whose financial resources should reach at least 1 percent of the amount of the guaranteed deposits of all entities. To achieve this level, the FROB will raise at least annually, regular contributions of the entities, as well as extraordinary if ordinary prove insufficient.
- The FROB may also, for the fulfilment of its purposes, seek alternative means of financing such as issuing debt securities, receive loans, apply to open credit facilities and undertake other borrowing transactions, if regular contributions provided are not sufficient to cover the costs of the resolution and the extraordinary contributions are not immediately available or sufficient. In any case, the FROB borrowings, whatever the mode of its implementation, shall not exceed the limit established for that purpose in the annual laws of the State Budget.
- The FROB may borrow from the funding mechanisms of other Member States of the European Union, in the event that regular contributions are not sufficient to cover the costs of resolution, extraordinary contributions are not immediately accessible and the mechanisms of alternative funding indicated in the previous section cannot be used on reasonable terms.

These funding mechanisms can only be used to the extent necessary to ensure the effective implementation of resolution tools. In particular, funding mechanisms may be expressed in one or more of the following measures:

- Issuing of guarantees.
- Granting of loans or credit lines.
- The acquisition of assets or liabilities, maintaining its management or entrusting it to a third party.
- Contributions to a bridge institution or to the assets management company.
- Payment of compensations to shareholders and creditors.
- Conducting contributions to the entity when deciding to exclude certain liabilities from the internal recapitalization.
- The granting of loans to other funding mechanisms.
- The recapitalization of an entity under the terms and limitations provided in Law 11/2015.

To cover their operating costs the FROB will require from the entities a "fee for the activities undertaken by the FROB as resolution authority," which is governed by the provisions of Law 11/2015 and, failing that, by the law 8/1989 of 13 April on Public Fees and Prices, and by law 58/2003 of 17 December, on General Tax, and its basic characteristics, according to the sixteenth additional provision of law 11/2015, are as follows:

- Taxable event. The exercise of the functions of monitoring, reporting and application of resolution tools during the preventive and executive phases of the resolution undertaken by the FROB.
- Taxable persons. The entities under Law 11/2015, according to Article 1.2.a).
- Taxable base. Amount that each entity must provide in respect of annual regular contribution to the National Resolution Fund or, where appropriate, to the Single Resolution Fund.
- Tax Fee. Result of applying a tax rate of 2.5 percent on the taxable base.
- Competencies for management, settlement and collection correspond to the FROB.
- The revenues from this tax have the nature of budget revenues of the FROB.

Additionally, the equity of the FROB may increase through the capitalization of loans, credit or any other form of borrowing of the FROB in which the Central Government appears as a creditor.

As for the applicable legal regime, the FROB, for the purposes of its budget, will apply in matters not covered by Law 11/2015, the provisions of Articles 64 to 68 of Law 47/2003 of 26 November, on General budget. However, it is not subjected and therefore are not applicable to it:

- The provisions of Law 6/1997, of 14 April, on the organisation and working of the Central Government Administration in the exercise of their functions as resolution authority, being applicable in everything else its tenth additional provision.
- The general rules governing the economic and financial, accounting and control regulations of public bodies reporting or connected to the Central Government, except with regard to the audits of the Spanish National Audit Office, pursuant to Organic Law 2/1982, of 12 May, of the Spanish National Audit Office and to the ongoing financial control of its internal economic and financial management regulations by the General Audit Office of the State Administration, pursuant to the provisions of Chapter of Title VI on General Budget Law 47/2003, of 26 November.
- The provisions of Law 33/2003, of 3 November, on public administration patrimony in the exercise of its resolution functions. In any case, the FROB will not be subject to the provisions contained in Title VII of the aforementioned Law 33/2003 referred to the business assets of the General State Administration. In this sense, they are not part of the Patrimony of the Public Administrations shares, securities and other instruments that the FROB may acquire in the exercise of its resolution powers.

The FROB is managed and administered by a Governing Committee comprising eleven members at 31 December 2015: the Chairman, four members appointed by the Banco de España, one of them, the Deputy Governor who acts as Vice-Chairman of the Governing Committee; three representatives of the Ministry of Economy and Competitiveness; the Vice – Chairman of the Comisión Nacional del Mercado de Valores; and two representatives of the Ministry of the Finance and Public Administrations. The meetings of the Governing Committee are also attended by a representative appointed by the General Comptroller of the State Administration and another appointed by the Attorney General-Director of the State Legal Service, both with voice but not vote.

The registered office of the FROB is at Avenida del General Perón 38, Madrid.

Significant events in 2015 and 2014

Certain events that occurred in 2015 and 2014 that are significant for understanding these annual accounts are described below:

Year 2015

- In relation to the BFA-Bankia group, the Governing Committee, at its meeting on 26 February 2015, agreed, as a sole shareholder of BFA, to recognize the Board of Directors of BFA the power to enter into a sharing agreement between BFA and Bankia of the contingencies arising from civil lawsuits related to the public offering of shares of Bankia, with a limit sharing to EUR 780 million (amount of the contingency estimated initially by the group). Under this agreement, on 27 February 2015, a settlement agreement between BFA and Bankia was signed, whereby the following percentages of distribution of those contingencies were established: Bankia a tranche of prime responsibility up to 40% (EUR 312 million) and the remaining 60% to BFA to the maximum amount of EUR 780 million (EUR 468 million).

In addition, on 22 December 2015, the Governing Committee of the FROB agreed to recognize to the BFA Board of Directors the authority to sign an addendum to the above sharing agreement between BFA and Bankia, extending the limit to EUR 1,840 million.

- In relation to Banco Madrid, S.A.U., the Governing Committee of the FROB agreed, on 18 March 2015, in view of the agreement of the Executive Committee of the Banco de España on non-admissibility of the opening of a resolution process of the entity, sent a communication to the Commercial Court No. 1 of Madrid on not opening a process of resolution of the institution in the framework of Law 9/2012 of 14 November, on restructuring and resolution of credit institutions.
- On 15 April 2015 the sale of the asset portfolio of Catalunya Banc S.A was formalized to Blackstone, awarded in July 2014, proceeding to the subscription and payment by the FROB of subordinated bonds worth EUR 525 million provided for in the contract of sale, through the issuance by the FROB of uncovered bonds guaranteed by the State amounting to EUR 520 million, fully subscribed and directly by Catalunya Banc, and the rest paid in cash (see Notes 6 and 13).

- As for the process of selling Catalunya Banc to Banco Bilbao Vizcaya Argentaria, S.A., it was concluded on 24 April 2015, with the participation of the FROB (66.01%) and the Deposits Guarantee Fund (32.39%) in the equity of the entity amounting to EUR 1,165 million (see Note 6).

Year 2014

- On 14 January 2014, the Executive Committee of the Banco de España agreed the resolution of Caja Rural de Mota del Cuervo, Sociedad Cooperativa de Crédito de Castilla-La Mancha, with the substitution of its Governing Committee naming the FROB as provisional administrator. The FROB also approved the economic and asset values of the entity and the start of the competitive sales process by emergency procedure.

As a result of this process, on the same date, the Governing Committee of the FROB agreed to order the transmission of all capital contributions of Caja Rural de Mota del Cuervo, Sociedad Cooperativa de Crédito de Castilla-La Mancha to Caja Rural de Albacete, Ciudad Real y Cuenca, Sociedad Cooperativa de Crédito (Globalcaja), for a total amount of EUR 1,275,800 plus expenses incurred by the FROB in the sale process without having involved any financial support from the FROB.

- The Executive Committee of the Banco de España, at its meeting on 17 January 2014, agreed, in order to complete the resolution plan of NCG Banco, SA, to replace the Board of Directors and appoint the FROB as administrator of the entity.

Finally, on 25 June 2014 the sale was formalized in a public document by the FROB to Etcheverría Bank SA / Banesco Group of its total participation (62.75%) and of the Deposits Guarantee Fund (25.58 %) in the capital of NCG Banco, SA, which accounted for 88.33% of the capital, completing the process of divestiture of public capital in the entity (see Note 6).

- On 25 February 2014 was conducted the sale of the BFA's investment in Bankia, S.A. of 7.5% of the entity's capital at a price of EUR 1.51 per share. After this operation, the investment of BFA in Bankia has been reduced from 68.39% to 60.89%. Note that the operation has not required any commitment or guarantee by the FROB (see Note 7.2).
- With regard to Catalunya Banc, S.A. on 2 June 2014, the Governing Committee of the FROB agreed the start of the auction process of the entity, agreeing on 21 July 2014 the award of this entity to Banco Bilbao Vizcaya Argentaria, SA, subject to compliance with certain conditions.
- This process was developed in parallel with the sale of a portfolio of mortgage loans of the entity, completed on 17 July 2014 with its award to Blackstone. The transaction involved the transfer of the portfolio to an assets securitization fund. This operation received financial support from the FROB (see Note 6 and 13).
- On 22 December 2014 Liberbank redeemed early the entire issue of Contingent Convertible Liabilities, amounting to EUR 124 million which was fully subscribed by the FROB on 12 April 2013, as part of its restructuring plan approved by the European Commission in December 2012 (see Note 7.3).

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

2.1 Regulatory financial reporting framework applicable to the FROB

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

- a) The Spanish Commercial Code and all other Spanish corporate law applicable to the Entity.
- b) The Spanish National Chart of Accounts approved by Royal Decree 1514/2007, of 16 November, with the amendments introduced by Royal Decree 1159/2010, of 17 September.
- c) The mandatory rules approved by the Spanish Accounting and Audit Institute in order to implement the Spanish National Chart of Accounts and the relevant secondary legislation.

- d) All other applicable Spanish accounting legislation.

2.2 Fair presentation

The annual accounts of the FROB, which were obtained from its accounting records, are presented in accordance with the regulatory 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 31 December 2015, 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 annual accounts of the FROB for 2014 were approved by the Governing Committee on 22 June 2015. The annual accounts for 2015, which were authorised for issue by the Chairman of the FROB on 15 June 2016, will be submitted for approval by the Governing Committee, and it is considered that they will be approved without any changes.

2.3 Accounting policies applied

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

2.4 Key issues in relation to the measurement and estimation of uncertainty

The information in these annual accounts is the responsibility of the Chairman of the FROB.

In preparing these annual accounts, estimates were made to measure certain of the items recognised therein. Specifically, estimates were made for the purpose of measuring the investments in capital, the granted funds to the credit institutions and the SAREB and to determine the possible existence of impairment losses on these investments.

The recoverable amounts of the investments in share capital, and the related impairment losses, were calculated as follows:

- a. In the case of SAREB, from the business plan approved by the Board of Directors of that institution on 24 February 2016. Such valuation method matches the one applied to the subordinated debt issued by the entity and subscribed by the FROB.
- b. Regarding the remaining shares in the group's companies, the FROB considered that the best evidence of its recoverable amount, as well as the corresponding impairment losses, as provided by the 9th accounting and measurement rule of Royal Decree 1514/2007, is the consolidated equity of the investee as evidenced by their corresponding consolidated and audited for the year 2015 financial statements, excluding minority interests, adjusted, if it were the case, for unrealized gains on the date of valuation that apply to identifiable items in the consolidated balance sheet of the investee.

The recoverable amounts of the convertible bonds have been estimated from the analysis of compliance with the restructuring plans developed by each entity and approved by the FROB, the Executive Committee of the Banco de España and the European Commission, which formed the basis for the implementation of the financial support and that included the repayment schedule of those amounts.

These estimates were made on the basis of the best information available at the date of preparation of these annual accounts, although the recovery of these assets by the value at which they are recorded will depend on the effective implementation of the key assumptions used in their business plans and the price, if any, that will be obtained from the sale of the entities in which the FROB takes part.

Additionally, at the date of preparation of these annual accounts, there are some uncertainties on the whole of the investees or financed by the FROB entities that may impact on their financial position, including which are the outcome of the litigation related to the shares' public offer subscription held in 2011 with the entry of Bankia, S.A. to the stock market and the final outcome of the lawsuits filed by the holders of hybrid instruments and

subordinated debt of BFA Group. Also, there is a reference to the recapitalization and restructuring plan approved by the Board of Directors of the Banco Mare Nostrum S.A. and the commitments made by the Kingdom of Spain to the European Commission for the restructuring of BMN Group and the actions taken to generate own resources and the compliance with these commitments.

These facts, together with the evolution of the entities, could affect the valuation of investments of the FROB reflected in these annual accounts.

Also, events that may take place in the future, which include the results of the events of any disposal processes carried out by the FROB with regard to its investments, might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in estimates would be applied prospectively.

Additionally, the FROB has granted different guarantees under the framework of the different processes of restructuring and resolution of credit institutions, chiefly in order to carry out the sales process of certain entities (see Note 13). The FROB has estimated the amount of provisions made in accordance with the methodology set out in this Note. Although these estimates were made on the basis of the best information available at the date of preparation of these annual accounts, the adequacy of the provisions made for these items will depend on the fulfilment of the key assumptions used for its determining, as well as the future developments of the contingencies covered by these warranties.

2.5 Information comparison

The information contained in these annual accounts relating to 2014 is presented with the figures relating to 2015 for comparison purposes only. Therefore, the information relating to 2014 does not constitute the FROB's statutory annual accounts for 2014.

As a result of the new resolution framework established and the entry into force of Law 11/2015, the FROB has adapted the structure of the profit and loss account, so that it presents more clearly the true image of the results of activity of the entity. For comparative purposes, it has been adjusted evenly the profit and loss for the year 2014. This adjustment has no impact on equity or the result of the FROB in such exercises.

2.6 Environmental impact

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

2.7 Information on deferred payments to suppliers. Third Additional Provision. "Disclosure obligation" provided for in Law 15/2010, of 5 July

In compliance with the provisions of Law 15/2010 of 5 July, amending Law 3/2004 of 29 December, establishing measures to combat late payment in commercial transactions, and the resolution of 29 January 2016, of the Institute of Accounting and Auditing, regarding the information to be included in the notes of the financial statements in relation to the average payment period to suppliers in commercial transactions, the required detailed information is included below:

| | 2015 |
|---|--------------------|
| | Days |
| Average payment period to suppliers | 30,02 |
| Ratio paid operations | 11,53 |
| Ratio of outstanding payment transactions | 115,53 |
| | Thousands of Euros |
| Total payments | 3,010 |
| Total outstanding payments | 651 |

According to the only additional provision of that resolution in the financial statements for 2015 previous year comparative information is not presented, qualifying these financial statements as initial to these exclusive effects as regards to the requirement of application of the principle of uniformity and comparability.

2.8 Presentation of consolidated financial statements

Spanish corporate and commercial legislation requires that, with certain exceptions, the parents of groups of companies prepare the corresponding consolidated annual accounts and related consolidated management report, in which the subsidiaries are fully consolidated.

The aforementioned legislation establishes that an entity is a subsidiary of another entity when the parent exercises control over it, i.e. it has the power to govern the financial and operating policies of a business so as to obtain economic benefits from its activities; the existence of control -and, therefore, of the group- is presumed to exist when, among other factors, the majority of voting power is owned and the power is held to appoint or remove the majority of the members of the Board of Directors.

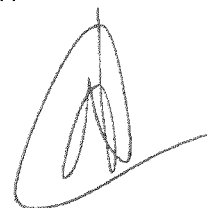
However, the corporate and commercial legislation also establishes that in exceptional cases in which the application of a legal provision with regards to accounting would be incompatible with the fair presentation that must be provided by the annual accounts, this provision will not be applied.

In this context, the FROB has performed an analysis of the need to present consolidated annual accounts after having acquired, as described in Note 7 to these annual accounts, majority shareholdings in certain credit institutions, which led it to conclude, after consulting with the Banco de España and the Spanish National Securities Market Commission (CNMV), that there is no need to prepare consolidated annual accounts since it understands that these would not meet the objective of presenting fairly the nature and purpose of its majority shareholdings and, in addition, there is no legal obligation to do so. The matters taken into consideration to reach this conclusion included the following:

- The extremely exceptional circumstances that require the intervention of the FROB in the processes in which it acquires majority shareholdings in entities or in which it gains control over managing bodies;
- The fact that the taking of these shareholdings occurs by legal mandate and is intended to complete and guarantee the fulfilment of the restructuring/resolution plan that must conclude with the cession of the business to third parties. It is non-profit making and its actions cannot be treated as substantial rights with a mission to take an active part in the management of the businesses; and
- The consideration that the presentation of said consolidated financial statements would not contribute relevant information to the investors of the FROB, since the decisions for allocating resources are not based on the capacity to generate cash flows from its assets, but rather on the explicit, unconditional and irrevocable guarantee of the Kingdom of Spain which treats the instruments issued by the FROB as public debt.

3. Allocation of loss

Pursuant to Law 9/2015, any accrued and accounted profit will be paid to the Public Treasury. Otherwise, the negative results generated by the assets of the FROB will be integrated into its Equity Fund. The application of the profit for 2015 and 2014 is as follows:



| | Thousands of Euros | |
|----------------------------------|--------------------|------------------|
| | 2015 | 2014 |
| Basis of allocation: | | |
| Profit/loss per income statement | (1,298,838) | (861,493) |
| Allocation to: | | |
| Equity Fund | (1,298,838) | (861,493) |
| | (1,298,838) | (861,493) |

4. Accounting policies and measurement bases

The principal accounting policies and measurement bases used by the FROB in preparing the annual accounts for 2013, in accordance with the Spanish National Chart of Accounts approved by Royal Decree 1514/2007, of 16 November ("the Spanish National Chart of Accounts"), were as follows:

4.1 Property, plant and equipment

4.1.1. Intangible assets

Computer programs that meet the recognition criteria are recognised at cost of acquisition or development. Amortization is made on a straight-line basis over a period of 4 years from the entry into service of each application.

Maintenance costs of the applications are expensed in the year they are incurred. At December 31, 2015 did not exist, nor has been impaired during the year 2015, any of the FROB's intangible assets.

4.1.2. Tangible fixed assets

Initial recognition -

The assets included in property, plant and equipment are recognised initially at cost, either the acquisition price or production cost, depending on whether they have been acquired or manufactured, respectively, by the Entity.

The acquisition cost includes, as well as the amount billed by the supplier after deducting any discounts or price reduction, all the directly related additional expenses that occur until the assets are ready for their intended use, including those relating to bringing them to their location and any other condition in order that they may operate as planned.

Subsequent measurement -

Following acquisition, the items of property, plant and equipment are measured at their acquisition price or production cost, less any accumulated depreciation and any accumulated impairment losses.

Depreciation -

Property, plant and equipment are depreciated systematically on a straight-line basis over their estimated useful lives, taking into consideration their estimated residual value at the end of this period. The estimated useful lives of the Entity's various items of property, plant and equipment at 31 December 2015, calculated on the basis of the Entity's best estimate of the decline in value normally caused by their use and by wear and tear, in addition to the consideration of any technical and commercial obsolescence that might affect them, is as follows:

| | Years of estimated useful life |
|---------------------|--------------------------------|
| Computer hardware | 4 |
| Furniture and other | 5 |

Any changes that might occur in the useful lives of the various items of property, plant and equipment are recognised by adjusting the depreciation charge of future years or periods, in line with the new estimated useful lives.

In 2015 no changes occurred in the estimates of the useful lives of any items of property, plant and equipment owned by the Entity.

Impairment -

An impairment loss occurs on an item of property, plant or equipment when its carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use, as defined in the Spanish National Chart of Accounts.

At the end of each reporting period, the Entity tests its property, plant and equipment to determine whether there is any evidence that those assets might have suffered impairment, in which case the recoverable amount of the asset is estimated in order to determine the amount of the impairment losses to be recognised which, if necessary, are recognised with a charge to the income statement. The reversal, if any, of previously recognised impairment losses due to increases in the recoverable amount of items of property, plant and equipment is recognised with a credit to the income statement. These recoveries are limited to the carrying amount of the asset had no impairment loss been recognised.

None of the FROB's items of property, plant and equipment were impaired at 31 December 2015 or in the year then ended.

4.2 Non-current assets held for sale

Definition -

Non-current assets whose carrying amount is expected to be recovered primarily through their sale and not through their continuing use. They are classified as non-current assets held for sale provided that they meet the following requirements:

- a) The assets must be available in their current condition for immediate sale, subject to the usual and customary terms for their sale; and
- b) Their sale must be highly likely, which is understood to be the case when the following circumstances occur:
 - a. There is a plan in place to sell the asset and a project has begun to find a buyer and complete the plan.
 - b. The sale of the asset is negotiated actively at an adequate price in relation to its current fair value.
 - c. The sale is expected to be completed within the year following the date of the classification of the asset as held for sale unless, due to events or circumstances outside the Entity's control, the deadline for the sale has to be postponed and the Entity remains committed to the plan to dispose of the asset.
 - d. The actions to complete the plan indicate that it is unlikely that there will be significant changes in it or that it will be withdrawn.

Measurement -

The FROB measures the non-current assets classified as held for sale on the date on which they are classified as such, at the lower of their carrying amount and their fair value minus costs to sell. At the date on which these assets are reclassified, the FROB determines the value and recognises, where appropriate, any impairment losses on these assets.

The Entity recognises any impairment losses on the non-current assets classified as held for sale in the Income statement, together with their reversal when the circumstances giving rise to them cease to exist, except when it is appropriate to recognise them directly in equity in accordance with the criteria generally applicable to the assets in the specific, related rules.

4.3 Financial assets - Categories of financial assets

4.3.1 Investments - Group companies

In accordance with the accounting legislation, "Group companies" are controlled by an entity. Control is the power to govern the financial and operating policies of a business so as to obtain economic benefits from its activities. Control exists, in general but not exclusively, when the Entity owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when there are other circumstances or agreements that determine the existence of control.

However, as indicated above (see Note 2.8), the majority shareholdings owned by the FROB in credit institutions as part of its company object do not meet the definition of subsidiaries as it is non-profit making. Also, taking into consideration the specific nature of the management that it performs, for the purpose of the preparation of these annual accounts, they were treated for accounting purposes as investments in Group entities as it is understood that this criterion is the fairest way to present these investments. They are recognised in the annual accounts under "Non-Current Investments in Group Companies and Associates - Equity Instruments" in the balance sheet and are measured at acquisition cost, net of any impairment losses on said investments (see Note 4.5.1).

Any dividends accrued on these investments, provided that they do not arise unequivocally from the gains generated prior to their acquisition date, are recognised in the income statement. In 2015 these investments did not accrue any dividends.

Note 7.2 contains significant information on these investments.

4.3.2 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.

Loans and receivables are recognised in the balance sheet at 31 December 2015 under inter alia, "Non-Current Financial Assets", "Accounts Receivable" and "Current Financial Assets".

Initial recognition -

Generally speaking, loans and receivables are initially recognised 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 that are included in this financial asset category and mature within one year are initially recognised at their nominal value when the effect of not discounting the cash flows is not significant.

Subsequent measurement -

The assets included in this category are measured at amortised cost. The interest earned on these assets is

recognised in the income statement using the effective interest method.

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

Any impairment losses on these assets are recognised as described in Note 4.5.2.

Notes 7.3 and 7.4 contain significant information on these investments.

4.3.3 Available-for-sale financial assets

This category may include any financial assets that have not been classified in any other financial asset category envisaged in the Spanish National Chart of Accounts.

Initial recognition -

Available-for-sale financial assets are initially recognised 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.

Subsequent measurement -

Available-for-sale financial assets are measured at fair value and the gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or it is determined that it has become (permanently) impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the net profit or loss for the year. In this regard, (permanent) impairment is deemed to exist if the market value of the asset has fallen by more than 40% or if there has been a prolonged fall in market value over a period of 18 months without the value having recovered.

However, the accrued interest and dividends relating to these assets are recognised in the income statement on the basis of their nature.

Any impairment losses on these assets are recognised as described in Note 4.5.

Notes 7.3, 7.4 and 7.7 contain significant information on these investments.

4.4 Cash

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

The interest earned by the bank accounts and bank deposits held by the FROB is calculated using the effective interest method on the basis of their contractual rates and are recognised under "Finance Income - Bank Interest" or, if proceeds, under "Financial expenses - Bank Interests" in the income statement.

Note 5 contains certain significant information on treasury.

4.5 Impairment of financial assets

The FROB 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 recognised in the income statement.

When the recovery of any recognised amount is considered unlikely, the amount is written off, without prejudice to any actions that the FROB 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.

A financial asset is considered to be impaired -and therefore its carrying amount is adjusted to reflect the effect of impairment- when there is objective evidence that events have occurred which:

- In the case of debt instruments (loans and debt securities), give rise to an adverse impact on the future cash flows that were estimated at the transaction date.
- In the case of equity instruments, mean that their carrying amount may not be fully recovered.

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 recognised impairment losses is recognised in the income statement for the year in which the impairment is reversed or reduced.

The criteria applied by the FROB to determine possible impairment losses in each of the various financial instrument categories and the method used to calculate and recognise such impairment losses are described as follows:

4.5.1 Investments in entities

The FROB estimates and recognises impairment losses on the investments in Group entities provided that there is objective evidence, in accordance with the provisions of applicable legislation, that the carrying amount of an investment in these companies may not be recoverable.

The causes that the FROB regards as indicating the existence of objective evidence of possible impairment in its investments, notwithstanding the provisions of Resolution of 18 September 2013 of the Spanish Accounting and Audit Institute, include the adverse economic and financial performance of the entities and, in particular, the existence of losses and, where appropriate, significant variances with respect to the financial projections envisaged in the corresponding restructuring/resolution plans on which the calculations of the acquisition prices were based; in the case of listed securities, a prolonged decline in their fair value, particularly when a decline occurs over a period of 18 months or of 40% in the market value without the value having recovered and without prejudice to the possible need to recognise an impairment loss before this period has elapsed or the market value has fallen to this extent; the existence of significant qualifications in the audit of the entities' financial statements and situations that raise doubts as to their viability or solvency, or the existence of other circumstances of a similar nature that could place in doubt the recoverability of the carrying amount of the investments.

The amount of the impairment losses is estimated as the difference between the book value of the investments and their recoverable amount. Recoverable amount is the higher of its fair value minus the selling costs and the present value of the future cash flows arising from the investment. If there is no better evidence of the recoverable amount, the FROB estimates the impairment loss taking into consideration the equity of the investee, excluding minority interests, adjusted by the amount of the unrealised gains existing at the date of measurement, on the basis of the available information. In addition, in the estimate of the recoverable amount of these investments, the FROB takes into consideration the assumption by the Deposits Guarantee Fund for Credit Institutions of potential losses that might arise in the divestment of these companies.

The most significant aspects of the methodology used at 2015 year-end for estimating the recoverable amount of the various investments in capital and, therefore, the related impairment losses, are described in Note 2.4 to these annual accounts.

Impairment losses and the reversal thereof are recognised as an expense and income, respectively, in the income statement (see Note 7.2). The limit of any reversal of impairment losses is the carrying amount of the investment that would have been recognised at the date of reversal had no impairment loss been recognised.

4.5.2 Debt instruments classified as "loans and receivables"

The FROB estimates and recognises impairment losses on the debt instruments classified as loans and receivables provided that there is objective evidence, in accordance with applicable legislation, that events have occurred causing, after a financial asset is initially recognised, a reduction or delay in the collection of the cash flows associated with this asset, that could be caused by the insolvency of the debtor.

The amount of the impairment loss of these assets is calculated as the difference between the asset's carrying amount and the present value of its estimated cash flows.

The circumstances that the FROB considers likely to have impaired these investments and that are considered in the estimates of impairment, notwithstanding the provisions of Resolution of 18 September 2013 of the Spanish Accounting and Audit Institute, include: the non-payment of coupons of contingently convertible bonds and subordinated debt, the existence of significant qualifications in the auditors' reports that raise doubts as to the entities' viability or solvency or the existence of other circumstances of a similar nature that might place in doubt the payment capacity of the issuers of the securities.

The most significant aspects of the methodology used at year-end 2015 to estimate the recoverable value of the contingently convertible bonds and subordinated debt and, therefore, the corresponding impairments are described in Note 2.4 of these annual accounts.

Impairment losses and the reversal thereof are recognised as an expense and income, respectively, in the income statement (see Note 7.3 & 7.4). The limit of any reversal of impairment losses is the carrying amount of the investment that would have been recognised at the date of reversal had no impairment loss been recognised.

4.6 Financial liabilities - Accounts payable

The financial liabilities assumed are classified and measured in the "Accounts Payable" category as defined by applicable legislation.

Accounts payable are initially recognised at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortised cost (see Note 4.12).

4.7 Derecognition of financial instruments

A financial asset is derecognised when either of the following conditions is met:

1. The contractual rights on the cash flows they generate have been extinguished; or
2. The contractual rights on the cash flows of the financial asset are granted and the risks and rewards of ownership of the asset are substantially transferred or, although these are not substantially transferred or retained, control over the financial asset is transferred.

Financial liabilities are only derecognised when the obligations they generate have been extinguished or when they are re-acquired by the FROB, with the intention either to resell them or to cancel them.

4.8 Tax regime

Law 11/2015 establishes that, for tax purposes, the FROB will have the same treatment as the Deposit Guarantee Fund of Credit Institutions. Consequently, the FROB is exempt from income tax and from any indirect taxes that may be incurred as a result of its constitution, of its operation, of the actions and transactions it performs in fulfilment of its objectives, and any other indirect taxes that may be passed on to it.

4.9 Revenue and expense recognition

Revenue and expenses are recognised 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.

In this regard, the accrued finance income and expense (see Notes 5, 7 and 8) are recognised in the income statement using the effective interest method (see Note 4.12).

Operating leases

In operating leases, ownership of the leased asset and substantially all the risks and benefits of ownership of the asset remain with the lessor.

The FROB has leased under an operating lease the facilities that constitute its registered office (see Note 1). The main features of the lease are as follows:

| <u>Lease term</u> | <u>Penalties</u> |
|-------------------|-----------------------|
| 31 January 2018 | In advance resolution |

The amount of dues of the operating lease is charged directly to the income statement (see Note 14.3).

4.10 Provisions and contingencies

In preparing its annual accounts, the FROB 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 constructive obligation assumed by the FROB.
- 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 wholly within the control of the FROB.

The annual accounts include all the provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Unless they are considered to be remote, contingent liabilities, if any, are not recognised in the annual accounts, but rather are disclosed in the notes to the memory.

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. Where discounting is used, adjustments made to provisions are recognised as interest cost on an accrual basis.

The compensation receivable from a third party on settlement of an obligation is recognised 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 externalised, as a result of which the FROB is not liable, in which case, the compensation will be taken into account when estimating, if appropriate, the amount of the related provision.

4.11 Related party transactions

For the purposes of preparing these annual accounts, the FROB's "related parties" are considered to be the Banco de España, key management personnel of the FROB and the entities in which it has a majority shareholding or controls a majority of the managing body (see Note 1).

The transactions between the FROB and its related parties are accounted for in accordance with the general rules, i.e. at fair value.

Note 15 contains information on the balances recognised in these annual accounts corresponding to related parties.

4.12 Definition of fair value and amortised 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.

In contrast, if no active market exists, fair value is estimated by applying generally accepted assessment models and techniques such as references to recent transactions, references to the fair value of substantially similar financial instruments and generally accepted cash flow discount methods, in all cases using techniques that have demonstrated that they provide the most realistic fair value estimates and maximising at all times the use of data obtained in the market.

Amortised cost of a financial instrument is understood to be the amount at which it was initially recognised, less any principal repayments and interest payments made, plus or minus, as appropriate, the portion allocated to the income statement, calculated using the effective interest method, of its accrued interest and of the difference between the initial cost and the maturity amount of the instrument. In the case of financial assets, amortised cost also includes any impairment losses recognised thereon.

The effective interest rate is the discount rate that matches the initial value of a financial instrument to the present value of the estimated cash flows 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. Cash and cash equivalents – Cash

At 31 December 2015 and 2014, "Cash and Cash Equivalents - Cash" in the accompanying balance sheet corresponds to the following details:

| | Thousands of Euros | |
|--------------------------------------|--------------------|------------------|
| | 2015 | 2014 |
| Accounts held in Banco de España | 15,946 | 660 |
| Current accounts in other entities | 2,939,138 | 2,239,396 |
| Pending accrued interests receivable | 1,608 | 2,840 |
| Pending accrued interests payable | (2) | - |
| | 2,242,896 | 2,242,896 |

At 31 December 2015, accounts held by the FROB in the Banco de España earn, according to the regulations of the European Central Bank on the remuneration of deposits of the government in a National Central Bank, negative interest EUR 2 thousand (type of -0.30%) recorded under "Financial expenses - Bank interests" in the accompanying income statement (see Notes 8.7 and 15) and at 31 December 2015 are outstanding.

In 2015 the interest earned on the current accounts in other entities amounted to EUR 14,541 thousand (31 December 2014: EUR 50,914 thousand), which was recognised under "Finance Income - Bank Interests" in the accompanying income statement (see Notes 7.6 and 15) of which EUR 1.60 thousand are uncollected as at 31 December 2015 (31 December 2014: EUR 2,840 thousand).

6. Non-current assets classified as held for sale

Following is a detailed description of the assets classified under this line item in the balance sheet at 31 December 2015 and 2014:

2015

| | Thousands of Euros | | |
|---|--------------------|-------------------|-----------------|
| | Gross Amount | Impairment Losses | Carrying Amount |
| Catalunya Banc, S.A. | - | - | - |
| Total non-current assets classified as held for sale | - | - | - |

2014

| | Thousands of Euros | | |
|---|--------------------|--------------------|-----------------|
| | Gross Amount | Impairment Losses | Carrying Amount |
| Catalunya Banc, S.A. | 9,084,000 | (8,302,272) | 781,728 |
| Total non-current assets classified as held for sale | 9,084,000 | (8,302,272) | 781,728 |

Set forth below is certain information relating to the investments held by the FROB classified as "Non-Current Assets Held for Sale" at 31 December 2014, since at 31 December 2015 the participation in Catalunya Banc, S.A. has been sold by the FROB:

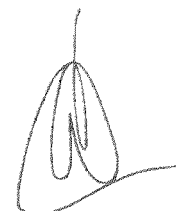
2014

| | Ownership Interest | Location | Thousands of Euros | | | |
|----------------------|--------------------|-----------|--------------------|-------------------|-------------------------------------|--|
| | | | Share Capital (*) | Share Premium (*) | Reserves and Other Equity Items (*) | Profit (Loss) Attributable to the Parent (*) |
| Catalunya Banc, S.A. | 66,1% | Barcelona | 1,978,783 | 8,323,677 | (7,830,874) | (122,818) |

(*) The data relating to this company's equity position have been obtained from the audited consolidated financial statements at 31 December 2014.

The changes in 2015 and 2014 in this line item of the accompanying balance sheet were as follows:

| | Thousands of Euros |
|--|--------------------|
| Balance at beginning of 2014 | 683,000 |
| Transfers | 1,858,000 |
| Disposals | (686,289) |
| Net provision for impairment losses charged to the profit and loss account | (1,072,983) |
| Balance at 31 December 2014 | 781,128 |
| Disposals | (781,128) |
| Balance at 31 December 2015 | - |



The following is a description of the most significant changes:

Catalunya Banc, S.A. ("CX")

As a result of the auction process of Catalunya Banc, S.A. the Governing Committee of the FROB agreed, on 21 July 2014, to transfer the participation of the FROB (66.01%) and the Fondo de Garantía de Depósitos (32.39%) to Banco Bilbao Vizcaya Argentaria, S.A., representing the 98.4% of the share capital of CX amounting to EUR 1,165,308.

As a result, the FROB transferred its participation in CX to the item "Non-current assets held for sale" and recognised under "Impairment and Gains or Losses on Disposal of Financial Instruments" in the accompanying income statement for year 2014 an impairment of EUR 1,076,272 thousand relating to the difference between the FROB's participation in the entity's sale price (EUR 781,728 thousand) and the carrying amount at which such participation was recorded prior to the transaction (EUR 1,858,000 thousand).

On 24 April 2015, upon fulfilment of the conditions precedent, it has been elevated to public the sale of the entity, the buyer paid the agreed amount. Also, on 4 September 2015, the FROB has paid to the Deposit Guarantee Fund the proceeds from the sale of its stake in the capital of the entity minus the rightful costs it has to support for the guarantees given in the operation (see Note 7.5) which amounted to EUR 107,705 thousand.

The conditions of the sale contract do not include the grant of an Asset protection scheme (APS) or additional guarantee to the commitments made by the FROB for certain risks that could be faced in the future by CX (see Note 13).

As part of the divestment of the FROB in Catalunya Banc, the CX itself carried out a process of selling a portfolio of assets that was awarded to Blackstone on 17 July 2014; the sale was formalized on 15 April 2015. The operation is structured by transferring the portfolio to an assets securitization fund and other companies of the Blackstone Group with the financial support from the FROB by: i) the subscription of a subordinated bond worth EUR 524,878 thousand (see Note 13), ii) the granting of a guarantee by bad loans whose fair value amounts to EUR 124,000 thousand (see Note 13) and, iii) the granting of a liquidity facility for a maximum amount of EUR 400 million; the balance drawn down at 31 December 2015 amounted to EUR 16,424 thousand (see Note 7.5).

NCG Banco, S.A. ("NCG")

On 18 December 2013, the FROB allocated after the relevant competitive sales process, the 88.33% NCG's capital to Banesco Holding Financiero 2, S.L.U., 62.75% from the FROB and 25.58% from the Fondo de Garantía de Depósitos, amounting to EUR 1,003 million. Consequently, at 31 December 2013, the stake held by the FROB in NCG was recognized under "Non-current assets held for sale" amounting to EUR 683,000 thousand and proceeded to record an impairment in the value of the participation amounting to EUR 1,651,000 thousand.

Upon satisfaction of conditions precedent, on 25 June 2014, the sale was formalized. Under the payment schedule in the contract of sale, 40% of the sales price, EUR 403,000 thousand, was paid at the time of the formalization of the sale, and the remaining 60% will be paid in successive instalments until 2018 (see Notes 7.5 and 7.7).

At the time of the completion of the sale of the entity, the derecognition should have taken place and the recognition of an asset against Banesco for the amount of the deferred payment, the present value of the expected cash flows to be received by the FROB, calculated from the date of the actual sale, was EUR 686,289 thousand, which meant the registration in 2014 of a reversal of impairment amounting to EUR 3,289 thousand under "Impairment and Gains on Disposal of Financial Instruments" in the income statement.

At 31 December 2015, the uncollected selling price amounts to EUR 599,269 thousand (EUR 568,489 thousand at 31 December 2014), which corresponds to the present value of the expected cash flows based on the payment schedule (see Note 7.5 and 7.7), of which EUR 30,779 thousand (see Note 7.5 and 7.7) correspond to accrued interest on such updating (EUR 5,372 thousand in 2014).

Likewise, the conditions of the sales contract do not include the grant of an assets protection scheme or additional guarantee to the commitments made by the FROB for certain risks that could face NCG in the future (see Note 13).

Finally, there is a liability recorded amounting EUR 58,725 thousand (EUR 54,887 thousand at 31 December 2014) which reflects the share of the Deposit Guarantee Fund in relation to the sale price minus the part it must assume because of the guarantees granted (see Note 8.6).

7. Financial assets

7.1 Detail of financial assets

The detail, classified in accordance with applicable legislation, of the financial assets owned by the FROB at 31 December 2015 and 2014 is as follows:

2015

| Classes | Thousands of Euros | | | | | | Total |
|--|-----------------------------------|--------------------------------|-------------------------------|-------------------------------|--------------------------------|-------------------------------|-------------------|
| | Non-Current Financial Instruments | | | Current Financial Instruments | | | |
| | Equity Instruments (Note 7.2) | Debt Instruments (Note 7.3) | Loans and Other (Note 7.7) | Equity Instruments | Debt Instruments (Note 7.4) | Loans and Other (Note 7.5) | |
| Categories: | | | | | | | |
| Investments in Group companies, jointly controlled entities and associates (*) | 11,416,934 | - | - | - | - | - | 11,416,934 |
| Loans and receivables | - | 2,643,000 | 335,911 | - | 31,819 | 316,514 | 3,327,244 |
| Available-for-sale financial assets | - | 762,881 | - | - | 1,320,375 | - | 2,083,256 |
| Total | 11,416,934 | 3,405,881 | 335,911 | - | 1,352,194 | 275,012 | 16,827,434 |

(*) Includes the amount of the investments, net of their accumulated impairment (see Note 7.2).

2014

| Classes | Thousands of Euros | | | | | | Total |
|--|-----------------------------------|--------------------------------|-------------------------------|-------------------------------|--------------------------------|-------------------------------|-------------------|
| | Non-Current Financial Instruments | | | Current Financial Instruments | | | |
| | Equity Instruments (Note 7.2) | Debt Instruments (Note 7.3) | Loans and Other (Note 7.7) | Equity Instruments | Debt Instruments (Note 7.4) | Loans and Other (Note 7.5) | |
| Categories: | | | | | | | |
| Investments in Group companies, jointly controlled entities and associates (*) | 12,739,464 | - | - | - | - | - | 12,739,464 |
| Loans and receivables | - | 2,663,400 | 572,364 | - | 10,831 | 275,012 | 3,521,607 |
| Available-for-sale financial assets | - | 1,577,750 | - | - | 958,291 | - | 2,536,041 |
| Total | 12,739,464 | 4,241,150 | 572,364 | - | 969,122 | 275,012 | 18,797,112 |

(*) Includes the amount of the investments, net of their accumulated impairment (see Note 7.2).

7.2. Non-current investments in Group companies and associates – Equity Instruments

The detail of the investments comprising "Non-Current Investments in Group Companies and Associates – Equity Instruments" in the balance sheet at 31 December 2015 and 2014 is as follows:

2015

| Company | % | Location | Thousands of Euros | | | | | |
|-------------------------------------|---------|----------|-----------------------------------|---------------------------------|--|--|--------------------|-------------------|
| | | | Data on the Investees' Assets (*) | | | Carrying Amount of the FROB's Investment | | |
| | | | Share Capital | Reserves and Other Equity Items | Profit (Loss) Attributable to the Parent | Cost | Impairment | Carrying Amount |
| Banco Financiero y de Ahorros, S.A. | 100% | Madrid | 8,979,500 | (444,743) | 1,198,965 | 17,959,000 | (7,995,420) | 9,963,580 |
| Banco Mare Nostrum | 65.027% | Madrid | 1,613,653 | 556,823 | 64,328 | 1,645,000 | (191,646) | 1,453,354 |
| SAREB | 45.01% | Madrid | 300,060 | (3,461,674) | 332 | 540,060 | (540,060) | |
| | | | | | | 20,144,060 | (8,727,126) | 11,416,934 |

(*) The data relating to the equity position of these companies were obtained from the audited consolidated financial statements at 31 December 2014, excluding minority interests.

2014

| Company | % | Location | Thousands of Euros | | | | | |
|-------------------------------------|---------|----------|-----------------------------------|---------------------------------|--|--|--------------------|-------------------|
| | | | Data on the Investees' Assets (*) | | | Carrying Amount of the FROB's Investment | | |
| | | | Share Capital | Reserves and Other Equity Items | Profit (Loss) Attributable to the Parent | Cost | Impairment | Carrying Amount |
| Banco Financiero y de Ahorros, S.A. | 100% | Madrid | 17,959,000 | (8,736,117) | 115,913 | 17,959,000 | (7,232,000) | 10,727,000 |
| Banco Mare Nostrum | 65.027% | Madrid | 1,613,653 | 740,980 | 101,732 | 1,645,000 | (47,863) | 1,597,137 |
| SAREB | 45.01% | Madrid | 300,060 | (1,398,513) | (584,659) | 540,060 | (124,733) | 415,327 |
| | | | | | | 20,144,060 | (7,404,596) | 12,739,464 |

(*) The data relating to the equity position of these companies were obtained from the audited consolidated financial statements at 31 December 2014, excluding minority interests.

The changes in "Non-Current Investments in Group Companies and Associates - Equity Instruments" in the accompanying balance sheet in 2014 and 2013 were as follows:

| | Thousands of Euros |
|--|--------------------|
| Balance at 31 December 2013 | 13,303,805 |
| Transfers (*) | (1,858,000) |
| Net recovery of impairment losses credited to the income statement | 1,293,659 |
| Balance at 31 December 2014 | 12,739,464 |
| Net recovery of impairment losses credited to the income statement | (1,322,530) |
| Balance at 31 December 2015 | 11,416,934 |

(*) Relate to the reclassification of CX to the heading "Non-current assets held for sale" in 2014 (see Note 6).

Banco Financiero y de Ahorros, S.A.U. ("BFA")

The restructuring plan contemplated that BFA should take some of the following measures prior to 31 December 2013:

- Its merger into a single company with Bankia, S.A.; or,
- its conversion into a holding company without a banking license.

At 2 January 2015 BFA is no longer considered a credit institution maintaining itself as a holding entity of Bankia.

On 25 February 2014 took place the sale of an asset of BFA in Bankia, S.A. representing 7.5% asset in the company at a price of EUR 1.51 per share. After the transaction, the participation of BFA in Bankia decreased from 68.39% to 60.89%. The operation has not required any commitment or guarantee by the FROB. However, the percentage share of BFA in Bankia, S.A. at 31 December 2014 was increased to 62.206% following the execution of final judgments of the courts by poor marketing of hybrids. At 31 December 2015 the percentage share of BFA in Bankia is at 64.23%.

At year-end 2015, according to the criteria set out in Notes 2.4 and 4.5 above, the FROB has proceeded to estimate the recoverable amount of such investment. After the analysis it recorded an additional provision of impairment on such participation of EUR 763,420 thousand (EUR 1,235,000 thousand recovery at 31 December 2014) credited to the heading "Impairment and Gains on Disposals of Financial Instruments-Impairments and Losses" in the income statement of the attached exercise.

Management Company of the Assets Originating from Bank Restructuring ("SAREB")

FROB participation in SAREB is classified under "Non-current investments in Group companies and associates". The details of the investment held by the FROB in SAREB at year-end 2015 and 2014 (thousands of Euros):

| Year | Number of shares | Equity | Percentage share | Share premium | Cost of Investment | Impairment Loss | Net book value |
|------------|------------------|---------|------------------|---------------|--------------------|-----------------|----------------|
| 01.01.2013 | 107,890,000 | 107,890 | 45.15% | 323,670,000 | 431,560 | - | 431,560 |
| Additions | 27,125,000 | 27,125 | - 0.15% | 81,375,000 | 108,500 | - | 108,500 |
| 12.31.2013 | 135,015,000 | 135,015 | 45.00% | 405,045,000 | 540,060 | - | 540,060 |
| 12.31.2014 | 135,015,000 | 135,015 | 45.00% | 405,045,000 | 540,060 | 124,733 | 415,327 |
| Additions | - | - | - | - | - | 415,328 | (415,328) |
| 31.12.2015 | 135,015,000 | 135,015 | 45.00% | 405,045 | 540,060 | 540,060 | - |

As a result of the losses incurred in 2015 by SAREB, result of the entry into force of its specific accounting standards developed by the Banco de España, the company had at the end of that exercise negative equity amounting to EUR 1,217,977 thousand, fulfilling the assumptions of conversion of subordinated debt (see Note 7.3). The conversion requires, as a first step, a reduction to zero of the existing capital to date.

To restore the financial position of the company, the General Meeting of Shareholders of SAREB held on 5 May 2016, prior to the date of preparation of these financial statements, has agreed, among other things, to carry out a capital reduction to zero with full redemption of the shares, and the subsequent conversion of subordinated debt into capital.

According to the above and pursuant to the criteria set out in Notes 2.4 and 4.5 above, the FROB has estimated the recoverable value of such participation on the basis of the SAREB's Business Plan, which was approved by its Board of Directors at its meeting held on 24 February 2016.

The main assumptions on which this business plan has developed are:

- Sales according to the absorption rates and price curve according to econometric models developed internally in collaboration with an independent expert.
- Exercise of adaptation and contrast with market realities.
- More effective organization by hiring professional servicers with strong knowledge of the retail market.

On these and other assumptions, the model considers the return of capital and existing subordinated debt after conversion, plus a sufficient additional return to at least return the amortized capital. However, the entire shareholding of the FROB in SAREB, existing at 31 December 2015 has been impaired, being the capital reduction approved at post-closure of the known exercise done evidencing an existing situation to that date. This correction value is registered under the heading "Impairment and Gains on Disposals of Financial Instruments - Impairments and Losses" of the attached income statement, amounting to EUR 415,328 thousand (EUR 124,732 thousand in 2014).

Banco Mare Nostrum, S.A. ("BMN")

On 15 February 2013, the Governing Committee of the FROB agreed the novation of the issue deed of the convertible preference shares subscribed on 27 December 2010 and requesting the conversion of those preferred shares into ordinary shares of BMN amounting EUR 915,000 thousand entitling 323,756,409 new ordinary shares of the company. This conversion, which is part of the actions envisaged in the BMN restructuring plan passed by the FROB, the Banco de España and the European Commission, occurred on 19 February 2013.

Additionally, on 12 March 2013, the FROB subscribed and paid an extension of capital of 725,554,829 shares of EUR 1 per value each, for a total amount of EUR 730,000 thousand, through non-monetary contribution of debt securities issued by the European Stability Mechanism (ESM).

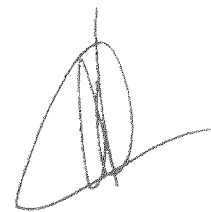
Later, on 27 May 2013, through a Resolution of the Governing Committee of the FROB, management actions of hybrids and subordinated debt were implemented, in compliance with the restructuring plan. Following the management exercise of hybrids, the FROB's holding in the entity rose to 65,027% of the share capital.

At 31 December 2015, according to the criteria set out in Notes 2.4 and 4.5 above, the FROB has proceeded to estimate the recoverable amount of its investment. After the analysis it recorded an additional provision of impairment under "Impairment and Gains or Losses on Disposal of Financial Instruments - Impairment and Other Losses" in the accompanying yearly income statement amounting to EUR 143,783 thousand (EUR 183,392 thousand recovery at 31 December 2014).

7.3. Non-current financial assets - Debt Instruments classified as "Loans and receivables" and "Available-for-sale financial assets"

In "Loans and receivables" at year-end 2015 and 2014 are included contingently convertible subordinated unsecured obligations issued by SAREB and subscribed by the FROB and contingent convertible bonds disbursed by the FROB as public support for Group 2 entities (CoCos) under the program of financial assistance to Spain. It is also in this category the subordinated bond subscribed by the FROB under the resolution process of Catalunya Banc, S.A. amounting to EUR 524,878 thousand, which is fully impaired (see Notes 6 & 13).

The detail of the investments comprising "Non-Current Financial Assets - Debt Instruments" in the balance sheet at 31 December 2015 and 2014 is as follows:



Data in thousands of Euros

| Issuing Entity | Financial Instrument | Payment Date | Nominal | Impairment Loss | Carrying Amount | Accrued Coupon (Note 7.4) | Interest Rate (%) | Interest Accrued (Note 7.6) | Repurchase Date (2) | Guarantees |
|------------------------------|----------------------|--------------|------------------|-----------------|------------------|---------------------------|-------------------|-----------------------------|---------------------|-----------------------------------|
| Banco Ceiss, S.A. (3) | CoCos | 30/4/2013 | 604,000 | - | 604,000 | 9,464 | 9.25% | 54,775 | Perpetual | Unlimited liability of the issuer |
| Banco Grupo Caja 3, S.A. (3) | CoCos | 12/3/2013 | 407,000 (3) | - | 386,600 | 1,954 | 9.25% | 37,168 | Perpetual | Unlimited liability of the issuer |
| SAREB (4) | Subordinated Debt | 26/02/2013 | 1,652,400 | - | 1,652,400 | - | 8.00% | - | 27/11/2027 | - |
| Total | | | 2,663,400 | - | 2,643,000 | 11,418 | | 91,943 | | |

(1) The CoCos have a fixed remuneration of 8.5% plus certain annual increases. The interest rate will increase by 25 basis points at the completion of the first year after the subscription, as observed from the second year it will be increased annually by 50 basis points. The remuneration of 8.5% is made conditional in any event on the existence of profit or distributable reserves and on compliance with minimum regulatory levels of own-resources.

The Banco de España may require the cancellation of the cash interest rate based on the financial and solvency situation of the entity or its consolidated group. In these cases the Bank shall pay compensation to FROB by delivering a volume of CoCos or entity shares equivalent, in economic value, to the amount of compensation that should have been paid.

(2) The CoCos are perpetual. However, as established by Law 8/2012, the entity has to repurchase or redeem the securities as soon as it is able to do so under the terms involved in the restructuring plan. Also, the FROB may voluntarily encourage the conversion into shares of the issuer in the following dates and assumptions: (i) on the fifth anniversary from the date of disbursement, the FROB will request conversion in a maximum of 6 months, or (ii) at any time prior to the fifth anniversary from the date of disbursement if, with previous report of the Banco de España, the FROB considers unlikely that the repurchase of the CoCos could take place. Additionally there is the contingent event for which the conversion is automatic, which would occur when the issuer submits a core capital ratio of less than 5.125%.

(3) The CoCos are placed in order of priority: (i) behind all creditors, subordinated or not; (ii) behind the holders of preference shares and/or preferred stock; (iii) in the same order of priority as other issues of convertible preference shares and other securities equivalent to these convertible securities; and (iv) ahead of ordinary shareholders.

(4) Convertible subordinated debentures are placed in order of priority: (i) behind all general creditors of the entity; (ii) "Pari passu" with any subordinate, simple or convertible debt of the entity, issued or to be issued in the future; and (iii) ahead of the common or preferred shares of the company.

(5) It has been reclassified EUR 20,400 thousand into the short term (see Note 7.4).

Data in thousands of Euros

| Issuing Entity | Financial Instrument | Payment Date | Nominal | Impairment Loss | Carrying Amount | Accrued Coupon (Note 7.4) | Interest Rate (1) | Interest Accrued (Note 7.6) | Repurchase Date (2) | Guarantees |
|------------------------------|----------------------|--------------|------------------|-----------------|------------------|---------------------------|-------------------|-----------------------------|---------------------|-----------------------------------|
| Banco Ceiss, S.A. (3) | CoCos | 30/04/2013 | 604,000 | - | 604,000 | 8,977 | 8.75% | 52,354 | Perpetual | Unlimited liability of the issuer |
| Banco Grupo Caja 3, S.A. (3) | CoCos | 12/03/2013 | 407,000 | - | 407,000 | 1,854 | 8.75% | 35,415 | Perpetual | Unlimited liability of the issuer |
| SAREB (4) | Subordinated Debt | 26/02/2013 | 1,652,400 | - | 1,652,400 | - | 8.00% | - | 27/11/2027 | - |
| Total | | | 2,663,400 | - | 2,663,400 | 10,831 | | 98,290 | | |

(1) The CoCos have a fixed remuneration of 8.5% plus certain annual increases. The interest rate will increase by 25 basis points at the completion of the first year after the subscription, as observed from the second year it will be increased annually by 50 basis points. The remuneration of 8.5% is made conditional on the existence of profit or distributable reserves and on compliance with minimum regulatory levels of own-resources. The Banco de España may require the cancellation of the cash interest rate based on the financial and solvency situation of the entity or its consolidated group. In these cases the Bank shall pay compensation to FROB by delivering a volume of CoCos or entity shares equivalent, in economic value, to the amount of compensation that should have been paid.

(2) The CoCos are perpetual. However, as established by Law 9/2012, the entity has to repurchase or redeem the securities as soon as it is able to do so under the terms involved in the restructuring plan. Also, the FROB may voluntarily encourage the conversion into shares of the issuer in the following dates and assumptions: (i) on the fifth anniversary from the date of disbursement, the FROB will request conversion in a maximum of 6 months, or (ii) at any time prior to the fifth anniversary from the date of disbursement if, with previous report of the Banco de España, the FROB considers unlikely that the repurchase of the CoCos could take place. Additionally there is the contingent event for which the conversion is automatic, which would occur when the issuer submits a core capital ratio of less than 5.125%.

(3) The CoCos are placed in order of priority: (i) behind all creditors, subordinated or not; (ii) behind the holders of preference shares and/or preferred stock; (iii) in the same order of priority as other issues of convertible preference shares and other securities equivalent to these convertible securities; and (iv) ahead of ordinary shareholders

Movements in this line item in 2015 and 2014 are as follows:

| | Thousands of Euros |
|--|--------------------|
| Balance at the beginning of 2014 | 787,400 |
| Depreciations | (124,000) |
| Net recovery of impairment losses credited to the income statement | - |
| Balance at 31 December 2014 | 2,663,400 |
| Transfer to current assets | (20,400) |
| Net recovery of impairment losses credited to the income statement | - |
| Balance at 31 December 2015 | 2,643,00 |

SAREB

On 31 December 2012 and 26 February 2013, the FROB subscribed an issue of subordinated bonds launched by SAREB, the paid amount being EUR 1,271,600 thousand and EUR 380,800 thousand.

On 1 July 2014 a deed of conversion of subordinated debt issue by SAREB during the year 2012 was formalized. By this deed, SAREB converted the subordinated debt issued in 2012 into subordinated debentures of the same class that the issue made in 2013, keeping the original characteristics of emissions. The maturity date is 27 November 2027.

These bonds are classified as non-guaranteed subordinated debt contingently convertible into newly-issued, ordinary shares of SAREB and partial redemption is possible at the discretion of SAREB as from the fifth year of the issue, according to its solvency and leverage ratios. The accrual of interest is subject to the obtainment by SAREB of sufficient distributable profit. If this condition is met, for the payment of such interest that there be adequate cash shall be required. Otherwise, the payment will be delayed as a non-subordinated credit payable to the FROB until SAREB has sufficient cash to meet the payment. The accrued payable amount will in turn accrue interest at 12-month Euribor. If the payment of interest is declared, the applicable interest rate will be a fixed annual rate of 8% on the unmaturing bonds. Since in 2015 SAREB obtained no distributable profit, the FROB has not registered interests on such assets in 2015.

In case of insufficient SAREB equity the subordinated debt will be convertible into equity capital by: i) the existence of cumulative losses that result equal or above the share capital plus reserves or ii) in the case of dissolution by losses that reduce its net assets to an amount less than half of its share capital. Assuming the conversion occurs, the shares will be of the same par value, of the same class and series and with the same rights as the ordinary shares, and shall be made for an amount such that the share capital represents 2 % of the assets value after conversion (see Note 7.2.)

At 31 December 2015, based on the business plan of SAREB whose assumptions are described in Note 7.2, there is not impairment of these investments.

Banco de Caja España de Inversiones, Salamanca y Soria, S.A. ("Banco Ceiss")

On 24 April 2013, as part of the entity's resolution process, a decision was taken by the FROB to inject public aid through the subscription of bonds contingently convertible into ordinary shares (CoCos) of Banco Ceiss amounting to EUR 604,000 thousand, paid on 30 April 2013 through a non-monetary contribution consisting of European Stability Mechanism (ESM) securities.

In April 2014, subject to fulfilment of the conditions precedent and obtaining the required regulatory approvals and exemptions, Unicaja Bank became the owner of 100% of the share capital of Banco Ceiss.

Interest earned on the CoCos in 2015 amounted to EUR 54,775 thousand (EUR 52,354 thousand at 31 December 2014) (see Note 7.6), of which EUR 9,464 thousand are pending at 31 December 2015 (EUR 8,977 thousand at 31 December 2014), so they are recorded under "Current Financial Assets - Debt Instruments" (see

Note 7.4).

Also, under the Resolution Plan for the entity, the FROB has assumed certain commitments in relation to the so-called Review and Compensation Mechanism (see Note 13).

Ibercaja Banco - Caja 3, S.A. ("Caja 3")

Under the provisions of Caja 3 restructuring plan, the Governing Committee of the FROB agreed, on 8 March 2013, to fully underwrite the issue by the Bank of contingently convertible bonds ("CoCos") amounting to EUR 407,000 thousand which were paid by the FROB, by delivery of fixed-rate bonds issued by the European Stability Mechanism on 12 March 2013.

On 1 October 2014 Banco Grupo Caja 3 was absorbed by Ibercaja Banco S.A. with the dissolution without liquidation of the absorbed company and the transfer, by universal succession, of their assets to the acquiring company.

Interest earned on these assets in 2015 amounted to EUR 37,168 thousand (EUR 35,415 thousand at 31 December 2014) (see Note 7.6), of which EUR 1,854 thousand are outstanding at 31 December 2015 (EUR 1,954 thousand at 31 December 2014), so they are recognised under "Current Financial Assets - Debt Instruments" (see Note 7.4). Also, the FROB has made a reclassification into short term amounting to EUR 20,400 thousand, corresponding to the partial repayment of the nominal of CoCos announced by the company and made on 31 March 2016 (see Note 7.4).

Liberbank, S.A.

On 22 December 2014, Liberbank fully amortised the issue of contingently convertible bonds held amounting to EUR 124,000 thousand which were fully subscribed and paid by the FROB on 12 March 2013, by delivery of fixed-rate bonds issued by the European Stability Mechanism, within the framework of the restructuring plan of the entity.

Interest earned on these assets in 2014 amounted to EUR 10,521 thousand (see Note 7.6). At 31 December 2014, no amount is to be recovered for this concept.

Financial Assets held for sale

In this item, at 31 December 2015, the FROB recognises under "Non-Current Financial Assets - Debt Instruments" certain State debt titles, with a market value of EUR 762,881 thousand (EUR 1,577,750 thousand at 31 December 2014). The interest earned on these securities in 2014 amounted to EUR 10,027 thousand (EUR 40,742 thousand in 2014) recognised under "Finance Income - Government Debt Interest" in the accompanying income statement (see Note 7.6). The valuation adjustments at the mentioned date amounting to minus EUR 10,119 thousand (EUR 20,683 thousand at 31 December 2014) are recognised under "Valuation Adjustments - Available-for-Sale Financial Assets".

7.4. Current financial assets - Debt instruments classified as "Loans and receivables" and "Available-for-sale financial assets"

The detail of "Current Financial Assets - Debt Instruments" at 31 December 2015 and 2014 is as follows:

| | Thousands of Euros | |
|---|--------------------|----------------|
| | 2015 | 2014 |
| Spanish government debt securities | 1,320,376 | 958,291 |
| Contingent convertible bonds (Note 7.3) | 20,400 | - |
| Interest from contingent convertible bonds (Note 7.3) | 11,481 | 10,831 |
| Total | 1,352,194 | 969,122 |

At 31 December 2015 and 2014, the balance recognised under "Spanish Government Debt Securities" of the foregoing table is composed of state debt all of which was classified as available-for-sale financial assets with a market value of EUR 1,274,458 thousand (EUR 912,939 thousand at 31 December 2014). Also are included EUR

45.918 thousand (EUR 45.352 thousand at 31 December 2014) for the accrued interest receivables of government bonds and those that are recognized under "Non-Current Financial Assets - Debt Instruments" (see Note 7.3).

The interest earned on these securities in 2015 amounted to EUR 22,501 thousand (EUR 24,849 thousand in 2014) and is recognised under "Finance Income –Government Debt Interest" in the accompanying income statement (see Note 7.6). At December 2014, negative valuation adjustments relating to these securities, amounting to EUR 7,781 thousand (EUR 7,156 thousand at 31 December 2014), had been recognised under "Valuation Adjustments - Available-for-Sale Financial Assets".

Also, in the course of the previous years, the FROB acquired treasury bills, bonds and debentures that matured along the year and generated interest amounting to EUR 11,039 thousand (EUR 17,078 thousand in 2014), which was recognised under "Finance Income – Government Debt Interest" in the accompanying income statement (see Note 7.6).

In 2015 no government bonds were sold, however, an outcome of EUR 16,411 thousand is recognised under "Charging to result of Available-for-sale financial assets" in the income statement corresponding to 2014).

7.5. Current financial assets - Loans to third parties classified as "loans and receivables"

The detail of the loans to companies classified as current "Loans and receivables" at 2015 and 2014 year-end is as follows:

| | Thousands of Euros | |
|---------------------------|--------------------|----------------|
| | 2015 | 2014 |
| Deferred payment sale NCG | 300,089 | - |
| Sale guarantee CX | - | 275,012 |
| Other (Note 6) | 16,024 | - |
| Total | 316,513 | 703,092 |

Deferred payment sale NCG

At 31 December 2015, the uncollected selling price amounted to EUR 599,269 thousand (EUR 588,489 thousand at 31 December 2014), which corresponds to the present value of the expected cash flows based on the payment schedule set, of which EUR 30,779 thousand (see Notes 6 & 7.6) correspond to the updated accrued interest (EUR 5,372 thousand in 2014).

From the EUR 599,269 thousand above, EUR 299,180 thousand correspond to the non-current (at 31 December 2014, the entire debt was reflected in the FROB's non-current balance sheet) (see Note 7.7) and EUR 300,089 thousand in current debt, which have been paid by Banesco in May 2016.

Sale guarantees CX

In September 2015, the share corresponding to the sale of the entity (selling price less guarantees granted), was settled with the Deposit Guarantee Fund (see Notes 6 & 13.1).

7.6. Finance Income

The detail of "Finance Income" in the accompanying income statement for 2015 and 2014 is as follows:

| | Thousands of Euros | |
|--|--------------------|----------------|
| | 2015 | 2014 |
| Bank interest (Note 5) | 14,541 | 50,914 |
| Loan interests | | |
| - Interest from deferred payment sale NCG (Nota 7.5) | 30,779 | 5,372 |
| - Interest on DGF loan* | - | 873 |
| Interest on public debt (Notes 7.3 and 7.4) | 43,567 | 82,669 |
| Interest on convertible bonds (Note 7.3) | 91,943 | 98,290 |
| Interest on repos (Note 8.5) | 1,017 | - |
| Other interests | 711 | - |
| Total | 182,558 | 238,118 |

* This amount corresponds to the interest accrued in 2014 for the loan granted by the FROB to the Deposit Guarantee Fund, on 18 July 2013, amounting to EUR 700,000 thousand in relation with disbursements to be made by the DGF for the acquisition of the shares expected to be issued by NCG Banco, SA and Catalunya Banc, S.A. within the framework of management actions of hybrid capital instruments and subordinated debt. Loan amortization occurred on 28 February 2014.

7.7. Non-Current financial Instruments – Loans to third parties classified as “Loans and receivables”

The balance of loans to companies classified as non-current “Loans and receivables” in 2015 and 2014, is as follows:

| | Thousands of Euros | |
|--|--------------------|----------------|
| | 2015 | 2014 |
| NCG sale deferred payment (Note 6 and 7.5) | 299,180 | 568,489 |
| Ceiss titles (Note 13.2) | 36,731 | 3,875 |
| Total | 335,911 | 572,364 |

8. Financial liabilities

8.1 Detail of financial liabilities

The detail, as required by applicable legislation, of the financial liabilities assumed by the FROB at 31 December 2015 and 2014 is as follows:

2015

| Classes Categories | Thousands of Euros | | | | | Total |
|-----------------------------|---|---------------------------------------|---|----------------------------|-----------------------------------|-------------------|
| | Non-Current Financial Instruments | | Current Financial Instruments | | | |
| | Debt Instruments and Other Marketable Securities (Note 8.2) | Other Non-Current Payables (Note 8.3) | Debt Instruments and Other Marketable Securities (Note 8.4) | Credit Entities Borrowings | Other Current Payables (Note 8.6) | |
| Debits and Accounts payable | 520,000 | 13,405,560 | 2,567,967 | 1,599,371 | 67,667 | 18,160,565 |
| | 520,000 | 13,405,560 | 2,567,967 | 1,599,371 | 67,667 | 18,160,565 |

2014

| Classes Categories | Thousands of Euros | | | | | |
|-----------------------------|---|---------------------------------------|---|----------------------------|-----------------------------------|-------------------|
| | Non-Current Financial Instruments | | Current Financial Instruments | | | Total |
| | Debt Instruments and Other Marketable Securities (Note 8.2) | Other Non-Current Payables (Note 8.3) | Debt Instruments and Other Marketable Securities (Note 8.4) | Credit Entities Borrowings | Other Current Payables (Note 8.6) | |
| Debits and Accounts payable | 2,502,004 | 13,455,002 | 63,455 | 1,895,692 | 21,974 | 17,938,127 |
| | 2,502,004 | 13,455,002 | 63,455 | 1,895,692 | 21,974 | 17,938,127 |

8.2 Non-current payables – Debt instruments and other marketable securities

"Non-Current Payables - Debt Instruments and Other Marketable Securities" in the accompanying balance sheet at 31 December 2015 and 2014 relates to payables arising from issues of non-convertible bonds guaranteed by the central government, agreed by the Governing Committee, including the issue made in 2015, under the resolution process of Catalunya Banc (see Note 6).

The characteristics of these issues and their subsequent *refaps* (or reopening of issues made earlier) are as follows (in thousands of Euros):

| | Issue Date | Maturity Date | Nominal Amount | | Interest Rate | Accrued interest (Note 8.7) | |
|---------------------|------------|---------------|------------------|------------------|---------------|-----------------------------|----------------|
| | | | 31.12.15* | 31.12.14 | | 31.12.15 | 31.12.14 |
| Third issue | 12/07/2011 | | - | 1,750,000 | | | |
| First tap | 06/10/2011 | | - | 100,000 | | | |
| Second tap | 07/10/2011 | 12/07/2016 | - | 335,000 | 5.5% | * | 139,386 |
| Third tap | 21/11/2011 | | - | 200,000 | | | |
| Fourth tap | 23/11/2011 | | - | 120,000 | | | |
| Fifth tap | 15/04/2015 | 30/04/2017 | 520,000 | - | 0,218% | 807 | - |
| Total issues | | | 2,505,000 | 2,505,000 | | 807 | 139,386 |

(*) Carried to short-term 31.12.15 (see Note 8.4)

The finance costs accrued by these bonds for 2015 and 2014 are recognised under "Finance Costs - Interest and Fees" of the attached income statement (see Note 8.7), of which, at year-end 2015, EUR 807 thousand are pending (EUR 63,455 thousand at year-end 2014) (see Note 8.4).

At 31 December 2015, the FROB's issue of non-convertible bonds described above had a credit rating of Baa2 from Moody's, BBB+ from Standard & Poor's and BBB+ from Fitch.

8.3 Non-current payables - Other non-current payables

Spanish State Loan - FROB

This section includes the loan granted on 3 December 2012 by the Spanish State to the FROB for the implementation of the program of European financial assistance. The loan allowed to channel funds disbursed by the European Financial Stability Facility, (EFSF) of the European Financial Stabilisation Mechanism (EFSM) to the Kingdom of Spain and to the Spanish credit institutions. The financial terms of this loan are the same as those established by the EFSF and EFSM.

The loan was disbursed in two instalments: the first disbursement amounting to EUR 39,468 million in 2012 and the second in the amount of EUR 1,865 million in 2013, through the provision of financial instruments (bills and bonds) issued by the EFSM with the following characteristics:

| ISIN | Issue Date | Initial Maturity Date (*) | Nominal Amount (Thousands of Euros) | Issue Price |
|------------------|------------|---------------------------|--|-------------|
| Tranche 1 | | | 39,468,000 | |
| EU000A1U97C2 | 11/12/2012 | 11/02/2013 | 2,500,000 | 100.00% |
| EU000A1U97D0 | 11/12/2012 | 11/10/2013 | 6,468,000 | 99.90% |
| EU000A1U98U2 | 11/12/2012 | 11/06/2014 | 6,500,000 | 100.00% |
| EU000A1U98V0 | 11/12/2012 | 11/12/2014 | 12,000,000 | 100.00% |
| EU000A1U98W8 | 11/12/2012 | 11/12/2015 | 12,000,000 | 100.00% |
| Tranche 2 | | | 1,865,000 | |
| EU000A1U98X6 | 5/02/2013 | 5/08/2015 | 1,865,000 | 100.00% |
| | | | 41,333,000 | |

(*) Maturity date of the financial instruments in which the loan has been materialized.

Since the formalization of the loan the following events have occurred:

On 9 December 2013, it was agreed, prior authorization of the ESM, the partial conversion of the Spanish State loan into equity contribution to the FROB for an amount of EUR 27,170 million (see Note 9.1).

In 2014 unused funds in SAREB amounting to EUR 307,540 thousand were returned.

Also in 2014 a voluntary partial repayment of the loan amounting to EUR 1,304 million was made, of which EUR 399,284 thousand were supported by the FROB.

During 2015 two voluntary repayments by the Treasury amounting to EUR 1,500 million and EUR 2,500 million, respectively, have taken place without any payment assumed by the FROB.

Accordingly, at 31 December 2015 the outstanding balance of the loan granted by the Spanish State to the FROB amounts to EUR 13,456,175 thousand (same amount at 31 December 2014) corresponding to EUR 11,591,175 thousand in the first disbursement and EUR 1,865,000 in the second disbursement, with the following breakdown:

| ISIN | Nominal (thousands of Euros) | |
|------------------|---------------------------------|-------------------|
| | 2015 | 2014 |
| Tranche 1 | | |
| EU000A1U97C2 | - | 272.059 |
| EU000A1U97D0 | 2.252.476 | 1.980.417 |
| EU000A1U98U2 | 1.990.215 | 1.990.215 |
| EU000A1U98V0 | 3.674.242 | 3.674.242 |
| EU000A1U98W8 | 3.674.242 | 3.674.242 |
| | 11.591.175 | 11.591.175 |
| Tranche 2 | | |
| EU000A1U98X6 | 1.865.000 | 1.865.000 |
| | 13.456.175 | 13.456.175 |

The first payment of the remaining principal of the loan for Tranche 1 will take place on 11 December 2022, and from that date annually until maturity in 2027. The maturity of the amount corresponding to Tranche 2 will occur in two equal parts, on 11 December 2024 and 2025, respectively.

The amount recognized under "Current Payables - Other non-current liabilities" in the accompanying balance corresponds to the cash value minus those costs of its formalization whose net amounted to EUR 13,405,399 thousand. Interest accrued on the loan in 2015 amounted to EUR 122,120 thousand (EUR 125,346 thousand in 2014), and are recorded under "Financial expenses - Interest and fees" in the income statement attached (see Note 8.7), of which at 31 December 2015 were outstanding EUR 8,941 thousand (EUR 12,086 thousand at 31 December 2014) (see Note 8.6).

Additionally, this loan has generated financial expenses for formalisation fee and other associated expenses in 2015 amounting EUR 5,445 thousand (EUR 18,579 thousand in 2014), which are recognised under "Finance Costs - Interest and Fees" in the accompanying income statement (see Note 8.7). At 31 December 2015, there is no outstanding amount for these items (EUR 9,887 thousand at 31 December 2014).

Debt to the Deposit Guarantee Fund

In 2014 the amount of EUR 54,887 thousand owed to the DGF for the sale of its equity in NCG, offset by the corresponding share on the assumption of guarantees given to the buyer (see Note 8.6).

8.4 Current payables – Debt instruments and other marketable securities

At 31 December 2015, the balance recognised under "Current Payables - Debt Instruments and Other Marketable Securities" in the accompanying balance sheet relates mainly to payables arising from the issues of non-convertible bonds guaranteed by the central government, agreed by its Governing Committee.

The characteristics of this issue and its subsequent retaps at 31 December 2015 and 2014 are as follows (in thousands of Euros):

| | Issue Date | Initial Maturity Date | Nominal | | Interest rate | Accrued interests (Note 8.7) | |
|---------------------|------------|-----------------------|------------------|----------|---------------|------------------------------|----------------|
| | | | 31.12.15 | 31.12.14 | | 31.12.15 | 31.12.14 |
| Third issue | 19/11/2009 | | 1.750,000 | - | | | |
| First Tap | 06/10/2011 | | 100,000 | - | | | |
| Second Tap | 07/10/2011 | 12/07/2016 | 335,000 | - | 5.50% | 139,476 | * |
| Third Tap | 21/11/2011 | | 200,000 | - | | | |
| Fourth Tap | 23/11/2011 | | 120,000 | - | | | |
| First issue | 19/11/2009 | 19/11/2014 | - | - | 3.00% | - | 93,340 |
| First Tap | 22/12/2011 | | - | - | | - | |
| Second issue | 03/02/2011 | 03/02/2014 | - | - | 4.50% | - | 13,015 |
| Total issues | | | 2,505,000 | - | | 139,476 | 106,355 |

(*) See Note 8.2

The finance costs accrued by these bonds are recognised under "Finance Costs - Interest and Fees" in the accompanying income statement (see Note 8.7).

The nominal amount pending amortisation at December 31, 2015 and 2014 of this issue is recorded net of adjustments resulting from the application of the method of effective interest rate for these emissions to be presented at its amortised cost. At 31 December 2015, the balance of these adjustments amounted to EUR 1,065 thousand (EUR 2,996 thousand in 2014) which included, basically, the discount in the issuance and the amount of transaction costs associated with the issue of securities pending accrual to that date. Accordingly, the amortized cost at which is recognised this issue is EUR 2,503,935 thousand (EUR 2,502,004 thousand at 31 December 2014).

In addition, "Current Payables - Debt Instruments and Other Marketable Securities" on the liability side of the accompanying balance sheet at 31 December 2015 includes the earned but unpaid interest on all the bond issues including those indicated above in Note 8.2 amounting to EUR 64,032 thousand (At 31 December 2014: EUR 63,455 thousand).

8.5 Current payables - Credit Entities borrowings

The balance of this item in the balance sheet at 31 December 2015 corresponds to eight sales transactions and repurchase of treasury bonds for cash amount of EUR 1,599,492 thousand contracted in November and December 2015 maturing in January 2016 and bearing an annual interest between -0.10% and -0.18%.

In 2015, the interest earned on these financial expenses totalled an amount of EUR 374 thousand (see Note 8.7) and a financial income of EUR 1,017 thousand (see Note 7.6). From these amounts, at 31 December 2015 are not yet collected EUR 122 thousand, which will be cleared at the expiration date of these transactions, so they are recorded under this same heading.

The balance of this section at 31 December 2014 corresponded to twelve sales transactions with a repurchase agreement of Treasury bonds for an amount of EUR 1,895,538 thousand contracted in December 2014 with maturity on 12 January 2015, and bearing an annual interest rate between 0.17% and 0.38%. The interest accrued by these liabilities in the year 2014 amounted to EUR 4,964 thousand (see Note 8.7), of which EUR 154 thousand were outstanding at 31 December 2014, and were settled at the expiration date of these operations.

8.6 Current payables - Other current payables

At 31 December 2015, the balance recognised under "Current Payables - Other Current Payables" in the accompanying balance sheet mainly relates to the outstanding accrued interest and accrued fees of non-current payables indicated in Note 8.3, which amounted to EUR 8,941 thousand (At 31 December 2014: EUR 21,974 thousand), as well as the amount corresponding to the Deposit Guarantee Fund in relation to the price of the sale of its stake in NCG of EUR 58,725 thousand (see Note 6).

8.7 Finance costs

The detail of "Finance Costs" in the accompanying income statements for 2015 and 2014 is as follows:

| | Thousands of Euros | |
|--|--------------------|----------------|
| | 2015 | 2014 |
| Interest and fees | | |
| - Interest on debt instruments and bonds (Notes 8.2 and 8.4) | 140,283 | 245,741 |
| - Interest on repurchase agreements (Note 8.5) | 374 | 4,964 |
| - Other finance costs | 8,916 | 1,556 |
| - Interest and fees on other payables (Note 8.3) | 127,565 | 143,925 |
| Interest cost relating to updating of provisions (Note 13.1) | 21,132 | 5,735 |
| Total | 298,270 | 401,921 |

9. Equity

9.1 Equity Fund

The detail of the contributions made to the FROB since its date of incorporation in 2009 is as follows:

| Contributing Entities | Thousands of Euros | | | |
|--|-------------------------|--------------------|-------------------------|------------|
| | Capitalization of Loans | Cash Disbursements | Fixed-Income Securities | Total |
| State Budget | 27,170,000 | 12,750,000 | - | 39,920,000 |
| - Royal Decree-Law 9/2009 | | 6,750,000 | - | 6,750,000 |
| - Royal Decree-Law 2/2012 | | 6,000,000 | - | 6,000,000 |
| - Royal Decree-Law 14/2013 | 27,170,000 | - | - | 27,170,000 |
| Deposit Guarantee Fund for Credit Institutions (*) | - | 1,500,146 | 749,854 | 2,250,000 |
| | 27,170,000 | 14,250,146 | 749,854 | 42,170,000 |

(*) In 2012 the investment of the Deposit Guarantee Fund for Credit Institutions in the FROB's Equity Fund, to meet the equity position resulting from the FROB's 2011 annual accounts, was liquidated.

To complement the initial endowment made to the FROB established by Royal Decree-Law 9/2009 (EUR 9,000,000 thousand), Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector, added an increase of EUR 6,000,000 thousand out of the State Budget.

On 9 December 2013, was agreed the partial conversion of the Treasury loan, amounting to EUR 27,170,000 thousand in an equity contribution to the endowment of the FROB, prior approval of the EFSM (see Note 8.3).

The loss incurred in 2014 amounting to EUR 861,493 thousand was transferred to the FROB's Equity Fund in 2015 (in 2013: EUR 2,787,112 thousand.)

The FROB Equity at 31 December 2015 amounted to EUR 307,036 thousand, including the previously mentioned EUR 42,170,000 thousands and the results obtained by the FROB since its establishment until 31 December 2015.

9.2 Valuation adjustments

Available-for-sale financial assets

"Valuation Adjustments – Available-for-Sale Financial Assets" in the accompanying balance sheet includes the amount of the changes in fair value of available-for-sale financial assets which, as stated in Note 4.3.4, must be recognised in equity, and the changes of which are recognised in the income statement when the assets which gave rise to them are sold or become impaired.

The statements of recognised income and expense for 2015 and 2014 include the changes in "Valuation Adjustments – Available-for-Sale Financial Assets" in the balance sheets of those years.

10. Information on the nature and level of risk of financial instruments

A detail of the FROB'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 FROB might not have sufficient funds to meet its debt repayments at their maturity dates.

The breakdown, by maturity, of the balances of certain items in the balance sheet at 31 December 2015 and 2014, based on a scenario of "normal market conditions", in accordance with their contractual terms, is as follows:

2015

| | Thousands of Euros | | | | | | |
|---|--------------------|----------------|----------------|----------------|----------------|---------------------|--------------------|
| | Within 1 Year | 1 to 2 Years | 2 to 3 Years | 3 to 4 Years | 4 to 5 Years | More Than 5 Years | Total |
| Assets: | | | | | | | |
| Cash and cash equivalents | 2,956,690 | - | - | - | - | - | 2,956,690 |
| Current financial assets | | | | | | | |
| <i>Loans to third parties</i> | 300,089 | 99,911 | 199,269 | - | - | - | 599,269 |
| <i>Debt instruments</i> | 1,352,194 | - | - | - | - | - | 1,352,194 |
| Non-current financial assets | | | | | | | |
| <i>Debt instruments</i> | - | 710,375 | 52,505 | - | - | 2,643,000 | 3,405,880 |
| Total at 31 December 2015 | 4,608,973 | 810,286 | 251,774 | - | - | 2,643,000 | 8,314,033 |
| Liabilities: | | | | | | | |
| <i>Debt instruments and other marketable securities</i> | 2,567,967 | - | - | - | - | - | 2,567,967 |
| <i>Current bank borrowings</i> | 1,599,371 | - | - | - | - | - | 1,599,371 |
| <i>Other current liabilities</i> | 67,667 | - | - | - | - | - | 67,667 |
| Non-current payables | | | | | | | |
| <i>Debt instruments and other marketable securities</i> | - | - | - | - | - | - | - |
| <i>Other non-current payables</i> | - | 520,000 | - | - | - | 13,405,560 | 13,925,560 |
| Total at 31 December 2014 | 4,235,005 | 520,000 | - | - | - | 13,405,560 | 18,160,565 |
| Assets minus liabilities at 31 December 2015 | 373,968 | 290,286 | 251,774 | - | - | (10,762,561) | (9,846,533) |
| Assets minus liabilities at 31 December 2015 (accumulated) | 373,968 | 664,254 | 916,028 | 916,028 | 916,028 | (9,846,533) | |

2014

| | Thousands of Euros | | | | | | |
|---|--------------------|--------------------|----------------|----------------|----------------|---------------------|--------------------|
| | Within 1 Year | 1 to 2 Years | 2 to 3 Years | 3 to 4 Years | 4 to 5 Years | More Than 5 Years | Total |
| Assets: | | | | | | | |
| Cash and cash equivalents | 2,242,896 | - | - | - | - | - | 2,242,896 |
| Current financial assets | | | | | | | |
| <i>Loans to third parties</i> | | 100,000 | 200,000 | 268,489 | - | - | 568,489 |
| <i>Debt instruments</i> | 969,122 | - | - | - | - | - | 969,122 |
| Non-current financial assets | | | | | | | |
| <i>Debt instruments</i> | - | 1,330,694 | 219,663 | 27,393 | - | 2,663,400 | 4,241,150 |
| Total at 31 December 2014 | 3,212,018 | 1,430,694 | 419,663 | 295,882 | - | 2,663,400 | 8,021,657 |
| Liabilities: | | | | | | | |
| <i>Debt instruments and other marketable securities</i> | 63,455 | - | - | - | - | - | 1,895,692 |
| <i>Current bank borrowings</i> | 1,895,692 | - | - | - | - | - | 21,974 |
| <i>Other current liabilities</i> | 21,974 | - | - | - | - | - | - |
| Non-current payables | | | | | | | |
| <i>Debt instruments and other marketable securities</i> | - | - | - | - | - | - | - |
| <i>Other non-current payables</i> | - | 2,502,004 | - | - | - | 13,455,002 | 15,957,006 |
| Total at 31 December 2014 | 1,981,121 | 2,502,004 | - | - | - | 13,455,002 | 17,938,127 |
| Assets minus liabilities at 31 December 2014 | 1,230,897 | (1,071,310) | 419,663 | 295,882 | - | (10,791,602) | (9,916,470) |
| Assets minus liabilities at 31 December 2014 (accumulated) | 1,230,897 | 159,587 | 579,250 | 875,132 | 875,132 | (9,916,470) | |

The FROB's ability to meet its commitments in the years referred to above is guaranteed by the following factors:

At 2015 year-end, the amount of liquid assets exceeds that of the bonds issued by the FROB maturing 2016.

If a mismatch between the maturity of the assets and liabilities occurred from 2016 to 2020, it would be offset by the liquidity available to the FROB at 2015 year-end and by the possibility of realising other assets that mature subsequently, since all have maximum liquidity.

Law 11/2015 allows the capitalization of loans, credits or other debt operation of the FROB in which the General State Administration is a creditor.

Credit risk

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

At 31 December 2015, this risk basically consisted in the existence of a series of convertible contingent bonds that had been subscribed and paid by the FROB as part of the support provided for the various restructuring processes as well as the subordinated debentures issued by SAREB and subscribed by the FROB (see Note 7.3).

Interest rate risk

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

As indicated in Note 8 above, the issue of bonds launched by the FROB earn interest at a fixed rate (5.5% AND 0.218%). The convertible contingent bonds earn interest at a fixed rate of 8.5% with annual increases of 25 basis points in the first year (2014) and 50 basis points from the second year on (2015).

At 31 December 2015, the financial assets exposed to interest rate risk are those held in cash (see Note 5).

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 own issues.

At 31 December 2014, the financial assets exposed to market risk were national debt held in the available-for-sale financial assets category (see Note 7.3 and 7.4).

Other risks

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

11. Other accounts payable to public authorities and tax matters

11.1 Other accounts payable to public authorities

The detail of "Current Liabilities - Trade and Other Payables - Other Accounts Payable to Public Authorities" in the balance sheets at 31 December 2015 and 2014 is as follows:

| | Thousands of Euros | |
|---------------------------------------|--------------------|------------|
| | 2015 | 2014 |
| Tax with holdings payable | 67 | 188 |
| VAT payable | 21 | 6 |
| Accrued social security taxes payable | 42 | 50 |
| Total | 130 | 244 |



11.2 Tax matters

As indicated above, the FROB is exempt from income tax and any indirect taxes that might be payable as a result of its incorporation, operation and the actions or transactions that it may carry out in order to fulfil its objectives.

12. Trade and other payables - Sundry accounts payable

"Trade and Other Payables - Sundry Accounts Payable" in the balance sheet at 31 December 2015 and 2014 include balances payable to several creditors for services.

The accrued expenses for these services in 2015 and 2014 are recognised under "Other Operating Expenses" in the accompanying income statement (see Note 14.3).

13. Provisions and contingencies

13.1 Non-Current provisions

The detail of "Non-Current Provisions" on the liability side of the balance sheet at 31 December 2014 and 2013 is as follows:

| | Thousands of Euros | |
|---|--------------------|------------------|
| | 2015 | 2014 |
| Banco de Valencia asset protection scheme | 526,059 | 646,622 |
| Banco Gallego guarantees | 94,808 | 99,135 |
| CX guarantees | 48,378 | 171,173 |
| NCG Banco guarantees | 396,517 | 378,990 |
| NCG litigations | - | 20,889 |
| Deposit Guarantee Fund hybrids management | 44,750 | 36,738 |
| Total | 1,110,511 | 1,353,547 |

The changes in "Non-Current Provisions" in the accompanying balance sheet in 2015 and 2014 were as follows:

| | Thousands of Euros |
|---------------------------------------|--------------------|
| Balance at 1 January 2014 | 1,074,793 |
| Additions | 212,316 |
| Surplus provisions | (4,665) |
| Updates financial costs (Note 8.7) | 5,735 |
| Other movements | 65,368 |
| Balance at 31 December 2014 | 1,353,547 |
| Additions | 16,716 |
| Transfers to current liabilities | (135,048) |
| Surplus provisions | (151,110) |
| Updates financial costs (Note 8.7) | 21,132 |
| Other movements | 5,274 |
| Balance at 31 December of 2015 | 1,110,511 |

Banco de Valencia S.A. Asset Protection Scheme

As part of the restructuring process of Banco de Valencia, S.A., the FROB granted an Asset Protection Scheme (hereinafter APS) to cover 72.5% of any losses arising from a closed portfolio of assets of Banco de Valencia, S.A. amounting to EUR 6,021,982 thousand, with a ten-year term from 30 September 2012. After the two reductions in 2013, the portfolio of covered assets amounts to EUR 4,978,746 thousand.

At 31 December 2014, based on the evolution of the losses and the expected losses of the portfolio at 31 December 2014, the Management of the FROB has found necessary to increase the provision in an amount of EUR 48,622 thousand against the profit and loss account for the year, recognized under "Allocation to provisions- Allocation to provisions for APS and other responsibilities".

At 31 December 2015, based on the evolution of the losses and expected losses of the portfolio at that date, the FROB has found necessary to reduce the provision in an amount of EUR 120,563 thousand with a debit in the profit and loss account for the year, recognized under "Surplus provisions".

Banco Gallego guarantees

In the Banco Gallego buying process carried out by the FROB in 2013, the FROB granted the buyer "Banco Sabadell, S.A.," certain guarantees primarily related to the assets transferred to SAREB and the use of tax assets of the transferred entity.

At 31 December 2015, the FROB considered, based on the estimations made on the available information that the value of the obligation arisen under the above commitments includes an amount of EUR 94,808 thousand (31 December 2014: EUR 99,135 thousand), so that it proceeded to recognise under the profit and loss for the year 2015 under "Surplus provisions", a surplus provision amounting EUR 4,327 thousand (EUR 4,665 thousand in 2014.)

NCG Banco guarantees

In the procedure relating to the sale of NCG (see Note 6) by the FROB, the FROB has granted to the buyer, "Banesco Holding Financiero 2 S.L.U.," certain assurances related, inter alia, with the transferred assets to SAREB and the use of tax assets of the transferred entity.

At 31 December 2015, the FROB considers, based on the available information, that the present value of the obligation arising from previous commitments amounts to EUR 396,517 thousand (31 December 2014: EUR 378,990 thousand).

As a result the FROB has increased the provision recorded in the amount of EUR 17,527 thousand, with the following breakdown: i) release of provisions amounting to EUR 5,329 thousand credited to the profit and loss for 2015 under "Surplus provisions"; ii) EUR 17,784 thousand correspond to the financial expense for updating provisions reflected in the profit and loss account for 2015; and iii) recognition of EUR 5,072 thousand for the part to be addressed by the Deposit Guarantee Fund (FGD) under the heading "Non-current financial assets - Other financial assets" (see Note 6.)

From the total amount of the provision, EUR 114,848 thousand (EUR 109,772 thousand in 2014) it has to be assumed by DGF. This amount is presented offsetting the amount payable by the FROB to DGF as the price for the sale of its participation in the entity (see Note 8.3& 8.6).

NCG Litigations

As a result of different legal proceedings in relation to the sale of part of the FROB's share to minority shareholders in 2012, the FROB has proceeded to charge to the income statement of the 2014 a provision amounting to EUR 20,889 thousand. In 2015 based on estimates made by its legal advisers, it has proceeded to release all such provision under "Surplus provisions" in the income statement.

Deposit Guarantee Fund guarantee for hybrids management

On 18 July 2013, the FROB and DGF signed an agreement under which the FROB is obligated to quarterly payments due to payment or provisions made by the FROB for any reason arising from judicial and other processes that have their reason on claims regarding the marketing of hybrids as source of retail customer owned shares acquired by the DGF, under the hybrid instruments management actions that FROB approved for NCG and CX on 7 June 2013. In addition, an addendum to these agreements was signed on 13 December 2013, in relation to payments that the FROB should make to the DGF if it sells its shares of the latter (see Note 13.2).

Based on estimates, the FROB has proceeded to increase, charged to the income statement for 2015, the provision recognized for this item amounting to EUR 16,619 thousand (EUR 11,088 thousand in 2014) found recognized under " Allocation to provisions-Allocation to provisions for APS and other responsibilities ". It has also recognized EUR 2,479 thousand for the financial expense reflecting the update of provisions in 2015 profit and loss account (EUR 563 thousand in 2014). Finally, the FROB has proceeded to transfer to current liabilities for 2015 a provision of EUR 11,110 thousand which has been settled during the year.

CX Guarantees

In the process of selling CX and its loans portfolio, the FROB granted certain guarantees to buyers, among which the main commitment is to sign the subordinated bond issued by the Assets Securitization Fund in the context of the sale, as well as the contingency arising from the divestment in an investee (see Note 6 & 13.2).

At 31 December 2015, the FROB considers on the basis of the estimates that the present value of the obligation arising from the commitments amounted EUR 48,378 thousand (EUR 171,173 thousand at 31 December 2014).

During the financial year, the FROB has proceeded to: i) increase the recorded provision in the amount of EUR 1,447 thousand, of which EUR 1,022 thousand were charged to the profit and loss account for the year under "Financial expenses - Provisions updating" and EUR 425 thousand, charged to "Current investments - Other financial assets" in the accompanying balance sheet at 31 December 2015, corresponding to the amount borne by the Deposit Guarantee Fund, which as already is indicated was settled in September 2015 (see Note 6 & 7.5); ii) transfer to current liabilities, considering the estimated maturity of the guarantees, EUR 124,000 thousand.

At 31 December 2014, the FROB registered a provision of EUR 171,173 thousand, of which EUR 114,827 thousand were charged to the income statement of 2014 under "Allocation to provisions -allocation to provisions for APS and other responsibilities" and the remaining amount, EUR 56,346 thousand (see Note 7.5), corresponding to the amount that would have to be attended by the Deposit Guarantee Fund in the selling, under the section "Current financial investments - Other financial assets".

13.2 Current provisions

The detail of "Current provisions" of the liabilities in the balance sheet at 31 December 2015 and 2014 is as follows:

| | Thousands of Euros | |
|---|--------------------|----------------|
| | 2015 | 2014 |
| Banco Ceiss review mechanism | 98 | 4 |
| Banco Ceiss compensation mechanism (Note 7.7) | 100,378 | 227,265 |
| Deposit Guarantee Fund hybrids management | - | 23,575 |
| CX guarantee | 124,000 | 664,279 |
| Other provisions | 1,400 | 1,400 |
| Total | 225,876 | 916,523 |

The changes in 2015 and 2014 in the balance of this item were as follows:

| | Thousands of Euros |
|---------------------------------------|--------------------|
| Balance at 1 January 2014 | 378,936 |
| Allocations | 722,632 |
| Provision surplus | (5,651) |
| Other movements | 218,663 |
| Applications | (398,057) |
| Balance at 31 December 2014 | 916,523 |
| Allocations | 96 |
| Transfer from non-current liabilities | 135,048 |
| Other movements | 132 |
| Applications | (825,924) |
| Balance at 31 December of 2015 | 225,876 |

Banco Ceiss review mechanism

Under the Unicaja Banco exchange offer of shares and convertible securities of Banco Ceiss on 26 November 2013, the Governing Committee of the FROB approved a revision procedure for the marketing of preferred shares and subordinated debt of Banco Ceiss that allowed retail customers of the entity that had accepted the offer of Unicaja Banco, to get a similar protection to that enjoyed by the holders of hybrid products of the nationalized entities, to which is applicable Royal Decree-Law 6/2013, of 22 March, on the protection of holders of certain savings and investment products and other financial measures.

As a result, the FROB recorded the estimated cost to meet this commitment under "Allocation to provisions-allocation to provisions for APS and other responsibilities" in the income statement of 2013 amounting EUR 187,500 thousand.

In 2014 the FROB made the payments to those holders who obtained in the revision a favourable result amounting to EUR 187,559 thousand.

Also, there has been an additional allocation to the provision made in 2013 amounting to EUR 63 thousand under "Allocations to provisions-allocation to provisions for APS and other responsibilities" in the income statement, remaining a balance at year-end 2014 of EUR 4 thousand.

In 2015 there has been an additional allocation to the provision made in 2014 amounting to EUR 96 thousand under the heading "Allocation to provisions - Allocation to provisions for EPA and other liabilities" in the consolidated income statement, and a remaining balance at year-end 2015 of EUR 98 thousand due to payments totalling EUR 2 thousand.

Banco Ceiss compensation mechanism

In March 2014, the FROB informed Banco Ceiss about the agreement of its Governing Committee in relation to amending the resolution plan for the entity. This change, approved by the Banco de España and the European Commission, includes: (i) the distribution between the FROB and the Banco Ceiss of the negative effects that may have the grievance procedures required by holders of convertible and contingently convertible bonds of Banco Ceiss not acceptant of the Offer, so that the FROB will assume 71% of this impact, up to EUR 241 million net of the compensation the FROB may receive under the Compensation Mechanism referred to below, assuming the Banco Ceiss the remaining 29%, and (ii) a mechanism under which the FROB will receive as compensation for assuming the above 71%, the corresponding proportion of shares or bonds from Banco Ceiss coming from management actions of hybrid instruments and subordinated debt (Compensation Mechanism).

Consequently, the FROB recorded a provision amounting to EUR 241,000 thousand under "Allocation to provisions-Allocation to provisions for APS and other responsibilities" of the income statement for 2014.

In 2015 the FROB has made payments amounting to EUR 159,744 thousand (EUR 17,609 thousand in 2014), which has resulted in the delivery of securities of Banco Ceiss to the FROB for a total amount of EUR 32,857 thousand (EUR 3,875 thousand in 2014), which is recorded in "Non-current assets - Other financial assets" (see Note 7.7). Therefore, the value of the liability recorded by the FROB, at 31 December 2015, amounted to EUR 100,378 thousand (EUR 227,265 thousand in 2014.)

Deposit Guarantee Fund guarantee for hybrids management

As indicated in Note 13.1, and based on estimations, the FROB recognised in 2014 a provision with charge to the income statement amounting to EUR 23,575 thousand under "Allocation to provisions-Allocation to provisions for APS and other responsibilities"; outstanding at 31 December 2014, it was settled in 2015.

CX guarantees

As Indicated in Note 13.1, in 2015 has been transferred from non-current liabilities based on the estimated timing of settlement of guarantees, EUR 124,000 thousand (at 31 December 2014 the balance contained in the balance sheet was EUR 664,278 thousand), but has had no impact on the income statement for 2015 (EUR 445,613 thousand in 2014 under the heading " Allocation to provisions-Allocation to provisions for APS and other

responsibilities" and EUR 218,666 thousand under the heading "Current financial assets - Other financial assets" (see Note 7.5).

Also in 2015, the following events have led to the application of the provision recorded at 31 December 2014: i) the subscription of the subordinated bond issued by the Assets Securitization Fund (see Notes 6 & 7.3), amounting to EUR 524,878 thousand, has been carried out; ii) liquidation of one of the guarantees granted amounting to EUR 139,400 thousand.

13.3 Other guarantees and contingent liabilities

In the sale processes carried out by the FROB of CAM, Unnim Banc, S.A. and Banco de Valencia, the FROB granted the purchasers, Banco Sabadell, BBVA and CaixaBank, respectively, certain tax guarantees that mainly affect the use of the transferred entities' tax assets.

At 31 December 2015, the FROB deemed it unlikely that any obligation would arise from these commitments and, accordingly, it did not recognise any provision in the 2015 annual accounts in connection with this.

13.4 Contingent assets

At 31 December 2015 and 2014, the FROB did not hold any contingent assets.

14. Income and expenses

14.1 Net amount of the turnover

This item in the income statement includes, according to the fifth transitory provision of Law 11/2015, the fee amount accrued in 2015 for the activities performed by the FROB as Resolution Authority, amounting to EUR 17,279 thousand.

The expiration date ends on 20 January 2016, so at 31 December 2015 is included a balance under "Trade and other receivables" in the accompanying balance sheet amounting to EUR 2,171 thousand. Once the deadline is over, all entities have made payment of the fee, but two entities are in bankruptcy, and together represent an amount of EUR 11 thousand, which has been recognized under "Losses, impairment and changes in trade provisions" in the income statement (see Note 14.3).

| | Thousands of Euros | |
|--|--------------------|----------|
| | 2015 | 2014 |
| Fee for activities conducted by the FROB as Resolution Authority | 17,279 | - |
| Total | 17,279 | - |

14.2 Staff costs and average headcount

The detail of "Staff Costs" in the accompanying income statements for 2015 and 2014 is as follows:

| | Thousands of Euros | |
|--------------------------------------|--------------------|--------------|
| | 2015 | 2014 |
| Wages, salaries and similar expenses | 3,072 | 3,477 |
| Social security costs | 416 | 484 |
| Other social costs | 81 | 134 |
| Total | 3,569 | 4,095 |

The average number of employees at the FROB in 2015 by professional category and gender, is shown in the following table:

2015

| | Average Number 2015 | | | Total Number 31 December 2015 | | |
|--------------------|---------------------|--------------|--------------|----------------------------------|-----------|-----------|
| | Men | Women | Total | Men | Women | Total |
| Senior Management* | 3.73 | 1.78 | 5.51 | 4 | 2 | 6 |
| Group II | 10.32 | 4.67 | 14.99 | 11 | 7 | 18 |
| Group III | 5.02 | 4.65 | 9.67 | 3 | 4 | 7 |
| Group IV | 1.00 | 2.83 | 3.83 | 1 | 3 | 4 |
| Group V | - | 2.78 | 2.78 | - | 3 | 3 |
| Total | 20.06 | 16.72 | 36.78 | 19 | 19 | 38 |

*Pursuant to Royal Decree 451/2012, of 5 March, on the regulation of emoluments of senior management in the public business sector and other entities.

The average number of employees at the FROB in 2014 by professional category and gender, is shown in the following table:

2014

| | Average Number 2014 | | | Total Number 31 December 2014 | | |
|--------------------|---------------------|--------------|--------------|----------------------------------|-----------|-----------|
| | Men | Women | Total | Men | Women | Total |
| Senior Management* | 4.11 | 1.00 | 5.11 | 4 | 1 | 5 |
| Group II | 14.70 | 6.00 | 20.60 | 13 | 6 | 19 |
| Group III | 6.00 | 5.00 | 11.00 | 6 | 5 | 11 |
| Group IV | 1.00 | 3.00 | 4.00 | 1 | 3 | 4 |
| Group V | - | 4.00 | 4.00 | - | 4 | 4 |
| Total | 25.81 | 19.00 | 44.81 | 24 | 19 | 43 |

*Pursuant to Royal Decree 451/2012, of 5 March, on the regulation of emoluments of senior management in the public business sector and other entities.

14.3 Other operating expenses

The detail of "Other Operating Expenses" in the income statements for 2015 and 2014 is as follows:

| | Thousands of Euros | |
|--|--------------------|--------------|
| | 2015 | 2014 |
| Leases | 626 | 634 |
| Deposit Guarantee Fund services | - | 47 |
| Outside professional services | 1,635 | 3,792 |
| Representatives at entities | 549 | 1,649 |
| Banking and similar services | 280 | 205 |
| Other operating expenses | 309 | 295 |
| Losses, impairment and changes in trade provisions (Nota 14.1) | 11 | |
| Governing Committee (Note 15) | 122 | 114 |
| Total | 3,532 | 6,736 |

"Outside Professional Services" in 2015 and 2014 includes, primarily, amounts invoiced by different external advisers commissioned by the FROB in order to perform work in the credit institutions restructuring and resolution processes.

In 2015 the remuneration of all kinds of the FROB's representatives at the entities in restructuring and resolution processes amounted to EUR 549 thousand (31 December 2013: EUR 1,649 thousand).

14.4 Other disclosures

In 2015, the fees for the audit services and other services provided by the FROB's auditor, Grant Thornton, SLP., or any company related to the auditor for control, common ownership or management were as follows (in thousands of Euros):

| | Services Provided by the Auditor and Related Companies |
|---|--|
| Audit services | 50 |
| Other attest services | - |
| Total audit and related services | 50 |
| Tax counselling services | - |
| Other services | 3 |
| Total professional services | 3 |

In 2014, the fees for the audit services and other professional services provided by the auditor of the FROB, Grant Thornton, S.L.P., or by a firm related to the auditor of control, common ownership or common management were as follows (in thousands of euros):

| | Services Provided by the Auditor and Related Companies |
|---|--|
| Audit services | 50 |
| Other attest services | - |
| Total audit and related services | 50 |
| Tax counselling services | - |
| Other services | 3 |

15. Transactions and balances with related parties

The detail of the balances recognised by the FROB with related parties in these annual accounts for 2015 and 2014 is as follows (figures in thousands of Euros):

2015

| | Banco de España | Investees | Governing Committee and Senior Management |
|---|-----------------|------------|---|
| Assets: | | | |
| Non-current investments in Group companies and associates – Equity instruments (Note 7.3) | - | 11,416,934 | - |
| Non-current assets classified as held for sale (Note 6) | - | - | - |
| Cash and cash equivalents - Cash (Note 5) | 15,946 | - | - |
| Income statement: | | | |
| Finance income (Note 5) | - | - | - |
| Other income - other income | - | 140 | - |
| Staff costs (senior management) | (2) | - | - |
| Other operating expenses (Note 14.3) | - | - | 845 |

2014

| | Banco de España | Investees | Governing Committee and Senior Management |
|---|-----------------|------------|---|
| Assets: | | | |
| Non-current investments in Group companies and associates – Equity instruments (Note 7.3) | - | 12,739,464 | - |
| Non-current assets classified as held for sale (Note 6) | - | 781,728 | - |
| Cash and cash equivalents - Cash (Note 5) | 660 | - | - |
| Income statement: | | | |
| Finance income (Note 5) | - | - | - |
| Other income - other income | - | 100 | - |
| Staff costs (senior management) | - | - | 718 |
| Other operating expenses (Note 14.3) | - | - | 114 |

In 2015 the FROB recognised an expense for EUR 122 thousand (31 December 2013: EUR 114 thousand) related to attendance fees relating to the Governing Committee (see Note 14.2).

At 31 December 2015 the FROB had granted no advances or loans and had acquired no pension, life insurance or guarantee obligations to any of the previous or current members of its Governing Committee.

16. Fair value of financial instruments

Given the composition of the FROB's assets and liabilities at 31 December 2015, the fair value of assets and liabilities not measured at fair value are not significantly different compared to that for which they were recognised in the financial statements for 2015.

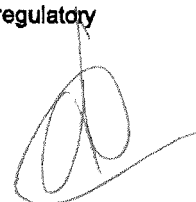
17. Events after the reporting period

The most significant events occurring between the reporting date and the date of authorisation for issue of these financial statements are as follows:

- On 31 March 2016 Ibercaja Bank has proceeded to amortize the 5% (EUR 20.4 million) of issued CoCos by Banco Grupo Caja 3 and signed by the FROB in 2013 plus interest accrued since the last coupon payment date.
- In relation to the sale of the asset portfolio of Catalunya Banc formalised in April 2015, it has been carried out a review process of initial credit rights (perimeter), as provided by the Assets Securitization Fund deed, which has meant an adjustment of said perimeter of EUR 1.3 million. Based on this, on 5 April 2016, the Bond B subscribed by the FROB has been partially repaid with EUR 174.8 million, corresponding the rest to Bond A. As a result of this partial redemption, the FROB must make a payment to the Deposit Guarantee Fund amounting to EUR 57.5 thousand.
- Regarding SAREB as a result of losses from the valuation of their assets by the application of Circular 5/2015, of 30 September, the Banco de España, after which the accounting specificities of SAREB develop, having at 31 December 2015, situated the equity capital of the company in negative balance, so it was materialized one of the assumptions for conversion of subordinated debt into shares. Thus, the General Meeting of Shareholders on 5 May 2016 approved the following in order to restore its equity: i) reduce to zero the original capital to absorb losses; ii) converting a subordinated debt amount sufficient to offset the remaining existing losses and obtain a composition of equity after conversion equal to 2% of the total assets of the company; iii) make a further reduction in capital to reduce the remaining losses by reducing the nominal value of the new shares; and iv) a further reduction in capital by reducing nominal value of shares to constitute a voluntary restricted reserve, so that the share capital of the company becomes EUR 304 million. The shareholder composition, as percentages of participation is concerned, does not suffer significant variations from the original situation. The FROB now has a 45.9% both in the capital and extant subordinated debt. The agreements have been published in the Bulletin of the Mercantile Register on 30 May 2016, being on the date of preparation of these financial statements pending its registration in the commercial register.
- On 6 May 2016, Grupo Banesco has proceeded to pay EUR 300 million of the deferred sale price of NCG Banco, SA, representing an advance on the payment schedule initially foreseen in the contract of sale of the entity. The outstanding amount receivable, at the date of preparation of these financial statements, is EUR 300 million.
- The fee for the activities performed by the FROB as resolution authority for 2016 has been settled. The amount totalled EUR 18,206 thousand.

18. Explanation added for translation to English

These annual accounts are presented on the basis of the regulatory financial reporting framework applicable to the Fund (see Note 2.1). Certain accounting practices applied by the Fund that conforms to that regulatory framework may not conform to other generally accepted accounting principles and rules.



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

FROB

Management Report for the year ended 31 December 2015

1. CONCLUSIONS

In 2015 the action of the FROB has covered two aspects: i) on the one hand, adaptation to the new European resolution framework established by Directive 2014/59 /EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the restructuring and resolution of credit institutions and firms providing investment services, and the consequent transposition into Spanish law, and ii) on the other hand, the management and monitoring of the different processes of restructuring and resolution of entities receiving public funds held in recent years that continue their course.

Regarding the first aspect, Directive 2014/59/EU began a process of harmonization of resolution and provides for cooperation between resolution authorities to address the infeasibility of cross-border banks. In particular, it provides for the widespread use of the preventive phase of the resolution, namely that all institutions should have resolution plans that provide for what to do if they come into difficulties; extends the requirement for allocating losses to the private sector ("bail-in"). Furthermore, Regulation (EU) No 806/2014 of The European Parliament and of The Council of 15 July 2014 establishes uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism (SRM), as a further step in achieving a Banking Union in the field of the European Union.

In this sense, as pillars of the Single Resolution Mechanism (SRM), a centralized resolution power is entrusted to the Single Resolution Board (SRB) and the national resolution authorities. The Board, who started its action in 2015 as a European resolution authority is directly responsible for the planning and execution of the resolution of the major banks. The other great pillar of the SRM is the Single Resolution Fund, which is scheduled for 1 January 2016.

Nationally, the transposition into Spanish law of the Directive 2014/59/EU has been carried out by Law 11/2015, of June 18, on recovery and resolution of credit institutions and investment services firms and Royal Decree 1012/2015, of November 6, whereby the aforementioned Law 11/2015 develops. Thus, a new institutional model is set for the resolution, based on the fundamental premise of separation of functions of supervision and resolution, distinguishing the following figures: i) Preventive Resolution Authorities (Banco de España and National Market Commission through internal organs acting with operational independence) and ii) Executive Resolution Authority (FROB).

Additionally, the National Resolution Fund (NRF) is formed as a mechanism for financing resolution measures that execute the FROB as the National Executive Resolution Authority, who also is responsible for its management and administration. The financial resources of the Fund should reach at least 1 percent of the guaranteed deposits of all entities no later than 31 December 2024. From 1 January 2016, Spanish credit institutions make their contributions to the Single Resolution Fund and the NRF will act only for investment services firms which are within the scope of Law 11/2015 and are not subject to consolidated supervision by the European Central Bank. In this sense, the last months of 2015 have been intense in work preparation and organization facing the collection of contributions of the relevant entities bound both for the financial year 2015 as for 2016 made by the Authority of National Resolution, these calculations were made by the Board, ensuring compliance with the established timelines.

Therefore, the new scenario and institutional framework in which the FROB must from now perform its duties, and in particular the operationalization of the Board, implies the need of close coordination among the different national resolution authorities and between national and European. Thus, the FROB, as a member of SRM has participated in 2015 in the different meetings of the plenary of the Board, as well as multiple committees and working groups set up within it.

Simultaneously, the FROB has continued to implement the ongoing processes of restructuring and resolution, as well as the management and monitoring of the various financial support and guarantees provided in the context of these processes. For this purpose, it should be noted that under the transitional provision of Law No 11/2015, the restructuring and resolution procedures initiated prior to the entry into force of the Act, as well as all ancillary measures that have accompanied them, including financial support instruments and management of hybrid instruments, will continue to be regulated until its conclusion, by the rules of previous application.

The resolution and restructuring plans were elaborated under the Financial Assistance Programme for Spain for recapitalization of the financial industry reflected in the Memorandum of Understanding (MoU) signed in July 2012 by the Spanish and European Authorities. The resolution plans included the following general scheme: (i) the transfer of troubled assets to the assets management company (SAREB), materialized in December 2012 and February 2013; (ii) major business adjustment measures, as well as staff and branch network reductions by entities that received public funds under the rules and precedents on State aid; (iii) an exercise of sharing the financial burden (burden sharing) affecting shareholders and holders of hybrid instruments, also completed for all entities; (iv) injection of public funds, subscribed and paid between December 2012 and April 2013.

Furthermore, the processes to respond to claims related to the commercialization of hybrid instruments issued by BFA-Bankia and Catalunya Banc are near completion.

With regard to the different sales processes, under the resolution process of Catalunya Banc, S.A. on 15 and 24 April 2015 were formalized, respectively, the sale of a portfolio of assets of the entity to Blackstone and the sale of the entity to Banco Bilbao Vizcaya Argentaria, SA, assuming the FROB in both cases certain commitments and guarantees.

Moreover, under the protocol of actions previous to exercise legal actions applicable to all those credit institutions which are in a process of restructuring or resolution approved in 2013, during this year operations with significant impact on equity, indications of irregularities or without a logical economic purpose have been revised. As a result forensic reports received in relation to different operations of Nova Caixa Galicia and BMN were sent to the Special Prosecutor Against Corruption and Organized Crime.

Finally, the Governing Committee of the FROB agreed, in view of the agreement of the Executive Committee of the Banco de España on the non-appropriateness of initiating a process of resolution of Banco Madrid, S.A.U, to send communication to the Commercial Court No. 1 Madrid, of not opening a process of resolution of the institution in the framework of Law 9/2012 of 14 November, on restructuring and resolution of credit institutions.

2. ORGANISATION AND OPERATION. RELEVANT MATTERS

With regard to organisational and operational aspects of the FROB, the year was marked by internal adaptation to the new regime and duties entrusted by Law 11/2015. In this sense, the most important aspects were as follows:

- A Royal Decree 696/2015, of 17 July, appointed Jaime Ponce as Chairman of the FROB. He was also appointed as representative of the Spanish resolution authorities in the Single Resolution Board (SRB) and of the FROB in the Board of SAREB.
- In accordance with the eleventh additional provision of Law 11/2015, the Governing Committee of the FROB was established according to Article 54 of the Act, and the new rule governing its organization and operation was approved.
- The new organizational and functional structure of the various administrations of the FROB was approved.
- New Internal Procedures of the FROB for contracting were approved in order to adapt the contractual activity of the FROB to the scheme established by Law 11/2015 on procurement.
- The regulations that should govern the operation of the National Resolution Fund were approved and also the agreement on ex ante contributions to the National Resolution Fund corresponding to 2015 and to carry out the corresponding actions for their collection.

- It was established through a Regulation of the Governing Committee of 24 November 2015 (BOE. 27 November 2015) the official liquidation model of the fee² for the activities performed by the FROB as resolution authority, established in the Law 11/2015 to cover the operating expenses of the entity. It were also carried out the corresponding actions for recovery of amounts corresponding to the fees for the year 2015, which amounted to EUR 17 million.

Additionally, the annual accounts and management report of the FROB for 2014 have been formulated and approved, as well as its referral to the Ministry of Economy and Competitiveness and the General Audit Office of the State Administration for inclusion in the General State Account and transfer to the Spanish National Audit Office; and the budget for 2016 of the FROB was approved in order to be integrated into the State Budget.

3. FINANCIAL TRANSACTIONS

In connection with the loan agreement between the State, as lender, and FROB, as borrower, signed in December 2012 for the purpose of channelling entities funds from the Financial Assistance Program to Spain³, during 2015 the FROB has been making the payments in fees and interest generated by the first and second disbursement of the Program. To this end, we must remember that financial conditions attached to this loan are the same as the loan signed between the Kingdom of Spain and the ESM. Therefore, after returns carried out in 2014⁴, and the transformation into equity contribution of part of the loan (EUR 27,170 million) which occurred in December 2013, the outstanding balance of the loan from the state to FROB at 31 December 2015 amounted to EUR 13,455 million.

Regarding the issues in circulation of the FROB, in 2015, under the process of selling the asset portfolio of Catalunya Banc, S.A., a new FROB bond for an amount of EUR 520 million was issued. Accordingly, at 31 December 2015 the detail of the outstanding issues is as follows:

| ISIN | COUPON | MATURITY | NOMINAL (million Euros) |
|--------------|--------|------------|----------------------------|
| ES0302761020 | 5,50% | 12/07/2016 | 2,505 |
| ES0302761046 | 0,218% | 30/04/2017 | 520 |
| TOTAL | | | 3,025 |

At 31 December 2015, the FROB's issue of non-convertible bonds described above had a credit rating of Baa2 from Moody's, BBB+ from Standard & Poor's and BBB+ from Fitch.

Moreover, the FROB's debt limit established by Law 36/2014 of 26 December on the General State Budget for 2015 was of EUR 22,000 million, being at year end 2015 at EUR 18,161 million. Also, the FROB has the capacity to issue, with State guarantee, an amount of EUR 12,495 million additional to those already issued.

In regard to the FROB's cash management in 2015 it has continued with the operation approved in 2013, through the following instruments: remunerated current accounts, government bonds and repos; contributing to improve the financial margin taking advantage of the depo/repo spread.

²Under the sixteenth additional provision, the amount of the fee will be the result of applying a tax rate of 2.5% to the amount that each entity must provide in respect of annual regular contribution to the Fund of National Resolution or, if applicable, to the Single Resolution Fund. Competition for management, assessment and collection of the fee corresponds to the FROB.

³The first disbursement (EUR 39,468 million) was used for the recapitalization of Group 1 entities (BFA-Bankia, NCG Banco, Catalunya Banc and Banco de Valencia), as well as to fund the FROB contribution to SAREB, while the second disbursement (EUR 1,865 million) went to the recapitalization of Group 2 entities (Banco Mare Nostrum, Banco Ceiss, Caja 3 and Liberbank).

⁴ On the one hand, the return of funds not applied to SAREB (EUR 307.64 million) and, on the other hand, a partial voluntary amortization (EUR 1,304 million, of which EUR 399 million were supported by the FROB).

4. RESTRUCTURING AND RESOLUTION OF CREDIT INSTITUTIONS PROCESSES SITUATION

The amount of aid subscribed by the FROB under the Financial Assistance Program in effect at 31 December 2015 is as follows:

| Contingent convertible bonds | FROB Approval | Status | Amount of Assistance (Millions of Euros) | Payment Date | |
|---|-------------------------|---------------------|--|-------------------------|------------|
| CAJA 3 (Ibercaja) | | | | | |
| Caja Círculo de Burgos, CAI, Caja Badajoz | 03/08/2013 | Subscribed and paid | 407 | 03/12/2013 | |
| Celss (Unicaja Group) | | | | | |
| Cajas de Ahorros Caja España y Caja Duero | 04/24/2013 | Subscribed and paid | 604 | 04/30/2013 | |
| Shares | FROB Approval | Status | Amount of Assistance (Millions of Euros) | Payment Date | % Acquired |
| BANCO FINANCIERO Y DE AHORROS | | | | | |
| Cajas de Ahorro de Madrid, Bancaja, Caja Ávila, Caja Segovia, Caja Insular de Canarias, Caixa Laletana y Caja Rioja | 09/03/2012 & 11/27/2012 | Subscribed and paid | 17,959 | 09/12/2012 & 12/26/2012 | 100.0% |
| BMN | | | | | |
| Caja Murcia, Caixa Penedés, Sa Nostra, Caja Granada | 02/15/2013 & 03/08/2013 | Subscribed and paid | 1,645 (*) | 02/19/2013 y 03/12/2013 | 65.0% |
| Total | | | 20,615 | | |

(*) In BMN case EUR 915 million preference shares are included, which were converted into capital in February 2013, plus EUR 730 million of the capital increase subscribed by the FROB in March of that year.

Below is a brief description of the development of the mentioned processes.

4.1 Ongoing processes

Banco Financiero y de Ahorros, S.A. (BFA)

The total aid received by the BFA group amounted to EUR 22,424 million, of which: i) EUR 4,465 million were contributed by subscribing in 2010 preference shares converted into capital in 2012 by the FROB; and ii) EUR 17,959 million correspond to capital requirements under the restructuring plan after the transfer of assets to SAREB and management exercise of hybrid instruments. After these aids the FROB happened to have 100% of BFA and participation of BFA in Bankia stood at 68.39%.

After the sale on 28 February 2014 of a BFA stake in Bankia, S.A. representing 7.5% of the company and a total value of EUR 1,304 million (it is worth to mention that the operation has not required any commitment or guarantee by the FROB) and the execution of final judgments of the courts by poor marketing of hybrids, the share of BFA in Bankia S.A. was the 64.23%.

Since 2 January 2015, following the authorization of the Banco de España, BFA has ceased to operate as a credit institution.

The Restructuring Plan of the entity is still developing properly.

In connection with the public offering of shares of Bankia, the Governing Committee of the FROB, as sole shareholder of BFA, agreed at its meeting on 26 February 2015 to acknowledge the Board of Directors of BFA the power to enter into a sharing agreement between BFA and Bankia on contingencies arising from civil lawsuits related to the tender offer, with a limit sharing of EUR 780 million (contingency amount initially estimated by the group); in December 2015 this limit has been extended up to EUR 1,840 million.

Also, the distribution percentages between the two entities within the limit of EUR 1,840 million are as follows: Bankia assumes a primary responsibility trench up to 40% and BFA assumes the remaining 60%. The amounts have been provisioned in the 2015 financial statements of both entities.

Banco Mare Nostrum, S.A. (BMN)

BMN has received a total of EUR 1,645 million in public aid, of which EUR 915 million initially were subscribed in 2010 by the FROB in preference shares converted into capital in February 2013. Subsequently, the restructuring plan recognized a capital need of EUR 730 million, following the transfer of assets to the SAREB, the hybrids management exercise and the sale of the branches of Caixa Penades to Banco Sabadell.

After injection of public aid, on 12 March 2013 by the FROB in the form of common shares of the bank, and the management exercise of hybrids, the extent of the FROB in the capital of BMN is 65%.

The entity has met all the milestones required by its restructuring plan by the end of 2014, related to liquidity and reducing balance and loan portfolio, divestment in subsidiaries, and staff and offices adjustments.

Banco Ceiss, S.A.

Ceiss Bank received a total aid amounting to EUR 1,129 million: i) EUR 525 million in 2010 in the form of preference shares subsequently converted into equity and amortised in 2013; and ii) EUR 604 million euros in contingently convertible bonds (CoCos) subscribed by the FROB in April 2013. To date Ceiss Bank has paid all accrued interest on these instruments.

Also, under the resolution plan of the entity that involved Unicaja integration into the group, the FROB granted certain guarantees. Regarding the so-called "Compensation Mechanism" (maximum amount of EUR 241 million), payments made by the FROB in 2015 for this concept amounted to EUR 170 million, to which must be added the EUR 7 million settled in 2014, which implies that the FROB holds shares in the company worth EUR 127 million. However, the FROB will have the right to sell and Bank CEISS the obligation to buy these shares when the payment made by the FROB under this warranty exceeds the EUR 241 million net of the resulting value of that mechanism and, in any case, as from 31 December 2017.

Regarding the Review Mechanism approved by the FROB in 2013, which allowed retailers holders of hybrid instruments of Bank Ceiss to accept the offer of Unicaja, and provided it prosper, the possibility of undergoing a Review Mechanism of the marketing processes by which they acquired, at the time, preferred shares and subordinated debt, it is finished.

Ibercaja Banco (former Banco Grupo Caja 3, S.A.)

As for the restructuring plan of the company, they have fulfilled the major commitments established: (i) integration into Ibercaja (the merger occurred on 1 October 2014 and the former Caja 3 shareholders have a combined share of 12.20% of Ibercaja); (ii) transfer of assets to SAREB; (iii) performance of the hybrids management exercise; (iv) reduction of entity structure by divesting non-core businesses, reducing branches and staff; (v) injection of public funds by the FROB as contingently convertible debentures (CoCos) amounting to EUR 407 million. In 2015, the entity has paid all interest accrued on these instruments.

4.2 Finished processes

The situation of the various entities that were in the resolution process is as follows:

Catalunya Banc, S.A. (CX)

The total aid received by Catalunya Banc amounts to EUR 12,052 million. The Resolution Plan approved in 2012 recognized a capital need of EUR 9,084 million, following the transfer of assets to the SAREB and exercise management of hybrid instruments. After injection of state aid and the hybrid management exercise in 2013 the final extent of the FROB in the capital of Catalunya Banc was 66%.

In July 2014, under the divestment of the FROB in Catalunya Banc, the entity allocated to Blackstone a loan portfolio (portfolio Hercules). The sale involved the transfer of the portfolio to an Assets Securitization Fund (ASF) and to other companies of the Blackstone Group, and included support from the FROB.

The transaction was structured as follows: the securitization fund recognizes in its assets the loan portfolio transferred by Catalunya Banc and in its liabilities the issue of two types of bonds: class A (Senior) signed by

funds managed by Blackstone and class B (EUR 524.9 million) subscribed by the FROB and subordinated to the former. Also, the FROB granted the FTA a line of credit up to EUR 400 million.

Moreover, the Governing Committee of the FROB, at its meeting on 21 July 2014, after a competitive process, agreed the award of Catalunya Banc to Banco Bilbao Vizcaya Argentaria, S.A., for an amount of EUR 1,165 million, corresponding to 98.4% of the capital of the entity, corresponding to the FROB 66.01% and the remaining 32.39% to the Deposits Guarantee Fund. This transaction was formalized on April 24, 2015. In this sense, the FROB proceeded to value at 31 December 2014 its participation in that entity to the selling price that corresponded, EUR 781.7 million, so in 2015 the formalization of the operation and, therefore, the actual sale of the company has not had any impact on the profit and loss account for 2015.

Additionally, as part of the sales process of both the portfolio of assets and the entity, the FROB has granted a number of guarantees, registering a provision at 31 December 2014 amounting to EUR 835 million (including EUR 524.9 million of the mentioned Bond B), of which EUR 560 million correspond to the part the FROB must assume and the remaining to the corresponding amount to the Deposit Guarantee Fund.

In this regard, in 2015, the following facts have led to applications of the constituted provision, without, therefore, having had an impact on the profit and loss for the year: (i) subscription bonus class B amounting to EUR 524.9 million, applying the provision for the recognition of impairment of the entire amount of the bond, perfecting the payment through the issuance by the FROB of simple bonds guaranteed by the state amounting to EUR 520 million, fully subscribed and issued directly by Catalunya Banc, and the rest in cash; (ii) settlement of one of the guarantees granted by the amount for which it was provisioned (EUR 139.4 million). Consequently, the provision made at the end of 2015 amounted to EUR 172 million.

Meanwhile, the balance drawn on the credit facility at 31 December 2015 is EUR 16 million and has generated interest income of EUR 0.7 million.

With regard to the part of the Deposit Guarantee Fund in operation, on 4 September 2015 a settlement amounting to EUR 107.7 million occurred.

Liberbank, S.A.

The restructuring plan of Liberbank, approved in December 2012, included a series of major measures that were undertaken during 2013: (i) injection of public funds by the FROB in the form of convertible contingently debentures (CoCos) for EUR 124 million disbursed on 12 March 2013; (ii) transfer of assets to the SAREB (transfer price of EUR 2,917 million); (iii) management exercise of hybrids.

Additionally, Liberbank went public on 16 May 2013 with a capital increase whose shares were delivered to holders of preferred shares and subordinated debt under the management exercise of hybrid instruments.

The company has proceeded to the return of the public aids, prior authorization from the Banco de España, of EUR 124 million on 22 December 2014.

NCG Banco S.A. (NCG)

The total aid received by NCG Banco amounted to EUR 9,052 million. The Resolution Plan, approved in November 2012, recognized capital needs of EUR 5,425 million, following the transfer of assets to SAREB and the management exercise of hybrid instruments. After the injection of state aid, the hybrid management exercise and the termination of the arbitration process the final extent of the FROB in the capital of NCG Banco was 62.7%.

On 18 December 2013, the Governing Committee of the FROB agreed the award of the 88.33% of the shares of NCG (owned by the FROB and DGF) to Banco Echeverría-Grupo Banesco amounting to EUR 1,003 million, with the following payment schedule: 40% at the time of formalizing the sale and the remaining 60% in successive instalments through 2018. On 25 June 2014 became effective the compliance of all the conditions precedent in the contract of sale, resulting in the effective transfer of the shares on that date. At that time, Banesco proceeded to pay the first EUR 403 million.

Furthermore, in order to maximize the sale price and minimizing the use of public resources, certain guarantees were granted to NCG. The FROB maintains its cover for contingencies with a provision, at 31 December 2015, amounting to EUR 396 million.

In this respect, until the date of execution of the annual accounts for 2015 two contingencies guaranteed in the contract of sale have materialized, for a total amount of EUR 160.7 million, although it should be noted that the payment by the FROB in guarantees will not be made until the amount of money from the sale of shares is not fully paid, or until the amount of accrued warranties and unpaid exceeds the outstanding amount, in which case the difference has to be paid.

Also, on 6 May 2016, Banesco has settled the second payment of the sale price of the company for EUR 300 million, so the deferred price pending collection at the date of preparation of 2015 accounts amounted to EUR 300 million.

Banco Gallego, S.A.

On 19 April 2013, to comply with the provisions of the Resolution Plans for NCG Banco and Banco Gallego both entities were sold to Banco Sabadell, which includes the transfer of all the shares composing the share capital of the company at a price of EUR 1, and the effectiveness of this contract was subject to the fulfilment of the following conditions precedent: i) obtaining the necessary national and European approvals, (ii) FROB's capital injection of EUR 245 million, (iii) implementation of management exercises of preference shares and subordinated debt.

On 28 October 2013, upon satisfaction of the conditions precedent, was formalized in a public deed the sale of the entity.

Additionally, as part of this transaction, the FROB has granted the usual guarantees on past sales (excluding assets protection schemes), highlighting the guarantees regarding the tax effects of the transaction. At 31 December 2015, the provision from the FROB to cover this set of contingencies amounted to EUR 95 million.

Banco de Valencia, S.A.

On 21 November 2011, after the communication received from the entity, the Executive Committee of the Banco de España agreed the appointment of the FROB as temporary administrator of Banco de Valencia. In order to stabilize the company, the subscription and payment of a capital increase amounting to EUR 998 million was agreed. Consequently, the FROB holds the 90.89% of Banco de Valencia's capital.

Later, on 27 November 2012, the FROB, in the framework of the Resolution Plan for the entity, agreed to sell the shares to CaixaBank for EUR 1, subject to the prior injection of EUR 4,500 million from the FROB, on 28 February 2013. The sale also included the transfer of problem assets to the SAREB and management exercise on hybrid instruments.

Additionally, the FROB granted to the buyer an assets protection scheme (APS) on a portfolio of loans to SMEs and self-employed and contingent risks, by which it covers 72.5% of the losses that may arise from a closed portfolio of assets. At 31 December 2015 there is no payment expected to CaixaBank by APS for 2015 as the 1st threshold loss exceeds the losses materialized to date. At the year-end 2015, the FROB has made a provision amounting to EUR 526 million, equivalent to the expected loss of the portfolio affected to the APS, after deducting the first loss threshold and applied the percentage of coverage of the portfolio (72.5%).

Also, the FROB has committed itself to compensate CaixaBank, in certain cases, for the economic losses resulting from the changes between the estimation of the assets to be transferred from that entity to SAREB and those finally transmitted. Finally, the total amount paid by the FROB to CaixaBank amounted to EUR 165 million, paid on 5 December 2014.

Caja de Ahorros y Monte de Piedad de Córdoba (CajaSur)

On 15 July 2010, the FROB made the Caja Sur restructuring Plan which included the granting of an APS on a set of different types of assets, for a maximum amount of EUR 392 million over five years. On 31 May 2015 the APS guarantee exhausted, having reached the maximum possible loss.

4.3 SAREB

The Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (SAREB) is, according to the seventh additional of Law 9/2012, of 14 November, a corporation with specific term, available until November 2027.

SAREB's capital in its constitution amounted to EUR 4,800 million (8% of the total volume of assets), of which EUR 1,200 million relate to share capital and EUR 3,600 million relate to two issues of non-guaranteed, contingently convertible subordinated debt subscribed by the shareholders. The FROB holds 45% of SAREB's share capital (EUR 540 million) and 45.9% of the subordinated debt (EUR 1,652 thousand).

The assets of the entities classified in Group 1 (BFA-Bankia, Catalunya Banc, NCG and Banco Valencia) were transferred on 31 December 2012 for an amount of EUR 36,695 million, and the assets of the Group 2 entities (Liberbank, BMN, Ceiss and Caja3) were transferred on 28 February 2013, for a total price of EUR 14,086 million. Therefore, the total value of the transferred assets amounted to EUR 50,781 million.

The transfer payment was made through the delivery of six issuances of senior debt launched by SAREB with an irrevocable guarantee from the State, a nominal value of EUR 100,000 each, maturing in one, two and three years. The interest rate is Euribor 3M plus a spread. They include the possibility of total or partial redemption through the issuance of new bonds.

As a result of the losses arising from the valuation of assets pursuant to the accounting circular applying to the entity (Circular 5/2015 of 30 September, of Banco de España, by which the accounting specificities of the SAREB are developed), it had at the end of 2015 a negative equity capital of EUR 1,218 million. Consequently, it was materialized one of the assumptions for conversion of subordinated debt into shares, so that the shareholders' meeting of 5 May 2016 has approved the following: i) reduction to zero of the original capital to absorb losses; ii) conversion into capital of EUR 2,170 million of its subordinated debt; iii) second capital reduction by reducing the nominal value of the new shares, bringing the capital plus reserves stands at EUR 933 and EUR 19 million, respectively, to which must be added EUR 1,430 million of remaining convertible subordinated debt; and iv) a further reduction in capital by reducing nominal value of shares to constitute a voluntary restricted reserve, so that the share capital of the company becomes EUR 304 million.

As for the shareholder composition by percentage share no significant differences from the original. Specifically, the FROB participation will increase from 45% to 45.9% of the shares and subordinated current debt.

5. EVENTS AFTER THE REPORTING DATE AND OUTLOOK FOR 2016

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

- On 31 March 2016 Ibercaja Bank has proceeded to depreciate 5% (EUR 20.4 million) of the issue of CoCos by Banco Grupo Caja 3 and signed by the FROB in 2013, plus interest accrued since the last coupon payment date.
- With regard to the sale of the asset portfolio of Catalunya Banc formalized in April 2015, the articles of association of the Assets Securitization Fund established a process of review and adjustment of the initial credit rights (perimeter) within the following three months after the granting of the deed. Once the referred review process ended, it was made, on 5 April 2016, an adjustment to the perimeter for a total amount of EUR 1.3 million, which meant a partial repayment of Bond B signed by the FROB amounting to EUR 174.8 million, with the remainder corresponding to Bond A. Therefore, the value of Bond B is EUR 524.7 million instead of EUR 524.9 million initially considered. As a result of this partial redemption, the FROB shall make a payment to the Deposit Guarantee Fund amounting to EUR 57.5 million.
- On 6 May 2016, Grupo Banesco proceeded to pay EUR 300 million of the deferred selling price of NCG Banco, S.A. After two payments (the first one in 2015 at the time of the formalization of the sale), the outstanding price amounts to EUR 300 million.
- The amount for accrued interests on the CoCos issued by Ceiss and Caja 3 and signed by the FROB have been collected.

- The liquidation of the fee for the activities performed by the FROB as resolution authority established by Law 11/2015, for 2016 has been made.

The credit rating of FROB's issues at the date of preparation of the annual accounts is as follows: Baa2 by Moody's, BBB+ by Standard & Poor's and BBB+ by Fitch.

Regarding prospects for 2016, it presents itself as a year focused on the work of internal preparation so the entity be prepared to execute swiftly and efficiently any resolution process that may arise in the coming months or years and which shall be governed by the new regulatory framework adopted in the European Union and Spain.

Similarly, with regard to coordination and collaboration among resolution authorities, both national and European, in 2016 should be signed various cooperation agreements and operational guidelines and manuals written in order to clarify beforehand the different processes covering the new regulations.

Precisely, in order to achieve optimal transition to this new functional and institutional framework, the FROB approved in early 2016 a Strategic Plan for 5 years (2016-2020). In it are expressed clearly the objectives and organizational principles and how existing resources will be tailored to the different scenarios in which the FROB may be involved in the next few years. In total, the plan includes 25 initiatives, most of which will begin to be implemented in 2016 and will contribute to improve the FROB's operations.

Moreover, in addition to the assumption of new tasks arising from the new resolution scheme, the FROB will continue to manage the ongoing restructuring and resolution processes. On the one hand, it will continue to conduct a detailed analysis and follow up of the activity of the entities in which the FROB holds capital shares (BFA-Bankia, BMN and SAREB) and, at another level of intensity, in those which is held as creditor as a result of the subscription of Convertible Bonds (Caja 3, integrated in Ibercaja, and CEISS, from Unicaja group).

As regards to future processes of selling of credit institutions in which the FROB holds equity participation under the fundamental premise of maximizing efficiency in the use of public resources, it is expected that in 2016 these entities continue to comply with their resolution plans and improve their position in the market, thereby facilitating the divestment by the FROB within the legally prescribed deadlines.


Moreover, an intense activity will be also maintained in relation to the management of the guarantees granted by the FROB to the different entities within the framework of the resolution processes undertaken.

In the same direction, it is also expected, in 2016, that a high workload arising from legal claims associated with the actions taken by the FROB under the restructuring of the banking sector to remain.

6. OTHER DISCLOSURES

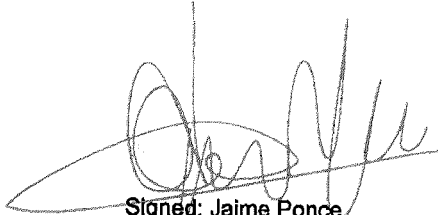
No research and development activities were performed in 2015.

Also, the FROB's Equity Fund does not comprise shares purchasable by the FROB and, accordingly, there are no treasury shares.



FROB

The undersigned, Chairman of the FROB, authorises for issue on 15 June 2016 these Annual Accounts of the FROB for the year ended 31 December 2015 and the Management Report for 2015, which are printed on the accompanying 58 pages (Original Spanish version), duly countersigned by me for the purpose of their identification, and which will be submitted for approval by the Governing Committee.

A handwritten signature in black ink, appearing to be 'Jaime Ponce', written over a horizontal line.

Signed: Jaime Ponce
Chairman of the FROB