Independent Auditor's Report

FROB

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

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

INDEPENDENT AUDITOR'S REPORT ON THE ANNUALS ACCOUNTS

To the FROB's Governing Committee

Report on the annual accounts

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

Chairman's Responsibility for the annual accounts

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of matter

We draw your attention to the following facts, detailed in Note 2.4, 7, 9.1 and 13 of the enclosed notes to the financial statements.

The enclosed Note 9.1 to the financial statements shows a negative equity position at December 31, 2016 of 1,614,954 thousand Euros. The FROB expects the implementation of the necessary measures, throughout 2017, to be able to re-establish the equity position. These measures include the possibility for the State to transfer a portion of the granted loan into an equity contribution. Such possibility is contemplated in the loan agreement between the State and the FROB, which require the prior authorization by the European Stability Mechanism (ESM), which at the date of formulation of the annual accounts has agreed to this operation. This fact does not modify our opinion.

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The enclosed Note 2.4 and 7 to the financial statements describe estimates performed when elaborating the annual accounts to value Investments in Group Companies and Associates and their possible value impairments which, together with the entities' evolution, could affect the valuation of investments reflected on the annual accounts. These estimates have been based on the best information available at the date of elaboration of the annual accounts, although these assets' recovery for the value at which they have been registered on the enclosed annual accounts will depend on the effective compliance with key assumptions considered on their respective business plans, if this was the applied valuation method, with assumptions taken on the basis of the best information available on investees' integration processes and, finally, with the price to be obtained where applicable from the sale of entities currently invested by FROB.

Furthermore, at the date of preparation of the annual accounts, there are certain uncertainties on the eventual joint effect for entities invested or financed by the FROB from the final result of litigations related to the Public Stock Offering of 2011, as a consequence of the initial public offering of Bankia, S.A., from the final result of legal claims filed by holders of hybrid instruments and of the subordinated debt of BFA Group, as well as the evolution of claims on floor clauses after the decision by the Court of Justice of the European Union and the issuance of the Royal Decree Law 1/2017, of 20 January. Additionally, said Note refer to the decision reached by the FROB's Governing Committee, on March 14, 2017, to start the necessary works to merge BMN and Bankia, S.A., as best strategy to optimize the recovery capacity of public aids in a future divestment process. The Boards of Directors of BMN and Bankia, S.A., held on June 26, 2017, have approved the common merger project for both entities, where the FROB considers at the date of elaboration of the accounts that the best evidence of the recoverable amount of the investment on BMN is the one derived from the value of its net equity, calculated for the merger project, and reflected in the exchange equation approved by said Boards of Directors on the basis of individual and consolidated balances of BMN at December 31, 2016, and on the basis of the listing of Bankia, S.A. at June 23, 2017. This fact does not modify our opinion.

Additionally, we draw your attention to the enclosed Note 2.4 and 13 to the financial statements, which describe that the FROB has granted guarantees within the credit entities' restructuring and resolution processes, mainly in order to bring certain entities' selling processes to a successful conclusion. The FROB's estimates have been based on the best information available at the date of elaboration of the annual accounts, although the sufficiency of provisions constituted for these concepts will depend on the effective compliance with key assumptions used for their determination, as well as on the future evolution of contingencies covered by said guarantees. This fact does not modify our opinion.

Report on Other Legal and Regulatory Requirements

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

Madrid, June 29, 2017

MAZARS AUDITORES, S.L.P.

Carlos Marcos   Breogán Porta

FROB

Annual Accounts
corresponding to the year ended
at 31 December 2016
and Management Report

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

FROB

BALANCE SHEET CORRESPONDING TO 31 DECEMBER 2016 AND 2015

(Thousands of Euros)

ASSETS	Notes	2016	2015 (restated)(*)
NON-CURRENT ASSETS			
Intangible assets		129	180
Property, plant and equipment		212	269
Non-current investments in group companies and associates	7	10.639.110	11.187.551
Equity instruments		10.639.110	11.187.551
Non-current financial investments	7	1.312.784	3.741.792
Loans to third companies		-	299.180
Debt securities		1.312.784	3.405.881
Other financial assets		-	36.731
Total non-current assets		11.952.235	14.929.792
CURRENT ASSETS			
Trade and other receivables		409	2.577
Current financial investments	7	1.355.409	1.668.708
Credits to third parties		339.339	300.089
Debt securities		965.511	1.352.194
Other financial assets		50.559	16.425
Cash and cash equivalents	5	1.045.798	2.956.690
Cash		1.045.798	2.956.690
Total current assets		2.401.616	4.627.975
TOTAL ASSETS		14.353.851	19.557.767

EQUITY AND LIABILITIES	Notes	2016	2015 (restated)(*)
EQUITY			
CAPITAL AND RESERVES	9	(1.614.954)	77.653
Equity fund		77.653	1.599.874
Profit/(loss) for the period		(1.692.607)	(1.522.221)
VALUATION ADJUSTMENTS	9	5.880	(17.900)
Available-for-sale financial assets		5.880	(17.900)
		(1.609.074)	59.753
NON-CURRENT LIABILITIES			
Non-current provisions	13	839.894	1.110.511
Non-current payables	8	13.411.794	13.925.560
Bonds and other marketable securities		-	520.000
Other non-current debts		13.411.794	13.405.560
		14.251.688	15.036.071
CURRENT LIABILITIES			
Current provisions	13	593.184	225.876
Current payables	8	1.117.141	4.235.005
Bonds and other marketable securities		520.761	2.567.967
Current debts with financial institutions		588.652	1.599.371
Other current debts		7.728	67.667
Trade and other payables		912	1.062
Other payables	12	752	932
Other debts with public institutions	11	160	130
		1.711.237	4.461.943
TOTAL EQUITY AND LIABILITIES		14.353.851	19.557.767

(*) Figures from 2015 are solely and exclusively presented for comparison purposes and are shown with restated information, since they differ from those formulated in said year (See Note 2.5)

Notes 1 to 17 to the Financial Statements are an integral part of the Balance Sheet at December 31, 2016.

FROB

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

(Thousands of Euros)

	Notes	Income / (Expenses) Year 2016	Income / (Expenses) Year 2015 (restated) (*)
CONTINUING OPERATIONS			
1. Revenue	14	**18.206**	**17.279**
Fees for activities performed by the FROB as Resolution Authority		18.206	17.279
2. Other operating income		**492**	**945**
3. Personnel costs	14	**(3.995)**	**(3.569)**
Salaries and wages		(3.487)	(3.072)
Employee benefits expense		(508)	(497)
4. Other operating expenses	14	**(3.304)**	**(3.532)**
External services		(3.192)	(3.399)
Losses, impairment and changes in trade provisions		-	(11)
Other operating expenses		(112)	(122)
5. Amortization and depreciation		**(138)**	**(111)**
6. Provision surpluses	13	**36.736**	**151.109**
7. Allocation of provisions	13	**(96.698)**	**(16.716)**
Allocation of provisions for EPA and other liabilities		(96.698)	(16.716)
RESULTS FROM OPERATING ACTIVITIES		**(48.701)**	**145.405**
8. Finance income		**127.604**	**182.558**
Banking interests	5 & 7	7.555	14.541
Interests from credits	7	731	30.779
Interests for public debt	7	20.124	43.567
Interests for convertible bonds		95.783	91.943
Other interests		3.411	1.728
9. Finance expenses	8	**(230.352)**	**(298.270)**
Interests and commissions		(229.672)	(277.138)
Update of provisions	13	(680)	(21.132)
10. Change in fair value of financial instruments	7	**3.398**	**-**
Allocation to results for AFDV		3.398	-
11. Impairment and gains/(losses) on disposal of financial instruments		**(1.544.556)**	**(1.551.914)**
Impairment and losses	6 & 7	(1.544.673)	(1.551.914)
Reversal impairment debt securities		117	-
NET FINANCE INCOME/(EXPENSE)		**(1.643.906)**	**(1.667.626)**
PROFIT/(LOSS) FOR THE PERIOD		**(1.692.607)**	**(1.522.221)**

(*) Figures from 2015 are solely and exclusively presented for comparison purposes and are shown with restated information, since they differ from those formulated in said year (See Note 2.5)

Notes 1 to 17 to the Financial Statements are an integral part of the Profit and Loss Account at December 31, 2016.

FROB

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED AT 31 DECEMBER 2016 AND 2015

A) STATEMENT OF RECOGNIZED INCOME AND EXPENSES

(Thousands of Euros)

	Income / (Expenses)	
	Year 2016	Year 2015 (restated) (*)
PROFIT/(LOSS) FOR THE PERIOD (I)	(1.692.607)	(1.522.221)
Income and expenses recognized directly in equity		
- Measurement of financial instruments	23.780	(31.427)
Available-for-sale financial assets	23.780	(31.427)
- Tax effect	-	-
TOTAL INCOME AND EXPENSES DIRECTLY RECOGNIZED IN EQUITY (II)	23.780	(31.427)
Amounts transferred to the income statement		
- Measurement of financial instruments	-	-
Available-for-sale financial instruments	-	-
- Tax effect	-	-
TOTAL AMOUNTS TRANSFERRED TO THE INCOME STATEMENT (III)	-	-
TOTAL RECOGNIZED INCOME AND EXPENSES (I+II+III)	(1.668.827)	(1.553.648)

(*) Figures from 2015 are solely and exclusively presented for comparison purposes and are shown with restated information, since they differ from those formulated in said year (See Note 2.5)

Notes 1 to 17 to the Financial Statements are an integral part of the Statement of Recognized Income and Expenses at December 31, 2016.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED AT 31 DECEMBER 2016 AND 2015

B) STATEMENT OF TOTAL CHANGES IN EQUITY

(Thousands of Euros)

	Equity Fund	Profit/(Loss) for the period	Valuation Adjustments	TOTAL
Balance at 31 December 2014 (*)	**2.461.367**	**(861.493)**	**13.527**	**1.613.401**
Total recognized income and expenses	-	**(1.292.838)**	**(31.427)**	**(1.324.265)**
Operations with Fund promoters	**(861.493)**	**861.493**	-	-
- Distribution of previous year's profit/(loss) (Note 3)	(861.493)	861.493	-	-
- Conversion of financial liabilities into equity (Note 9.1)	-	-	-	-
Other variations in equity	-	-	-	-
Balance at 31 December 2015 (*)	**1.599.874**	**(1.292.838)**	**(17.900)**	**289.136**
Adjustments for changes in criteria	-	-	-	-
Adjustments for errors	-	(229.383)	-	(229.383)
ADJUSTED BALANCE AT 1 JANUARY 2016	**1.599.874**	**(1.522.221)**	**(17.900)**	**59.753**
Total recognized income and expenses	-	**(1.692.607)**	**23.780**	**(1.668.827)**
Operations with Fund promoters	**(1.522.221)**	**1.522.221**	-	-
- Distribution of previous year's profit/(loss) (Note 3)	(1.522.221)	1.522.221	-	-
- Conversion of financial liabilities into equity (Note 9.1)	-	-	-	-
Other variations in equity	-	-	-	-
Balance at 31 December 2016	**77.653**	**(1.692.607)**	**5.880**	**(1.609.074)**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED AT 31 DECEMBER 2016 AND 2015
(Thousands of Euros)

	Notes	Collections / (Payments)	
		Year 2016	Year 2015 (restated) (*)
CASH FLOWS FROM OPERATING ACTIVITIES (I)		(175.957)	(128.592)
Profit/(Loss) for the period before tax		(1.692.607)	(1.522.221)
Adjustments for:		1.704.006	1.533.344
- Amortization and depreciation		138	111
- Impairment corrections	6	1.544.556	1.551.914
- Changes in provisions	8 & 13	59.962	(134.393)
- Finance income	7	(127.604)	(182.558)
- Finance expenses	8	230.352	298.270
- Changes in fair value in financial instruments		(3.398)	-
Changes in working capital		(59.237)	(117.989)
- Trade and other receivables	7	2.168	(2.176)
- Other current assets		-	275.042
- Trade and other payables		(150)	80
- Other current liabilities		(61.255)	(392.364)
- Other non-current assets and liabilities			1.429
Other cash flows from operating activities		(128.119)	(21.726)
- Interests paid	8	(287.409)	(263.412)
- Interests received	7	159.290	241.686
CASH FLOWS FROM INVESTING ACTIVITIES (II)		1.780.905	1.138.586
Payments for investments		(29)	(560.900)
- Intangible assets		-	(138)
- Property, plant and equipment		(29)	(9)
- Other financial assets		-	(560.753)
Proceeds on divestments		1.780.934	1.699.486
- Other financial assets		1.780.934	917.758
- Non-current assets held for sale	6	-	781.728
CASH FLOWS FROM FINANCING ACTIVITIES (III)		(3.515.840)	(296.200)
Proceeds and payments from financial liabilities	8	(3.515.840)	(296.200)
- Debt issuance with credit entities		588.652	1.599.492
- Redemption and amortization of debt instruments and other marketable securities		(2.505.000)	-
- Redemption and amortization of debts with credit institutions		(1.599.492)	(1.895.692)
EFFECT IN VARIATIONS OF EXCHANGE RATES (IV)		-	-
NET INCREASE/DECREASE OF CASH AND CASH EQUIVALENTS (I+II+III+IV)		(1.910.892)	713.794
Cash and cash equivalents at beginning of the year		2.956.690	2.242.896
Cash and cash equivalents at year-end		1.045.798	2.956.690

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

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 July 14, 2009 in accordance with the provisions of Royal Decree-Law 9/2009, of 26 June, on bank restructuring and reinforcement of credit entities' equity[1]. Currently, the legal regime under which the FROB operates is 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, implementing it, transposes Directive 2014/59/EU of the European Parliament and Council, of 15 May, into Spanish law, 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 continuity possible to Law 9/2012, of 14 November, completing only what is essential for the correct transposition of Directive 2016/59/EU:

- The subjective scope broadens to investment service companies that meet certain requirements.

- The resolution's preventive phase 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 lack of viability.

- Shareholders and creditors, or the industry where applicable, must bear an entity's resolution cost, 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 entities themselves, are included.

- The resolution's responsibility in its preventive phase is attributed to Bank of Spain 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 entities' resolution processes in the executive phase and to exercise powers under Law 11/2015 and the remaining national and European Union law.

Objectives pursued by these resolution processes are the following:

- To ensure the continuity of activities, services and operations whose interruption could disrupt the economy or the financial system and, in particular, 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 financial system's stability, preventing contagion of one institution's difficulties to the system as a whole, and maintaining market discipline.

- To ensure the most efficient use of public resources, minimizing the extraordinary public financial support, which may be necessary to grant.

- To protect depositors whose funds are guaranteed by the Deposits Guarantee Fund for Credit Institutions and investees covered by the Deposits Guarantee Fund.

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[1]Derogated by the Royal Decree-Law 24/2012, of 31 August, on restructuring and resolution of credit institutions, in turn derogated by Law 9/2012, of 14 November, on restructuring and resolution of credit institutions, converting into a law what was established therein. This Law was also derogated by Law currently in force 11/2015 of 18 June, on restructuring and resolution of credit institutions and investment services companies, except for the first transitory provision.

- 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 resolution's objectives.

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 asset, whose financial resources should reach at least 1 percent of all entities' guaranteed deposits. To achieve this level, the FROB will raise, at least annually, entities' regular contributions, as well as extraordinary contributions, if ordinary proved insufficient.

- The FROB may also, for the fulfilment of its purposes, seek alternative financing means, such as issue debt securities, receive loans, apply to open credit facilities and undertake other borrowing transactions, if regular contributions provided are not sufficient to cover resolution costs and 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 European Union's Member States, in the event that regular contributions are not sufficient to cover the costs of resolution, extraordinary contributions are not immediately accessible, and 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.
- 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.
- Granting of loans to other funding mechanisms.
- Recapitalization of an entity under the terms and limitations provided in Law 11/2015.

To cover their operating costs, the FROB will require from entities a "fee for the activities undertaken by the FROB as resolution authority", which is governed by provisions of Law 11/2015 and, failing that, by Law 8/1989 of 13 April, on Public Fees and Prices, and 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 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.
- Revenues from this tax have the nature of budget revenues of the FROB.

Additionally, the FROB's equity 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 they are not applicable to it:

- Provisions of Law 6/1997, of 14 April, on the organization and working of the Central Government Administration[2] in the exercise of their functions as resolution authority, being applicable in everything else its tenth additional provision.

- 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.

- 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 December 31, 2016: the Chairman, four members appointed by Bank of Spain, 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. Meetings by 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 FROB's registered office is at Avenida del General Perón 38, Madrid.

Significant events in 2016 and 2015

Certain events that occurred in 2016 and 2015 that are significant for understanding these annual accounts are described below:

Year 2016

- The FROB's Governing Committee, on session held on September 28, 2016, agreed the implementation of necessary measures to analyze the reorganization of its invested credit entities, valuing whether the merger between Bankia and Banco Mare Nostrum (BMN) was the most advantageous channel, with a view to subsequent divestment, against other possible alternatives that were also considered, in order to maximize their value and, therefore, to optimize the public aids' recovery capacity. In order to carry out these works, two external consultants were hired. On November 22, the contract was granted to AFI, Consultores de las Administraciones Públicas, S.A. to carry out the general strategic analysis of the possible reorganization of the two invested credit entities, and other possible divestment strategies. Additionally, on January 19, 2017, Société Générale was awarded with the contract as independent consultant to assess the existing market interest by BMN. After the development of a thorough analysis process, and since the FROB's technical services considered that analyses and conclusions from external consultants were reasonable and founded, the FROB's Governing Committee agreed, on March 14, 2017, that the reorganization of invested credit entities (Bankia and BMN) through merger was the best strategy to comply with the mandate to optimize the public aids' recovery capacity in view of a future divestment process, instead of through the entities' separate direct sales. Consequently, on June 26, 2017, the Board of Directors of BMN and Bankia approved the merger's Common Project for both entities, which included the exchange equation determining the number of shares in Bankia to be

[2] Law derogated by Law 40/2015, of 1 October, of Legal Framework of the Public Sector

received in exchange for shares in BMN after its dissolution, being 1 share in Bankia for each 7.82987 shares in BMN. In so far as, in agreement with the legislation in force, in merger operations, shares' exchange relation must be established on the basis of real equity value in participating entities, this exchange equation has implied valuing Equity in BMN at 825 million Euros. Since, at balance sheet dates in BMN and Bankia, used to determine the exchange equation, refer to December 31, 2016, the exchange equation allows knowing FROB's investment value in BMN (see Notes 2.4 and 7.2).

- The approval of Royal Decree-Law 4/2016, of 2 December, of urgent financial measures, has implied, among other aspects, the extension of the FROB's divestment period in BFA and BMN, in two additional years with regards to Law 9/2012, up to 7 years. However, this period could be extended by agreement of the Council of Ministers adopted as proposed by the Minister of Economy, Industry and Competitiveness, and prior report by the Ministry of Tax and Public Administration and by the FROB, when deemed necessary to better comply with the resolution's objectives.

- On December 21, 2016, the ruling from the Court of Justice of the European Union was published, on requests for preliminary rulings filed by several consumers, to construe articles 6 and 7 of Directive 93/13/EEC of the Council, on total retroactivity of abusive clauses on mortgage agreements held with consumers, which has implied an increase of the estimated guarantee cost for floor clauses, granted by the FROB in the sale of NCG (see Note 13).

Year 2015

- In relation to the BFA-Bankia group, the Governing Committee, at its meeting on February 26, 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 contingencies arising from civil lawsuits related to the public offering of shares of Bankia, with a limit sharing to 780 million Euros (contingency amount initially estimated by the group). Under this agreement, on February 27, 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% (312 million Euros) and the remaining 60% to BFA to the maximum amount of 780 million Euros (468 million Euros).

  In addition, on December 22, 2015, the FROB's Governing Committee 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 1,840 million Euros.

- In relation to Banco Madrid, S.A.U., the FROB's Governing Committee agreed, on March 18, 2015, in view of the agreement of the Executive Committee of Bank of Spain on non-admissibility of the opening of the entity's resolution process, sent a communication to the Commercial Court No. 1 of Madrid on not opening the institution's resolution process in the framework of Law 9/2012 of 14 November, on restructuring and resolution of credit institutions.

- On April 15, 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 525 million Euros provided for in the contract of sale, through the issuance by the FROB of uncovered bonds guaranteed by the State amounting to 520 million Euros, fully subscribed and directly by Catalunya Banc, and the rest paid in cash (see Notes 7.4 and 13).

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

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 FROB's Chairman 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, and subsequent modifications.

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

The FROB's annual accounts for 2015 were approved by the Governing Committee on June 21, 2016. The annual accounts for 2016, which were authorized for issue by the FROB's Chairman on June 29, 2017, will be submitted for approval by the Governing Committee, and it is considered that they will be approved without any changes.

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

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

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

Recoverable amounts of investments in share capital, and the related impairment losses, if any, were calculated as follows:

a.- In the case of Sareb, from estimated cash flows included on business plan approved by its Board of Directors on March 16, 2017. Such valuation method matches the one applied to the subordinated debt issued by the entity and subscribed by the FROB.

b.- Regarding the interest in BFA, 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 investee's consolidated equity as evidenced by their corresponding consolidated and audited for the year 2016 financial statements, excluding minority interests, adjusted, if it were the case, for capital gains that are more easily realizable on the date of valuation that apply to identifiable items in the investee's consolidated balance sheet.

c.- With regards to the investment in BMN, the FROB considers that the best evidence of its recoverable amount, as well as of the corresponding value impairment, at these annual accounts' formulation date, is the entity's fair value in accordance with the Registration and Valuation rule no. 9 of Royal Decree 1514/2007. This fair value has been obtained from the exchange equation approved by Boards of Directors of BMN and Bankia, based on the estimate of the real value of equity in BMN, taking as basis the entity's individual and consolidated balance sheets closed at December 31, 2016 (see Notes 1 and 7.2).

Convertible bonds' recoverable amounts 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 Bank of Spain and the European Commission, which formed the basis for the implementation of the financial support and that included the repayment schedule of those amounts. This analysis is complemented with the review of other aspects that could imply the existence of signs of impairment, as indicated in Note 4.5.

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 key assumptions used in their business plans and the price, if any, that will be obtained from the sale of entities in which the FROB invests.

Additionally, at the date of preparation of these annual accounts, there are some uncertainties on the whole of investees or entities financed by the FROB that may impact on their financial position, including the outcome from 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 lawsuits filed by holders of hybrid instruments and subordinated debt, as well as the evolution of claims on floor clauses after the Ruling by the Court of Justice of the European Union and the publication of Royal Decree-Law 1/2017, of 20 January. These facts, together with the entities' evolution, could affect the valuation of the FROB's investments reflected in these annual accounts.

Also, future events, including results from events of disposals carried out by the FROB with regard to its investments, might make it necessary to change these considered estimates (upwards or downwards) in coming years. Changes in estimates would be applied prospectively.

Additionally, the FROB has granted a series of guarantees under the framework of the different credit institutions' restructuring and resolution processes, chiefly in order to maximize the efficiency in the use of public funds in 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 key assumptions used for its determining, as well as the future developments of contingencies covered by these warranties.

2.5 Information comparison

The information contained in these annual accounts relating to 2015 is presented with the figures relating to 2016 for comparison purposes only.

2.6 Correction of errors

On July 2016, an error detected on the FROB's annual accounts from 2015, based on adjusted equity at consolidation level, derived from the incorrect inclusion of tacit capital gains in fixed-income portfolio, was retroactively corrected, as established by the Registration and Valuation rule 22 of the General Accounting Plan.

The correction has implied, in 2016, a negative adjustment in the valuation of the FROB's investment in BFA for the recognition of a higher impairment, directly allocated to the FROB's Equity Fund for an amount of 229,383 thousand Euros. Additionally, comparative figures from 2015, affected by said error, are presented with modifications.

After the error was detected, this fact was immediately reported to the FROB's auditor of 2015, who indicated that said error remained within tolerable materiality thresholds, in agreement with international audit standards, and therefore there was no need to include a qualification on the auditor's opinion.

This error did not require the restatement of annual accounts from 2015.

Consequently, financial statements related to 2015 differ from those approved by the FROB's Governing Committee from June 21, 2016.

2.7 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.

2.8 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 January 29, 2016, of the Institute of Accounting and Auditing, regarding the information to be included in the notes to the financial statements in relation to the average payment period to suppliers in commercial transactions, the required detailed information is included below:

	2016	2015
	Days	
Average payment period to suppliers	13.64	30.02
Ratio paid operations	10.95	11.53
Ratio of outstanding payment transactions	31.99	115.53
	Thousands of Euros	
Total payments	2,562	3,010
Total outstanding payments	375	651

2.9 Presentation of consolidated financial statements

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

The aforementioned legislation establishes that an entity is another entity's subsidiary 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 Board of Directors' members.

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 Bank of Spain 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. Matters taken into consideration to reach this conclusion included the following:

- Extremely exceptional circumstances that require the FROB's intervention in 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 businesses' management; and

- The consideration that the presentation of said consolidated financial statements would not contribute relevant information to the FROB's investors, 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. Application of results

Pursuant to Law 9/2015, any accrued and accounted profit will be paid to the Public Treasury. Otherwise, the negative results generated by the FROB's assets will be integrated into its Equity Fund. The application of profit for 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Basis of allocation:		
Profit/loss per income statement	(1,692,607)	(1,522,221)
Allocation to:		
Equity Fund	(1,692,607)	(1,522,221)
	(1,692,607)	**(1,522,221)**

4. Accounting policies and measurement bases

The main accounting policies and measurement bases used by the FROB in preparing the annual accounts for 2014, 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 recognized 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.

Applications' maintenance costs are expensed in the year they are incurred. At December 31, 2016, the FROB did not count with and did not impair any intangible asset.

4.1.2. Tangible fixed assets

Initial recognition -

Assets included in property, plant and equipment are initially recognized 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 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, items of property, plant and equipment are measured at their acquisition price or production cost, minus 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. Estimated useful lives of the Entity's various items of property, plant and equipment at December 31, 2016, 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, are the following:

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

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

In 2016, there have not been changes 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. The recoverable amount is the highest 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 evidence that those assets might have suffered impairment, in which case the asset's recoverable amount is estimated in order to determine the amount of impairment losses to be recognized which, if necessary, are recognized with a charge to the income statement. The reversal, if any, of previously recognized impairment losses due to increases in the recoverable amount of items of property, plant and equipment is recognized with a credit to the income statement. These recoveries are limited to the asset's carrying amount if no impairment loss had been recognized.

None of the FROB's items of property, plant and equipment were impaired at December 31, 2016 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) 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 asset's sale 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 asset's classification 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. 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 recognizes, where appropriate, any impairment losses on these assets.

The Entity recognizes 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 recognize 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 investee's voting power 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 2.9), 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 therefore recognized in the annual accounts under "Non-Current Investments in Group Companies and Associates - Equity Instruments" in the enclosed 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 recognized in the income statement. In 2016 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 recognized in the balance sheet at December 31, 2016 under inter alia, "Non-Current Financial Assets", "Accounts Receivable" and "Current Financial Assets".

Initial recognition -

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

However, certain items established under applicable legislation that are included in this financial asset category and mature within one year are initially recognized 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 amortized cost. The interest earned on these assets is recognized 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 recognized at their nominal value, continue to be measured at this value after their initial recognition.

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

Notes 7.3, 7.4 and 7.5 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 recognized at fair value, which, in the absence of evidence to the contrary, is the transaction price, which is the fair value of the consideration given, plus any directly attributable transaction costs.

Subsequent measurement -

Available-for-sale financial assets are measured at fair value and the gains and losses arising from changes in fair value are recognized 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 recognized in equity are recognized in the net profit or loss for the year. In this regard, (permanent) impairment is deemed to exist if the asset's market value 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 recognized in the income statement on the basis of their nature.

Any impairment losses on these assets are recognized 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 recognized under "Finance Income - Bank Interest" or, if proceeds, under "Financial expenses – Bank interests" in the enclosed 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 recognized in the income statement.

When the recovery of any recognized amount is considered unlikely, the amount is written off, without prejudice to any actions that the 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 taken place, 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 recognized impairment losses is recognized 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 recognize such impairment losses are described as follows:

4.5.1 Investments in entities

The FROB estimates and recognizes 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 September 18, 2013 of the Spanish Accounting and Audit Institute, include the entities' adverse economic and financial performance 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 acquisition price calculations 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 40% in the market value without the value having recovered and without prejudice to the possible need to recognize 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 investments' carrying amount.

The amount of the impairment losses is estimated as the difference between the investments' book value and their recoverable amount, understood as the highest between its fair value minus selling costs, and the present value of the future cash flows arising from the investment. If absence of better evidence for the recoverable amount, the FROB estimates the impairment loss taking into consideration equity on the investee's audited annual accounts, excluding minority interests, adjusted, where applicable, by the amount of easily-realizable tacit capital gains at measurement date, on the basis of information available. 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 2016 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 recognized as an expense and income, respectively, in the income statement (see Note 7.2). The limit of any reversal of impairment losses is the investment's carrying amount that would have been recognized at the date of reversal had no impairment loss been recognized.

4.5.2 Debt instruments classified as "loans and receivables"

The FROB estimates and recognizes 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 recognized, a reduction or delay in the collection of cash flows associated with this asset, that could be caused by the debtor's insolvency.

The amount of these assets' impairment loss 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 September 18, 2015 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 securities' issuers.

The most significant aspects of the methodology used at year-end 2016 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 recognized 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 investment's carrying amount that would have been recognized at the date of reversal had no impairment loss been recognized.

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 recognized at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortized cost (see Note 4.12).

4.7 Derecognition of financial instruments

A financial asset is derecognized 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 financial asset's cash flows are granted and the asset's risks and rewards of ownership are substantially transferred or, although these are not substantially transferred or retained, control over the financial asset is transferred.

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

In this regard, the accrued finance income and expense (see Notes 5, 7 and 8) are recognized 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 of the asset's risks and benefits of ownership remain with the lessor.

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

Lease term	Penalties
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 FROB's control.

The annual accounts include all 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 recognized 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 recognized as interest cost on an accrual basis.

The compensation receivable from a third party on settlement of an obligation is recognized as an asset, provided there is no doubt that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been outsourced, as a result of which the 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 Bank of Spain, 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 recognized in these annual accounts corresponding to related parties.

4.12 Definition of fair value and amortized cost

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

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

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.

Amortized cost of a financial instrument is understood to be the amount at which it was initially recognized, 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 instrument's initial cost and maturity amount. In the case of financial assets, amortized cost also includes any impairment losses recognized thereon.

The effective interest rate is the discount rate that matches 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 December 31, 2016 and 2015, "Cash and Cash Equivalents - Cash" in the accompanying balance sheet corresponds to the following details:

	Thousands of Euros	
	2016	2015
Accounts held in Bank of Spain	11	15,946
Current accounts in other entities	499,848	2,939,138
Short-term deposits	545,450	-
Outstanding accrued interests receivable	489	1,608
Outstanding accrued interests payable	-	(2)
	1,045,798	**2,956,690**

At December 31, 2016, accounts held by the FROB in Bank of Spain have earned, according to the regulations of the European Central Bank on the remuneration of deposits of Public Administrations in a National Central Bank, negative interests by 12 thousand Euros (2 thousand Euros in 2015) (rate of -0.30%) recorded under "Financial expenses - Bank interests" in the accompanying income statement (see Notes 8.7 and 15) which have been fully paid during the year.

In 2016, interests earned on bank deposits and current accounts in other entities held by the FROB have amounted to 7,555 thousand Euros (14,541 thousand Euros in 2015), which was recognized under "Finance Income – Interests and commissions" in the accompanying income statement (see Note 7.6) of which 489 thousand Euros are uncollected as at December 31, 2016 (1,608 thousand Euros at December 31, 2015).

6. Non-current assets classified as held for sale

At December 31, 2016 and December 31, 2015, there are no equity elements classified on this caption of the balance sheet.

7. Financial assets

7.1 Detail of financial assets

The detail, classified in accordance with applicable legislation, of financial assets owned by the FROB at December 31, 2016 and 2015 is as follows:

Year 2016

Classes / Categories	Thousands of Euros						
	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)	Total
Investments in Group companies, jointly controlled entities and associates (*)	10,639,110	-	-	-	-	-	10,639,110
Loans and receivables	-	1,260,168	-	-	234,738	389,898	1,884,804
Available-for-sale financial assets	-	52,616	-	-	730,773	-	783,389
Total	**10,639,110**	**1,312,784**	-	-	**965,511**	**389,898**	**10,307,303**

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

Year 2015

Classes / Categories	Thousands of Euros						
	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)	Total
Investments in Group companies, jointly controlled entities and associates (*)	11,187,551	-	-	-	-	-	11,187,551
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	**11,187,551**	**3,405,881**	**335,911**	-	**1,352,194**	**316,514**	**16,598,051**

(*) It includes the amount of investments, net of their accumulated impairment (see Note 7.2) and corrected for the error in FROB's valuation in BFA (see Note 2.5.)

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

The detail of investments comprising "Non-Current Investments in Group Companies and Associates – Equity Instruments" in the balance sheet at December 31, 2016 and 2015 is as follows:

Year 2016

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	215,759	64,917	17,959,000	(8,698,824)	9,260,176
Banco Mare Nostrum	65.027%	Madrid	1,613,653	554,092	(39,160)	1,645,000	(1,107,471)	537,529
Sareb	45.9%	Madrid	303,862	(2,298,342)	(662,791)	996,232	(154,827)	841, 405
						20,600,232	**(9,961,122)**	**10,639,110**

(*) Data related to the equity position of these companies were obtained from the audited consolidated financial statements at December 31, 2016, excluding minority interests.

Year 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	(8,224,803)	9,734,197
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	**(8,956,509)**	**11,187,551**

(*) Data related to the equity position of these companies were obtained from the audited consolidated financial statements at December 31, 2015, excluding minority interests.
** Restated accounting values.

Changes in "Non-Current Investments in Group Companies and Associates - Equity Instruments" in the accompanying balance sheet in 2016 and 2015 were as follows:

	Thousands of Euros
Balance at 1 January 2015	**12,739,464**
Net allocation for impairment charged to the profit and loss account	(1,322,530)
Balance at 31 December 2015	**11,416,934**
Adjustment for error (See Note 2.5)	(229,383)
Adjusted balance at 31 December 2015	**11,187,551**
Exchange into capital subordinated debt Sareb (see Note 7.3.)	996,232
Net allocation for impairment charged to the profit and loss account	(1,544,673)
Balance at 31 December 2016	**10,639,110**

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

As expected by the entity's Restructuring Plan, since January 2, 2015, BFA is no longer considered credit entity, remaining as Bankia's holding entity.

After BFS's sale, on February 25, 2014, of a share in Bankia, S.A. representing 7.5% of the entity's capital, without any commitment or guarantee by the FROB, there have not been additional divestments.

At December 31, 2016, BFA's shareholding percentage in Bankia amounts to 65.904% (64.23% at December 31, 2015), which increase derives from the execution of firm rulings by the Courts of Justice for incorrect trading of hybrids.

At 2016 closing, according to the criteria set out in Notes 2.4 and 4.5, 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 474,021 thousand Euros credited to the heading "Impairment and Gains on Disposals of Financial Instruments-Impairments and Losses, and therefore the net book value of FROB's investment in BFA amounts to 9,260,176 thousand Euros.

Furthermore, it should be borne in mind that the Royal Decree 4/2016 of 2 December, of urgent financial measures, extends the legal term for the FROB to proceed to the divestment on this entity until December 2019.

Management Company of 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 FROB's investment in Sareb at year-end 2016 and 2015 (thousands of Euros) are the following:

Year	Number of shares	Equity	Percentage share	Share premium	Cost of investment	Impairment Loss	Net book value
31.12.2014	**135,015,000**	**135,015**	**45,0%**	**405,045**	**540,060**	**(124,732)**	**415,328**
Additions	-	-	-	-	-	(415,328)	(415,328)
31.12.2015	**135,015,000**	**135,015**	**45.0%**	**405,045**	**540,060**	**(540,060)**	**-**
Additions	996,231,960	139,472	45.9%	-	996,232	(154,827)	841,405
Write-offs	135,015,000	135,015	45.0%	405,045	(540,060)	540,060	-
31.12.2016	**996,231,960**	**139,472**	**45.9%**	**-**	**996,232**	**(154,827)**	**841,405**

As a consequence of losses derived from its assets' valuation, in application of Circular 5/2015, of 30 September, of Bank of Spain, which develops accounting specifications for Sareb, the company's equity, at December 31, 2015, showed a negative balance of 1,217,977 thousand Euros, thus materializing one of the conversion cases for subordinated debt into capital.

Accordingly, the General Shareholders' Meeting held on May 5, 2016 approved the necessary measures to re-establish equity balance: i) reduce original capital to cero to absorb losses; ii) convert sufficient subordinated debt to offset the existing loss remainder, and obtain a composition of equity after conversion equal to 2% of the company's total assets; iii) carry out a new capital decrease to reduce remaining losses through reduction of new shares' face value; and iv) a new capital decrease by reducing shares' face value to constitute a restricted voluntary reserve, so that the company's share capital was of 303,862 thousand Euros. The converted subordinated debt amounts to 2,170,440 thousand Euros, of which 996,232 thousand Euros corresponded to the FROB (see Note 7.3). Said agreements were published on the House of Companies' Official Gazette on May 30, 2016.

Additionally, on December 2016, Royal Decree-Law 4/2016, of 2 December, of urgent financial measures was published, modifying the registration scheme for latent capital losses resulting from the application of said accounting Circular, establishing that the registration of said capital losses will be directly performed in the company's equity, instead of in the income statement as previously required. In so far as, by virtue of the Royal

Decree-Law, the standard's application should be treated at accounting level as a change of criterion, its application had retroactive effects and accounting adjustments implied a credit to the reserves account for the cumulative amount of impairments, net of tax impact. Consequently, Sareb increased reserves, with equity at 2016 closing for an amount of 2,619,943 thousand Euros.

As a consequence of the conversion process, the FROB's investment is of 45.9% both in capital and in subordinated debt (see Notes 7.2 and 7.3).

In application of 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, approved by its Board of Directors at its meeting held on March 16, 2017.

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

- Sales according to the analysis of absorption rates and price curve according to econometric models internally developed in collaboration with Sareb's independent experts.
- Exercise of adaptation and contrast with market reality.

On these and other assumptions, an additional impairment has been registered on caption "Impairment and Gains on Disposals of Financial Instruments-Impairments and Losses" of the enclosed income statement, amounting to 154,827 thousand Euros.

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

The acquisition cost of FROB's investment in BMN amounts to 1,645,000 thousand Euros: i) 915,000 thousand Euros corresponding to preference shares subscribed in 2010 and converted into ordinary shares on February 2013, as established on the entity's restructuring plan, and ii) 730,000 thousand Euros corresponding to the subscription, also on February 2013, of a capital increase disbursed by non-monetary contributions consisting on bonds issued by the European Stability Mechanism (ESM).

At December 31, 2016, the FROB owns 1,049,311,038 shares in the entity, representing, at such date, an investment in capital of 65.027%.

On March 14, 2017, the FROB's Governing Committee, on its reduced composition, agreed to start the necessary works to carry out the merger of Bankia and BMN as best strategy to optimize the public aids' recovery capacity in view of a future divestment process. Accordingly, the current divestment strategy of the FROB's investment in BMN depends on its merger with Bankia, S.A.

Thus, last June 26, the Boards of Directors of BMN and Bankia approved the merger's Common Project for both entities, establishing the exchange equation, according to which per each share in BMN, and after its dissolution, its shareholders will receive 1 ordinary share of Bankia for a face value of 1 Euro per each 7.82987 ordinary shares of BMN of 1 Euro of face value, implying that the FROB will receive, in exchange for its share in BMN, 134,013,852 shares of Bankia, S.A.

In merger operations, the exchange rate of shares in participating companies must be established on the basis of their equity's real value. In this case, in the merger's Common Project, the valuation of assets and liabilities of the absorbed company (BMN) has been based on this entity's individual and consolidated balance sheets closed at December 31, 2016, and on the basis of Bankia's listed price at June 23, 2017, showing a value of BMN's equity of 825 million Euros (considering the effect of treasury stock). Therefore, the approval of the merger's Common Project allows knowing BMN's real equity value and, consequently, reveals the value of FROB's investment on this entity.

Accordingly, it is considered that the best evidence of the recoverable amount of FROB's investment in BMN, available at the date of formulation of these annual accounts, derives from the real value of BMN's equity, calculated for the merger's Common Project, which allows, by virtue of criteria established on the applicable Registration and Valuation standards, estimating a recoverable value, at December 31, 2016, of 537,529 thousand Euros, obtained in agreement with the number of Bankia's shares to be received at their listing value at the moment of establishment of the exchange equation (see Notes 1 and 2.4).

Consequently, an additional provision of impairment has been recorded under "Impairment and Gains or Losses on Disposal of Financial Instruments - Impairment and Other Losses" in the accompanying income statement for the year, amounting to 915,824 thousand Euros (allocation of 143,783 thousand Euros in 2015).

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

Loans and receivables

In "Loans and receivables" at year-end 2016 and 2015 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.

Additionally, this category includes the subordinated B bond subscribed by the FROB under the resolution process of Catalunya Banc, S.A. (CX) amounting to 524,703 thousand Euros, which is fully impaired (see Note 13).

As part of said resolution process, CX carried out a selling process for a portfolio of assets, awarded to Blackstone, which sale was formalized on April 2015. The operation, structured through the transfer of said portfolio to an Assets' Securitization Fund and other Blackstone Group companies, counted with the FROB's financial support through: i) the subscription of a subordinated bond for a value of 524,878 thousand Euros; ii) the awarding of a guarantee for faulty credits which fair value amounts to 124,000 thousand Euros (see Note 13) and, iii) the awarding of a liquidity line.

In relation to Bond B, in 2016, a review has been performed of initial credit rights (the perimeter), as established by the incorporation deed of the Assets Securitization Fund, implying an adjustment of said perimeter of 1.3 million Euros. Based on the above, on April 5, 2016, 175 thousand Euros were collected, partially amortizing the Bond B subscribed by the FROB in said amount. In so far as the cost is distributed with the Deposits' Guarantee Fund, the collection has led to: i) a reversal of the impairment recognized for an amount of 117 thousand Euros, booked on caption "Impairment and results from disposal of financial instruments – Reversion impairment debt securities" of the profit and loss account; and ii) a credit to the Deposits' Guarantee Fund, during 2016, for an amount of 58 thousand Euros.

The detail of investments integrated in this caption of the balance sheet at December 31, 2016 and 2015 is as follows:

Year 2016

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	10,003	9.75%	58,000	Perpetual	Issuer's universal capital liability
SAREB (4)	Subordinated debt	26/02/2013	656,168 (5)	-	656,168	-	8.00%	-	27/11/2027	-
Total			**1,260,168**	-	**1,260,168**	**10,003**		**58,000**		

(1) 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 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 Bank of Spain 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) CoCos are perpetual. However, the entity must repurchase or redeem securities as soon as it is in conditions 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 by Bank of Spain, the FROB considers unlikely that the repurchase of 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) 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 of the entity's general creditors; (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 entity's common or preferred shares.

(5) Conversion into capital of a portion of the subordinated debt of Sareb for an amount of 996,232 thousand Euros (see Note 7.2)

Year 2015

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	9,464	9.25%	54,775	Perpetual	Issuer's universal capital liability
Ibercaja Banco, S.A (Caja 3, S.A. (3)	CoCos	12/03/2013	407,000 (5)	-	386,600	1,954	9.25%	37,168	Perpetual	Issuer's universal capital liability
SAREB (4)	Subordinated debt a	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) 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 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 Bank of Spain 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) CoCos are perpetual. However, the entity must repurchase or redeem securities as soon as it is in conditions 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 Bank of Spain, the FROB considers unlikely that the repurchase of 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) 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 of the entity's general creditors; (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 entity's common or preferred shares.

(1) 20,400 thousand Euros have been reclassified into the short term (see Note 7.4).

Variations in this caption on the enclosed balance sheet, during 2016 and 2015, have been the following:

	Thousands of Euros
Opening balance 2015	**2,663,400**
Transfer to current assets	(20,400)
Net allocation for impairment charged to the profit and loss account	-
Balance at 31 December 2015	**2,643,000**
Transfer to current assets	(223,600)
Amortization/Conversion	(1,159,232)
Net allocation for impairment charged to the profit and loss account	-
Balance at 31 December 2016	**1,260,168**

Sareb

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

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 unmatured bonds. Since in 2016 Sareb obtained no distributable profit, the FROB has not registered interests on such assets in 2016.

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 assets' value after conversion. Based on the above, in 2016, 996,232 thousand Euros have been converted from subordinated debt to capital, without impact in the profit and loss account of 2016 (see Note 7.2.).

At December 31, 2016, based on the business plan of Sareb whose assumptions are described in Note7.2, and considering that, in the priority order of return of contributions to the company, the subordinated debt is before capital, there is no evidence of impairment in this investment.

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

On April 24, 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 604,000 thousand Euros, paid on April 30, 2013 through a non-monetary contribution consisting of European Stability Mechanism (ESM) securities.

In April 2014, subject to fulfilment of 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 2016 have amounted to 58,000 thousand Euros (54,775 thousand Euros at December 31, 2015) (see Note 7.6), of which 10,003 thousand Euros are outstanding at December 31, 2016 (9,464 thousand Euros at December 31, 2015), so they are recorded under "Current Financial Assets - Debt

Instruments" (see Note 7.4).

Also, under the Resolution Plan for the entity, the FROB 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 FROB's Governing Committee agreed, on March 8, 2013, to fully underwrite the issue by the Bank of contingently convertible bonds ("CoCos") amounting to 407,000 thousand Euros which were paid by the FROB, by delivery of fixed-rate bonds issued by the European Stability Mechanism on March 12, 2013.

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

During 2016, Ibercaja Banco, S.A. has carried out the early amortization of a portion of these securities, for a value of 183,400 thousand Euros (20,400 thousand Euros in March 2016 and 163,000 thousand Euros on December 29, 2016), with an outstanding amount of 223,600 thousand Euros, which have been reclassified into the short term after the amortization announced by the entity, performed on March 24, 2017 (see Note 7.4).

Interest earned on these assets in 2016 amounted to 37,784 thousand Euros (37,168 thousand Euros at December 31, 2015) (see Note 7.6), of which 1,135 thousand Euros are outstanding at December 31, 2016 (1,954 thousand Euros at December 31, 2015), so they are recognized under "Current Financial Assets - Debt Instruments" (see Note 7.4).

Financial Assets held for sale

In this item, at December 31, 2016, the FROB recognizes under "Non-Current Financial Assets - Debt Instruments" certain debt securities, with a market value of 52,616 thousand Euros (762,881 thousand Euros at December 31, 2015). Interests earned on these securities in 2016 amounted to 1,445 thousand Euros (10,027 thousand Euros in 2015) recognized under "Finance Income - Government Debt Interest" in the accompanying income statement (see Note 7.6). Valuation adjustments at such date amount to positive 1,716 thousand Euros (negative 10,119 thousand Euros at December 31, 2015) and are recognized under "Valuation Adjustments - Available-for-Sale Financial Assets" on the enclosed balance sheet.

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 December 31, 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Spanish government debt securities	730,773	1,320,376
Contingent convertible bonds (Note 7.3)	223,600	20,400
Interest from contingent convertible bonds (Note 7.3)	11,138	11,418
Total	**965,511**	**1,352,194**

At December 31, 2016 and 2015, the balance recognized 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 705,577 thousand Euros (1,274,458 thousand Euros at December 31, 2015). Also 25,196 thousand Euros are included (45,918 thousand Euros at December 31, 2015) for the accrued interest receivables of government bonds and are recognized under "Non-Current Financial Assets - Debt Instruments" of the enclosed balance sheet (see Note 7.3).

Interests earned on these securities in 2016 amounted to 8,597 thousand Euros (22,501 thousand Euros in 2015) and are recognized under "Finance Income –Government Debt Interest" in the accompanying income statement (see Note 7.6). At December 31, 2016, such securities have undergone positive valuation adjustments for an amount of 4,164 thousand Euros (7,781thousand Euros at December 31, 2015), recognized under "Valuation Adjustments - Available-for-Sale Financial Assets" on the enclosed balance sheet.

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 10,082 thousand Euros (11,039 thousand Euros in 2015), recognized under "Finance Income – Government Debt Interest" in the accompanying income statement (see Note 7.6).

During 2016, public debt securities have been sold, for a face value of 648,000 thousand Euros, obtaining profits by a value of 3,398 thousand Euros recognized under "Charging to result of Available-for-sale financial assets" in the income statement corresponding to 2016. In 2016 no government bonds were sold.

7.5. Current financial instruments – Loans to third parties and other financial assets classified as "Loans and receivables"

The detail of loans to companies classified as current "Loans and receivables" at 2016 and 2015 year-end is as follows:

	Thousands of Euros	
	2016	2015
Deferred payment sale NCG	299,911	300,089
Sale guarantee NCG (DGF) (Note 13.1)	39,428	-
Liquidity line (CX)	13,828	16,424
CEISS Securities (Note 13.2)	36,731	-
Total	**389,898**	**316,513**

Deferred payment sale NCG

On May 2016, there has been an early amortization, for an amount of 300,089 thousand Euros, of the outstanding deferred price of NCG's sale, leading to a new modification of the initially foreseen payment schedule. This has implied, at December 31, 2016, the reclassification into the short term of the amount receivable, 299,911 thousand Euros. Additionally, the recognition for the current value of expected flows based on the established payment schedule has implied the recognition of 731 thousand Euros (see note 7.6) corresponding to interests accrued from such update (30,779 thousand Euros during 2015), booked under the caption "Financial Income - Interests from Credits" of the enclosed profit and loss account.

Sale guarantee NCG (DGF)

The impact of the Ruling by the Court of Justice of the European Union in relation to floor clauses has implied the recognition of an asset towards the DGF for an amount of 39,428 thousand Euros for the portion corresponding to the entity's sale (selling price minus granted guarantees) (see Note 13).

Liquidity line (CX)

As indicated in Note 7.4, the FROB rendered certain financial support in the sale operation of an asset portfolio carried out by Catalunya Banc within the FROB's divestment process in the entity. These supports include the awarding of a liquidity line for a maximum amount of 400 million Euros, which balance disposed of at December 31, 2016 amounts to 13,775 thousand Euros (16,424 thousand Euros in 2015). Also, the line has generated finance income (interests and associated commissions) for an amount of 663 thousand Euros (711 thousand Euros in 2015), of which 53 thousand Euros are receivable at December 31, 2016.

7.6. Finance income

The detail of "Finance Income" in the accompanying income statement for 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Bank interest (Note 5)	7,555	14,541
Loan interests		
- Interest from deferred payment sale NCG (Nota 7.5)	731	30,779
Interest on public debt (Notes 7.3 and 7.4)	20,124	43,567
Interest on convertible bonds (Note 7.3)	95,783	91,943
Interests on repos (Note 8.5)	2,748	1,017
Other interests (Note 7.5)	663	711
Total	**127,604**	**182,558**

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 2016 and 2015, is as follows:

	Thousands of Euros	
	2016	2015
Deferred payment sale NCG (Note 7.5)	-	299,180
Ceiss securities (Note 13.2)	-	36,731
Total	-	**335,911**

8. Financial liabilities

8.1 Detail of financial liabilities

The detail, as required by applicable legislation, of financial liabilities assumed by the FROB at December 31, 2016 and 2015 is as follows:

Year 2016

Class / 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)	Debts with credit institutions	Other Current Payables (Note 8.6)	
Debts and Accounts payable	-	13,411,794	520,761	588,652	7,728	14,528,935
	-	**13,411,794**	**520,761**	**588,652**	**7,728**	**14,528,935**

Year 2015

Class / 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)	Debts with credit institutions	Other Current Payables (Note 8.6)	
Debts 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**

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

The caption "Non-Current Payables - Debt Instruments and Other Marketable Securities" corresponds to the debts derived from a simple bond guaranteed by the Central Government agreed by the Governing Committee during 2015, within the resolution process of Catalunya Banc, and which has been reclassified into Current debts (See Note 8.4).

This issue's characteristics are the following (data in thousands of Euros):

Issue Date	Maturity Date	Nominal		Interest Rate	Accrued interests (Note 8.7)	
		31.12.16 (*)	31.12.15		31.12.16 (*)	31.12.15
15/04/2015	30/04/2017	-	520,000	0.218%	-	807
		-	**520,000**		-	**807**

(*) Reclassified into the short term (See Note 8.4)

Finance costs accrued by this bond for 2016 and 2015 are recognized under "Finance Costs - Interest and Fees" of the enclosed income statement (see Note 8.7), of which, at 2016 closing, 761 and 807 thousand Euros are outstanding, respectively (see Note 8.4).

8.3 Non-current payables – Other non-current payables

This section includes the loan granted on December 3, 2012 by the Spanish State to the FROB for the implementation of the program of European financial assistance. The loan allowed channelling funds disbursed by the European Financial Stability Facility, (EFSF) of the European Financial Stabilization 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 39,468 million Euros in 2012 and the second in the amount of 1,865 million Euros 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 (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%
Total			**41,333,000**	

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

Since the loan's formalization, the following events have occurred:

- On December 9, 2014, prior authorization of the ESM, the partial conversion of the Spanish State loan into equity contribution to the FROB was agreed for an amount of 27,170 million Euros (see Note 9.1).
- In 2014 unused funds in Sareb amounting to 307,540 thousand Euros were returned, as well as a voluntary partial repayment of the loan amounting to 1,304 million Euros, of which 399,284 thousand Euros were borne by the FROB.
- During 2015 two voluntary repayments by the Treasury amounting to 1,500 million Euros and 2,500 million Euros, respectively, have taken place without any payment assumed by the FROB.
- In 2016, the Treasury has carried out a new voluntary amortization by 1,000 million Euros, without disbursement by the FROB.

Accordingly, at December 31, 2016 the outstanding balance of the loan granted by the Spanish State to the FROB amounts to 13,456,175 thousand Euros (same amount at December 31, 2015), out of which 11,591,175 thousand Euros corresponds to the first disbursement and 1,865,000 Euros to the second disbursement, with the following breakdown:

ISIN	Nominal *(thousands of Euros)* 2016	2015
Tranche 1		
EU000A1U97C2	-	-
EU000A1U97D0	2,252,476	2,252,476
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 loan's remaining principal for Tranche 1 will take place on December 11, 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 December 11, 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 amounts to 13,410,844 thousand Euros (13,405,399 thousand Euros at December 31, 2015). In this sense, the loan has generated, in 2016, finance expenses for the accrual of opening fees for an amount of 5,445 thousand Euros (same amount in 2015), booked under the caption "Finance expenses – Interests and commissions" of the enclosed profit and loss account (see Note 8.7).

In turn, interests accrued by this loan during 2016 amount to 147,252 thousand Euros (122,120 thousand Euros in 2015), and are registered in caption "Finance expenses – Interests and commissions" of the enclosed profit and loss account (see Note 8.7), of which, at December 31, 2016, 7,728 thousand Euros remained payable (at December 31, 2015, 8,941 thousand Euros) (see Note 8.6).

8.4 Current payables – Debt instruments and other marketable securities

At December 31, 2016 and 2015, the balance recognized 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, as well as the issuance in the resolution process of Catalunya Banc (see Notes 1 and 8.2).

The characteristics of this issue and its subsequent retaps at December 31, 2016 and 2015 are as follows (in thousands of Euros):

	Issue Date	Initial Maturity Date	Nominal		Interest rate	Accrued interests (Note 8.7)	
			31.12.16	31.12.15		31.12.16	31.12.15
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	5.50%	75,615	139,476
Third Tap	21/11/2011		-	200,000			
Fourth Tap	23/11/2011		-	120,000			
Fifth issue (*)	15/04/2015	30/04/2017	520,000	-	0.218%	1,136	*
Total issues			**520,000**	**2,505,000**		**76,751**	**139,476**

(*) See Note 8.2

On July 12, 2016, the issue of the FROB's bonds matured, for a nominal amount of 2,505,000 thousand Euros, and therefore, at December 31, 2016, only the issue's face value at the resolution process of Catalunya Banc is registered for a value of 520,000 thousand Euros.

The finance costs accrued by these bonds (76,751 thousand Euros) are recognized under "Finance Costs - Interest and Fees" in the accompanying income statement (see Note 8.7).

Furthermore, this caption of current liabilities of the enclosed balance sheet at December 31, 2016 includes interests accrued and not paid from said issue, for an amount of 761 thousand Euros (64,032 thousand Euros at December 31, 2015).

At December 31, 2016, 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.

8.5 Current payables - Debts with credit institutions

The balance of this caption of the balance sheet at December 31, 2016 corresponds to seven sales operations with treasury bills' repurchase agreement for a cash amount of 588,782 thousand Euros (1,599,492 thousand Euros at December 31, 2015) contracted on December 2016 with maturity at January 12, 2017, and which accrue an annual interest rate between -0.20% and -0.37%.

During 2016, as interests accrued for this operation, finance income has amounted to 2,748 thousand Euros and are recorded in the caption "Finance income – Other interests" of the enclosed profit and loss account (see Note 7.6). Of said amounts, at December 31, 2016, 130 thousand Euros are receivable, which will be liquidated at these operations' maturity date, and therefore they are registered on this same caption.

During 2015, interests accrued for this operation implied a finance expense for an amount of 374 thousand Euros (see Note 8.7) and finance income for 1,017 thousand Euros (see Note 7.6). Of said amounts, at December 31, 2015,122 thousand Euros were receivable, which were correctly liquidated during January 2016, at these operations' maturity date.

8.6 Current payables - Other current payables

At December 31, 2016, the balance recognized under "Current Payables - Other Current Payables" in the accompanying balance sheet mainly relates to interests and commissions accrued and not paid, corresponding to the loan by the Spanish State to the FROB indicated in Note 8.3 and for an amount of 7,728 thousand Euros (8,941 thousand Euros at December 31, 2015).

8.7 Finance costs

The detail of "Finance Costs" in the accompanying income statements for 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Interest and fees		
- Interest on debt instruments and bonds (Notes 8.2 and 8.4)	76,751	140,283
- Interest on repurchase agreements (Note 8.5)	-	374
- Other finance costs	224	8,916
- Interest and fees on other payables (Note 8.3)	152,697	127,565
Interest cost relating to updating of provisions (Note 13.1)	680	21,132
Total	**230,352**	**298,270**

9. Equity

9.1 Equity fund

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

	Thousands of Euros			
Contributing Entities	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 (9,000,000 thousand Euros), Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector, added an increase of 6,000,000 thousand Euros out of the State Budget. Additionally, on December 9, 2014, was agreed the partial conversion of the Treasury loan, amounting to 27,170,000 thousand Euros in an equity contribution to the FROB's endowment, prior approval of the EFSM (see Note 8.3).

The loss incurred in 2015 amounting to 1,522,221 thousand Euros was transferred to the FROB's Equity Fund in 2016 (861,493 thousand Euros negative in 2014).

The FROB's equity at December 31, 2016 is negative, for a value of 1,614,954 thousand Euros, including the previously mentioned 42,170,000 thousand Euros and the results obtained by the FROB since its establishment until December 31, 2016.

Nonetheless, the FROB expects, throughout 2017, the implementation of the appropriate measures to count with positive equity again. These measures include the possibility for the State to agree the transformation of a portion of the loan granted to the FROB (see Note 8.3) into a new equity contribution to the Fund, as allowed by the loan agreement entered into by the State and the FROB, requiring the prior authorization by the ESM. At these annual accounts' formalization date, the ESM has granted its consent to this operation.

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 changes in fair value of available-for-sale financial assets which, as stated in Note 4.3.4, must be recognized in equity, and the changes of which are recognized in the income statement when the assets which gave rise to them are sold or become impaired.

The statements of recognized income and expense for 2016 and 2015 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 balances of certain items in the balance sheet at December 31, 2016 and 2015, based on a scenario of "normal market conditions", in accordance with their contractual terms, is as follows:

Year 2016

	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	1,045,798	-	-	-	-	-	1,045,798
Current financial assets							
Loans to third parties	339,339			-	-	-	339,339
Debt securities	965,511						965,511
Other financial assets	50,559	-	-	-	-	-	50,559
Non-current financial assets							
Debt securities	-	656,616	-	-	-	656,168	1,312,784
Total at 31 December 2016	2,401,207	656,616	-	-	-	656,168	3,713,991
Liabilities:							
Current debts							
Debt instruments and other marketable securities	520,761	-	-	-	-	-	520,761
Current debts with credit institutions	588,652	-	-	-	-	-	588,652
Other current payables	7,728	-	-	-	-	-	7,728
Non-current debts							
Debt instruments and other marketable securities	-	-	-	-	-	-	-
Other non-current payables	-	-	-	-	-	13,411,794	13,411,794
Total at 31 December 2015	1,117,141	-	-	-	-	13,411,794	14,528,935
Difference assets-liabilities at 31 December 2016	**1,284,066**	**656,616**				**(12,755,626)**	**(10,814,944)**
Cumulative difference assets-liabilities at 31 December 2016	**1,284,066**	**1,940,682**	**1,940,682**	**1,940,682**	**1,940,682**	**(10,814,944)**	

Year 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							
Loans to third parties	300,089	99,911	199,269	-	-	-	599,269
Debt securities	1,352,194	-	-	-	-	-	1,352,194
Non-current financial investments							
Debt securities	-	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:							
Current debts							
Debt instruments and other marketable securities	2,567,967	-	-	-	-	-	2,567,967
Current debts with credit institutions	1,599,371	-	-	-	-	-	1,599,371
Other current payables	67,667	-	-	-	-	-	67,667
Non-current debts							
Debt instruments and other marketable securities	-	-	-	-	-	-	-
Other non-current payables	-	520,000	-	-	-	13,405,560	13,925,560
Total at 31 December 2015	4,235,005	520,000	-	-	-	13,405,560	18,160,565
Difference assets-liabilities at 31 December 2015	**373,968**	**290,286**	**251,774**	-	-	**(10,762,561)**	**(9,846,533)**
Cumulative difference assets-liabilities at 31 December 2015	**373,968**	**664,254**	**916,028**	**916,028**	**916,028**	**(9,846,533)**	

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

- At 2016 year-end, the amount of liquid assets exceeds that of the bonds issued by the FROB maturing 2017.
- If a mismatch between the maturity of assets and liabilities occurred from 2017 to 2021, it would be offset by the liquidity available to the FROB at 2016 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 financial assets it holds by its counterparties due to insolvency.

At December 31, 2016, this risk basically consisted in the existence of a series of convertible contingent bonds subscribed and paid by the FROB as part of the support provided for the different credit entities' 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 earns interest at a fixed rate of 0.218%. In turn, contingently convertible bonds currently accrue an interest rate of 9.75%, with annual increases of 25 basis points.

At December 31, 2016, 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 December 31, 2016, 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 December 31, 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Withholdings payable	110	67
VAT payable	6	21
Social Security payable	44	42
Total	**160**	**130**

11.2 Tax matters

As indicated above (see Note 4.8), 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 December 31, 2016 and 2015 include balances payable to several creditors for services.

The accrued expenses for these services in 2016 and 2015 are recognized 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 December 31, 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Banco de Valencia asset protection scheme	491,305	526,059
Banco Gallego guarantees	94,808	94,808
CX guarantees	45,500	48,378
NCG Banco guarantees	204,226	396,517
Deposit Guarantee Fund hybrids management	4,055	44,750
Total	**839,894**	**1,110,511**

Variations in "Non-Current Provisions" in the accompanying balance sheet in 2016 and 2015 were as follows:

	Thousands of Euros
Balance at 1 January 2015	**1,353,547**
Additions	16,716
Surplus provisions	(135,048)
Updates financial costs (Note 8.7)	
Other movements	(151,110)
Balance at 31 December 2015	21,132
Additions	5,274
Transfers to current liabilities	**1,110,511**
Surplus provisions	96,698
Updates financial costs (Note 8.7)	(369,924)
Other movements	(36,736)
Balance at 31 December of 2016	680
Balance at 1 January 2015	38.665
Additions	**839.894**

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) covering 72.5% of losses arising from a closed portfolio of assets of Banco de Valencia, S.A. amounting to 6,021,982 thousand Euros, with a ten-year term from September 30, 2012. After the two reductions in 2013, the portfolio of covered assets amounted to 4,978,746 thousand Euros.

At December 31, 2015, based on the evolution of losses and expected losses in the portfolio at December 31, 2015, the FROB's Management considered that it was necessary to increase the provision in an amount of 120,563 thousand Euros charged to the profit and loss account for the year, recognized under "Surplus provisions".

In 2016, there has been a new reduction of the APS perimeter and amendment of reductions performed in 2013, implying the decrease of portfolio for an amount of 18,785 thousand Euros, and correction of previous reductions, implying an increase of the balance in 20,061 thousand Euros. After such reduction, the hedged portfolio at APS effective date amounts to 4,980,022 thousand Euros. At December 31, 2016, based on the evolution of the portfolio's losses and expected losses at that date, the FROB has found necessary to reduce the provision in an amount of 34.754 thousand Euros 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 the transferred entity's tax assets.

At December 31, 2016, 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 94,808 thousand Euros at December 31, 2016, with information available, no variation of this amount is expected, thus maintaining the estimate of contingency and its corresponding provision.

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 7.4 and 13.2).

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

During 2016, the estimate of the cost of one of the guarantees for an amount of 2,955 thousand Euros has been corrected, implying: i) the release of guarantees for an amount of 1,981 thousand Euros booked in the caption "Excess of provisions" of the profit and loss account, and ii) the liquidation with the Deposits' Guarantee Fund for the corresponding portion for a value of 974 thousand Euros, on November 2016. Additionally, 77 thousand Euros corresponding to the finance expense for the update of provisions reflected in the profit and loss account of 2016 have been recognized.

Consequently, at December 31, 2016, the FROB considers, on the basis of estimates performed, that the current value of the obligation derived from commitments assumed implies an amount of 45,500 thousand Euros (48,378 thousand Euros at December 31, 2015).

Guarantees NCG Banco

In the purchase and sale process of NCG performed by the FROB, the purchaser, "Banesco Holding Financiero 2, S.L.U." (Abanca Holding Financiero), was awarded with certain guarantees related, among other aspects, to assets transferred to Sareb and the use of the transferred entity's tax assets.

During 2016, after the ruling by the Court of Justice of the European Union, published on December 21, 2016, on requests of preliminary ruling filed by several consumers to construe articles 6 and 7 of Directive 93/13/EEC of the Council on the total retroactivity of abusive clauses on mortgage agreements signed by consumers, and on the basis of estimates performed with information available, the FROB considers an additional cost of 136,125 thousand Euros for the guarantee related to floor clauses granted by the FROB in the entity's sale.

Consequently, at December 31, 2016, based on estimates performed with information available, the current value of the obligation derived from assumed commitments implies an amount of 531,098 thousand Euros (396,517 thousand Euros at December 31, 2015), of which 204,226 thousand Euros correspond to the long term and the rest, 326,872 thousand Euros to the short term (see Note 13.2).

Of the provision's total amount, 126,295 thousand Euros (114,848 thousand Euros during 2015) correspond to the portion to be assumed by the Deposits' Guarantee Fund. Such amount is presented by compensating the amount payable by the FROB to the DGF as selling price for its investment in the entity (86,867 thousand Euros) and is registered in caption "Current financial investments – Other financial assets" (see Note 7.5).

The abovementioned increase of the provision booked for an amount of 136,125 thousand Euros has had the following detail: i) allocation to provision for an amount of 96,697 thousand Euros charged to the profit and loss account of 2016 in caption "Allocation to provisions"; and ii) recognition of 39,428 thousand Euros corresponding to the portion to be faced by the Deposits' Guarantee Fund (see Note 7.5).

Furthermore, 520 thousand Euros have been recognized, corresponding to the finance expense for the update of provisions reflected in the profit and loss account of 2016.

Additionally, as a consequence of the advance in the payment schedule of the entity's selling price by Abanca Holding Financiero, the expected payment schedule of guarantees by the FROB has been adjusted, reclassifying 329,146 thousand Euros into the short term, of which 2,275 thousand Euros have been settled during 2016 (see Note 13.2).

Deposit Guarantee Fund guarantee for hybrids management

On July 18, 2013, the FROB and the DGF entered into an agreement, by virtue of which the FROB undertakes paying to the DGF, for compensation for remaining contingencies for potential indemnities and expenses to be incurred for legal or off-court claims, derived from the trading of hybrid instruments originated in shares owned by retail clients acquired by the DGF, within the framework of hybrid instruments' management actions approved by the FROB for NCG and CX, on June 7, 2013. Additionally, an addendum was signed to these agreements, on December 13, 2013, in relation to payments to be performed, where applicable, by the FROB to the DGF in case of the latter's disposal of shares (See Note 13.2).

Based on the abovementioned agreements, in 2016, the non-current balance maintains a provision by 4,055 thousand Euros. During the year: i) an amount of 40,520 thousand Euros has been reclassified into current liabilities, based on the estimated payment schedule; and ii) finance expenses for update of provisions have been registered in the profit and loss account of 2016 for an amount of 83 thousand Euros.

In 2015: i) the provision for this concept was increased, for an amount of 16,619 thousand Euros, charged to the profit and loss account of 2015; ii) 2,479 thousand Euros were recognized, corresponding to the finance expense for the update of provisions reflected in the profit and loss account of 2015, and iii) an amount of 11,110 thousand Euros, liquidated in 2015, was transferred to current liabilities of 2015.

13.2 Current provisions

The detail of "Current provisions" on liabilities in the balance sheet at December 31, 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Banco Ceiss review mechanism	13	98
Banco Ceiss compensation mechanism (Note 7.7)	100,378	100,378
Deposit Guarantee Fund hybrids management	40,521	-
CX guarantee	124,000	124,000
NCG Banco guarantees	326,872	-
Other provisions	1,400	1,400
Total	**593,184**	**225,876**

Variations of this caption during 2016 and 2015 are the following

	Thousands of Euros
Balance at 1 January 2015	**916,523**
Allocations	96
Transfers from non-current liabilities	135,048
Other movements	132
Applications	(825,924)
Balance at 31 December2015	**225,876**
Allocations	1
Transfers from non-current liabilities	369,924
Applications	(2,617)
Balance at 31 December 2016	**593,184**

Banco Ceiss review mechanism

Under the Unicaja Banco exchange offer of shares and convertible securities of Banco Ceiss on November 26, 2013, the FROB's Governing Committee approved a revision procedure for the marketing of preferred shares and subordinated debt of Banco Ceiss that allowed the entity's retail customers who had accepted the offer of Unicaja Banco, to get a similar protection to that enjoyed by the holders of hybrid products of 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.

Consequently, the FROB maintained registered the corresponding provision, since 2013, for the cost estimated to face this commitment. During 2015, an additional allocation to the provision booked in 2014 was registered for an amount of 96 thousand Euros, charged to the caption "Allocation to provisions- Allocation to provisions for APS and other liabilities" of the profit and loss account, with a balance at 2015 closing of 98 thousand Euros, due to payments performed for a value of 2 thousand Euros.

At December 31, 2016, the procedure is virtually completed, having settled payments for a total amount of 187,646 thousand Euros, in 2014 (187,559 thousand Euros), 2015 (2 thousand Euros) and 2016 (85 thousand Euros).

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 Bank of Spain and the European Commission, included: (i) the distribution between the FROB and the Banco Ceiss of 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 241 million Euros 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 in 2014 amounting to 241,000 thousand Euros.

During 2014 and 2015, payments were settled for a value of 17,609 thousand Euros and 159,744 thousand Euros, respectively, receiving securities from Banco Ceiss for a value of 3,875 thousand Euros and 32,857 thousand Euros, respectively, which have been reclassified in 2016 into current assets of the balance sheet – other financial assets (see Note 7.5). During 2016, there have not been variations in this guarantee. Consequently, the provision recognized at December 31, 2016 amounts to 100,378 thousand Euros, without changes with regards to the balance at December 31, 2015.

Deposit Guarantee Fund guarantee for hybrids management

As indicated in Note 13.1, an amount of 40,778 thousand Euros was transferred from non-current liabilities, based on the estimated timing of guarantees' settlement, without impact in the profit and loss account of 2016. Also, during July 2016, there has been a liquidation with the DGF for this concept, for an amount of 257 thousand Euros.

Guarantees NCG

As indicated in Note 13.1, during 2016, an amount of 329.146 thousand Euros has been transferred from non-current liabilities, based on the estimated timing of guarantees' settlement, without impact in the profit and loss account of 2016, of which 2,275 thousand Euros were liquidated on June 29, 2016 (application of provision for said amount).

CX guarantees

As Indicated in Note 13.1, in 2015, an amount of 124,000 thousand Euros was transferred from non-current liabilities, based on the estimated timing of settlement of guarantees, without impact in the profit and loss account of 2015. During 2016, there have not been variations, maintaining the provision in an amount of 124,000 thousand Euros.

Also, during 2015, the following events implies the application of the provision: i) subscription of the subordinated bond issued by the Assets Securitization Fund (see Note 7.4) for an amount of 524,878 thousand Euros; and ii) liquidation of one of the granted guarantees, for an amount of 139,400 thousand Euros.

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 December 31, 2016, the FROB deemed it unlikely that any obligation would arise from these commitments and, accordingly, it did not recognize any provision in the 2016 annual accounts in connection with this.

13.4 Contingent assets

At December 31, 2016 and 2015, the FROB did not hold any contingent assets.

14. Income and expenses

14.1 Turnover

This caption in the income statement includes, according to the fifth transitory provision of Law 11/2016, the amount accrued in 2016 for the activities performed by the FROB as Resolution Authority, amounting to 18,206 thousand Euros.

Within the established term for collection, which ended on June 20, 2016, all required entities have performed the corresponding payment; therefore, at December 31, 2016, the caption "trade receivables and other accounts receivable" of the enclosed balance sheet does not include any balance.

At December 31, 2015 the outstanding amount for this concept was of 2,171 thousand Euros, corresponding to the collection of the 2015 rate, which term ended on January 20, 2016. Before the end of said term, all entities have paid the corresponding rate, except for two entities that were undergoing arrangements with creditors. This implied the registration of 11 thousand Euros in the caption "Losses, impairment and variation of provisions for trading operations" of the profit and loss account (see Note 14.3).

	Thousands of Euros	
	2016	2015
Fee for activities conducted by the FROB as Resolution Authority	18,206	17,279
Total	**18,206**	**17,279**

14.2 Personnel costs and average headcount

The detail of "Personnel costs" in the accompanying income statements for 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Salaries and wages	3,487	3,072
Social Security	431	416
Other employee benefits expense	77	81
Total	**3,995**	**3,569**

The average number of employees at the FROB in 2016 by professional category and gender, is shown in the following table:

Year 2016

	Average Number 2016			Total Number 31 December 2016		
	Male	Female	Total	Male	Female	Total
Senior Management*	3.96	2.00	5.96	3	2	5
Group II	12.69	7.00	19.69	13	7	20
Group III	3.84	5.64	9.47	4	6	10
Group IV	1.00	2.80	3.80	1	2	3
Group V	-	2.73	2.73	-	2	2
Total	**21.48**	**20.17**	**41.65**	**21**	**19**	**40**

** 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 2015 by professional category and gender, is shown in the following table:

Year 2015

	Average Number 2015			Total Number 31 December 2015		
	Male	Female	Total	Male	Female	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.*

14.3 Other operating expenses

The detail of "Other Operating Expenses" in the income statements for 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Leases	651	626
External professional services	1,808	1,635
Representatives in entities	241	549
Banking and similar services	167	280
Other operating expenses	325	309
Losses, impairment and changes in trade provisions (Note 14.1)	-	11
Governing Committee (Note 15)	112	122
Total	**3,304**	**3,532**

"External Professional Services" in 2016 and 2015 includes, primarily, amounts invoiced by different external advisers commissioned by the FROB to carry out works within the framework of functions entrusted to the FROB as authority in charge of managing credit entities' restructuring and resolution processes.

In 2016 the remuneration of all kinds of the FROB's representatives at the entities in restructuring and resolution processes amounted to 240 thousand Euros (549 thousand Euros in 2015).

14.4 Other disclosures

In 2016, fees for audit services and other services provided by the FROB's auditor, Mazars Auditores, SLP., or company related to the auditor for control, common ownership or management were (in thousands of Euros)

	Services rendered by the Auditor and Related Companies
Audit services	42
Other assurance services	-
Total audit and related services	**42**
Tax advisory services	-
Other services	36
Total professional services	**78**

In 2015, fees for audit services and other professional services provided by the FROB's auditor, Grant Thornton, S.L.P., or company related to the auditor for control, common ownership or management were the following (in thousands of Euros):

	Services rendered by the Auditor and Related Companies
Audit services	50
Other assurance services	-
Total audit and related services	**50**
Tax advisory services	-
Other services	3
Total professional services	**3**

15. Transactions and balances with related parties

The detail of balances recognized by the FROB with related parties in these annual accounts for 2016 and 2015 is as follows (figures in thousands of Euros):

Year 2016

	Bank of Spain	Investees	Governing Committee and Senior Management
Assets:			
Non-current investments in Group companies and associates – Equity instruments (Note 7.3)	-	10,639,110	-
Cash and cash equivalents - Cash (Note 5)	11	-	-
Income statement:			
Finance income	-	-	-
Other income - other income	-	125	-
Finance expenses	(12)	-	-
Personnel costs (senior management)	-	-	880
Other operating expenses (Note 14.3)	-	-	112

Year 2015

	Bank of Spain	Investees	Governing Committee and Senior Management
Assets:			
Non-current investments in Group companies and associates – Equity instruments (Note 7.3)	-	11,187,551	-
Cash and cash equivalents - Cash (Note 5)	15,946	-	-
Income statement:			
Finance income	-	-	-
Other income - other income	-	140	-
Finance expenses	(2)		
Personnel costs (senior management)	-	-	845
Other operating expenses (Note 14.3)	-	-	122

In 2016 the FROB recognized an expense for 112 thousand Euros (December 31, 2015: 114 thousand Euros) related to attendance fees relating to the Governing Committee. Of such amount, allowances corresponding to members considered as Senior Officials are deposited in the Treasury (see Note 14.3).

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

17. Events after the reporting period

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

- The Court of Audit published, on January 11, 2017, its audit report of the bank restructuring process from 2009 to 2015. The report's essential purpose is, on the one hand, to perform an updated estimate of the cost of public aids granted during the restructuring process and, on the other, verify whether actions undertaken by implied authorities duly adapted to the applicable regulation. The Court concludes that actions carried out by the FROB during the audited period adapted to the applicable regulation, and updates the estimate of costs derived from the restructuring process. Also, certain observations are made regarding incidents, mainly procedural, on which the FROB issued the corresponding pleadings.

- On February 3, 2017, Abanca Holding Financiero paid the totality of the outstanding amount of the deferred selling price of NCG Banco, S.A. (299,911 thousand Euros), thus there not being any outstanding amount to be satisfied by the purchaser for the entity's purchase. Consequently, by virtue of the entity's purchase agreement, the FROB, during February 2017, has paid to the purchaser a portion of guarantees granted in the selling process, for an amount of 326,872 thousand Euros.

- Based on conclusions obtained within the framework of the study carried out by the FROB since September 2016 on the reorganization of the FROB's investments in Bankia and BMN, and other possible divestment strategies, the FROB's Governing Committee, on its reduced composition, agreed, on March 14, 2017, to start the necessary works to merge both entities, as best strategy to optimize the public aids' recovery capacity before a future divestment process. On June 26, 2017, the Boards of Directors of BMN and Bankia approved the merger's Common Project for both entities, as a result of which the FROB will receive, in exchange for its investment in BMN, 134,013,852 shares of Bankia, S.A. The effect of the exchange equation has been considered in the FROB's financial statements at December 31, 2016 (see Notes 1, 2.4 and 7.2).

- On March 24, 2017, Ibercaja Banco has fully amortized (223,600 thousand Euros) the issue of CoCos performed by Banco Grupo Caja 3 and subscribed by the FROB in 2013, within the framework of its restructuring process, plus interests accrued since the last coupon's payment (753 thousand Euros).

- On April 30, 2017, the FROB bond issued in 2015 within the framework of the resolution process of Catalunya Banc, for an amount of 520,000 thousand Euros, has matured.

- In relation with the Compensation Mechanism, during 2017, there has been a payment recognition from the FROB of 101.4 million Euros to CEISS, expected to be liquidated throughout 2015 based on said Mechanism.

- After the ruling from the Court of Justice of the European Union (CJEU) of December 21, 2016, establishing the total retroactivity in the nullity of floor clauses, on January 20, 2017 Royal Decree-Law 1/2017, of 20 January, on urgent measures for consumers' protection on floor clauses was approved, establishing measures to be implemented by credit entities to return unduly satisfied amounts in application of certain floor clauses. Based on the above, and in relation to guarantees granted by the FROB in NCG's selling process, the Fund has estimated an additional cost of said compensation by 136,125 thousand Euros, incorporated to the FROB's financial statements of 2016 (see Note 13).

- In order to re-establish the FROB's equity situation, the request of a new partial conversion of the Spanish State's loan to the FROB has been launched, for an amount of 3,000,000 thousand Euros, in contribution to the FROB's equity allocation, by virtue of article 53.4 of Law 11/2015, and as foreseen by this loan's agreement, prior authorization by the ESM. In this sense, the ESM, on May 30, 2017, has given its consent to the conversion.

- Within the Single Resolution Mechanism, on June 7, 2017, the FROB's Governing Committee agreed to adopt the necessary measures to execute the decision of the Single Resolution Board (SRB), on its Extended Executive Session of June 7, 2017, which adopted the resolution device on the entity Banco Popular Español, S.A., after the European Central Bank declared the entity's unfeasibility, by virtue of the Regulation (EU) no. 806/2014, of the European Parliament and Council, of July 15, 2014.

  This has implied the sale of the entity's business, through a competitive process, to Banco Santander, for one Euro. The resolution thus guarantees full security to depositors of Banco Popular, and the ordinary continuity of its operations, without compromising public resources.

- Additionally, activities performed by the FROB as resolution authority for 2017 has been settled. The amount has totalled 16,939 thousand Euros.

15. Explanation added for translation to English

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

FROB

Management Report for the year ended at 31 December 2016

1.- INTRODUCTIÓN

As in 2015, during 2016, the FROB's performance has mainly covered two strands: i) on the one hand, the FROB has developed its activity within the framework of the Single Resolution Mechanism, as National Resolution Authority, and ii) on the other, the FROB has continued managing and monitoring the different restructuring and resolution processes of entities receiving public funds, performed during last years, which remain in force.

Regarding the first aspect, Directive 2014/59/EU began a process of harmonization of resolution and provides for the widespread use of the resolution's preventive phase, 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) 806/2014 of the European Parliament and Council of July 15, 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.

Nationally, the transposition into Spanish law of Directive 2014/59/EU was carried out by Law 11/2015, of 18 June, on recovery and resolution of credit institutions and investment services firms and Royal Decree 1012/2015, of 6 November, 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 (Bank of Spain for credit institutions and National Market Commission for investment service companies, through internal organs acting with operational independence) and ii) Executive Resolution Authority (FROB).

In this sense, as one of the pillars of the SRM, a centralized resolution power has been established, entrusted to the Single Resolution Board (SRB) and to national resolution authorities. The Board, which started operating during 2015 as European resolution authority, is directly responsible for the planning and execution of the main banking entities' resolution (significant entities). The National Resolution Authorities, in turn, are responsible for the remaining non-significant credit entities and for investment service entities which are not consolidated in banking groups under the umbrella of the SRB.

Another of the SRM's pillars is the creation of Resolution Funds, both at European level (Single Resolution Fund) and at national level (National Resolution Fund) as financing mechanisms for resolution measures. The main development for this purpose, in 2016, is the effectiveness, on January 1, of Regulation (EU) no. 806/2014 of the European Parliament and Council, of July 15, 2014, which establishes uniform standards and procedure for the resolution of credit entities and of certain investment service entities within a Single Resolution Mechanism and a Single Resolution Fund and modifies Regulation (EU) no. 1093/2010. By virtue of this Regulation, the SRB substitutes National Resolution Authorities in the management of financing mechanisms of resolution measures of credit entities and certain investment service entities.

At national level, in 2015, the National Resolution Fund (NRF) was created 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 December 31, 2024. From January 1, 2016, Spanish credit institutions make their contributions to the Single Resolution Fund and the NRF acts 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

Additionally, within the context of the new European resolution framework, the FROB develops its functions as National Executive Resolution Authority within a wide institutional frame, implying the need to count with the close collaboration and coordination by the different National Resolution Authorities and the SRB, as well as with supervisors, both national and from the Union. The FROB, through its Chairman, is the Spanish representative in the SRB.

Thus, the FROB, as member of the Plenary Session of the SRB, has participated in the different plenaries held, as well as in committees and working groups created therein, in order to advance in the construction of a common vision within the Banking Union, within the resolution's planning and execution. Additionally, the FROB has actively participated, in close collaboration with Spanish preventive resolution authorities, defending the Spanish position in the different European and international forums which discuss matters related to resolution, among others: the Resolution Committee (ResCo) of the European Banking Authority (EBA) or the Resolution Group (ReSG) of the Financial Stability Board (FSB).

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.

In this sense, during 2016, the FROB's efforts to monitor restructuring or resolution plans of entities receiving funds have intensified, having several compulsory compliance commitments at 2016 closing, included on their respective plans. Also, the approval of Royal Decree-Law 4/2016, of 2 December, on urgent financial measures should be noted, which has extended the FROB's divestment term in Bankia and BMN, two additional years with regards to Law 9/2012, that is to say, up to 7 years.

One of the most significant events of the year is the approval by the Governing Committee, on its reduced composition, of the study of possible divestment alternatives of its investments in Bankia and BMN, including the assessment of a possible merger to optimize the recovery of aids for the FROB and ensure the most efficient use of public resources, which results have been known in 2017. In this sense, the FROB launched the corresponding consultants' contracting procedures to carry out the analysis. AFI Consultores de las Administraciones Públicas has performed a comparative analysis of the different analyzed strategies, integrating the result of the evaluation of the market interest with regards to an eventual sale by the FROB of its investment in BMN, carried out by Société Générale, concluding that the merger between both entities is the solution that best optimizes the recovery of aids. This process has derived in the approval by the Boards of Directors of BMN and Bankia of the merger's Common Project for both entities, last June 26, 2017.

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, the remittance of several forensic reports related to different operations performed by Bancaja and Caja Madrid to the Special Division against Corruption and Organized Crime was agreed. With this action, the FROB closes the analysis of operations related to the former 7 savings banks that are currently part of Bankia.

Additionally, with regards to aspects related to the FROB's management and functioning, the following facts may be highlighted:

- A 5-year Strategic Plan (2016-2020) was approved, reflecting objectives and organizational principles, and considering the way in which existing resources will adapt to the different scenarios where the FROB may be in coming years.

- Annual accounts and Directors' Report of the FROB corresponding to 2015 were 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.

- In relation to the allocation of Resolution Funds, during the second quarter of 2016, the FROB has collected ex-ante contributions corresponding to 2016 from entities subject to contribution both to the Single Resolution Fund (SRF) and to the National Resolution Fund (NRF), for a total amount of 728 million Euros.

- Also, the rate for activities performed by the FROB as Resolution Authority for 2016 was collected, for an amount of 18 million Euros, to cover the FROB's operating expenses.

2.- CASH FINANCING AND MANAGEMENT

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 Spain[3], during 2016 the FROB has been making the payments in fees and interest generated by the Program's first and second disbursement. 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 2014[4], and the transformation into equity contribution of part of the loan (27,170 million Euros) which occurred in December 2013, the outstanding balance of the loan from the State to FROB at December 31, 2016 amounted to 13,455 million Euros.

With regards to the FROB's outstanding securities issues, during 2016, the FROB's bonds issue for a nominal amount of 2,505 million Euros matured, only maintaining at December 31, 2016 the FROB Bonds for an amount of 520 million Euros, issued within the selling process of the asset portfolio of Catalunya Banc, S.A., as per the following detail:

ISIN	COUPON	MATURITY	NOMINAL (million Euros)
ES0302761046	0.218%	30/04/2017	520

At December 31, 2016, the issue's credit rating was Baa2 from Moody's, BBB+ from Standard & Poor's and BBB+ from Fitch.

Moreover, the FROB's debt limit established by Law 48/2015 of 29 December, on the General State Budget for 2016 was of 19,917 million Euros, being at 2016 closing of 14,530 million Euros. Also, the FROB has the capacity to issue, with State guarantee, an amount of 5,200 million Euros in addition to those already issued.

In regard to the FROB's cash management in 2016 it has continued with the operation approved in 2013, contributing to the improvement of the financial margin through the following instruments: remunerated current accounts, government bonds and repos. Cash at December 31, 2016 presents the following detail:

PRODUCT	NOMINAL (Million €)
Public Debt Portfolio	750
Interest-bearing current accounts	470
Deposits	545
Contracted Repos	(589)
Total	1,176

[3] The first disbursement (39,468 million Euros) 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 (1,865 million Euros) 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 (307.54 million Euros) and, on the other hand, a partial voluntary amortization (1,304 million Euros, of which 399 million Euros were supported by the FROB).

3.- FOLLOW-UP AND CONTROL OF ENTITIES UNDER RESOLUTION

The awarding of public aids to credit entities implied the approval of the corresponding restructuring or resolution plans, including a series of commitments to be met by entities. One of the FROB's functions is to perform an ongoing follow-up to ensure the entities' achievement of said commitments, paying special attention to those that, according to information available, could face certain risk of non-compliance.

The amount of aid subscribed by the FROB under the Financial Assistance Program in effect at December 31, 2016 is as follows:

Contingent convertible bonds	FROB Approval	Amount of assistance (millions of €)	Payment date
CAJA 3 (Ibercaja) Caja Círculo de Burgos, CAI, Caja Badajoz	08/03/2013	407	12/03/2013
CEISS (Grupo Unicaja) Cajas de Ahorros Caja España y Caja Duero	24/04/2013	604	30/04/2013
Shares	**FROB Approval**	**Amount of assistance (millions of €)**	**Payment date**
BANCO FINANCIERO Y DE AHORROS Cajas de Ahorro de Madrid, Bancaja, Caja Ávila, Caja Segovia, Caja Insular de Canarias, Caixa Laietana y Caja Rioja	3/09/2012 & 27/11/2012	17,959	12/09/2012 & 26/12/2012
BMN Caja Murcia, Caixa Penedés, Sa Nostra, Caja Granada	15/02/2013 & 08/03/2013	1,645	19/02/2013 & 12/03/2013
Total		**20,615**	

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

3.1 Entities with assistance and plans in force

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

The total aid received by the BFA group amounted to 22,424 million Euros: i) 4,465 million Euros were contributed by subscribing in 2010 preference shares converted into capital in 2012 by the FROB; and ii) 17,959 million Euros correspond to capital requirements under the restructuring plan after the transfer of assets to Sareb and management exercise of hybrid instruments.

On February 28, 2014, a share of BFA in Bankia, S.A., representing 7.5% of the entity's capital, was sold for a total value of 1,304 million Euros, not implying any commitment or guarantee by the FROB. At 2016 closing, the FROB holds 100% of BFA and, indirectly through BFA, 65.904% of Bankia.

Also, Royal Decree-Law 4/2016, of 2 December, has extended the divestment term established by Law 9/2012 from 5 to 7 years, and thus the current deadline would be December 2019.

Banco Mare Nostrum, S.A. (BMN)

BMN has received a total of 1,645 million Euros in public aid, of which 915 million Euros initially were subscribed in 2010 by the FROB in preference shares converted into capital in February 2013, and 730 million Euros in ordinary shares, subscribed on march 2013, within its restructuring plan.

After the injection of public aid by the FROB and the hybrids' management exercise, the extent of the FROB's investment in the capital of BMN is of 65.027%.

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

Banco Grupo Caja3 received aids for an amount of 407 million Euros as CoCos, on March 2013, of which during 2016 2016 a total of 183.4 million Euros has been amortized. Therefore, at December 31, 2016, there is an amount to be amortized by 223.6 million Euros, which was fully amortized on March 24, 2017.

Banco Ceiss, S.A.

Ceiss Bank has received a total aid amounting to 1,129 million Euros: i) 525 million Euros in 2010 in the form of preference shares subsequently converted into equity and amortized in 2013; and ii) 604 million Euros in contingently convertible bonds (CoCos) subscribed by the FROB in April 2013, which have not been amortized yet. To date Ceiss Bank has paid all accrued interest on these instruments.

Under the entity's resolution plan, which involved Unicaja's integration into the group, the FROB granted certain guarantees, so-called Review Mechanism and Compensation Mechanism.

Regarding the so-called "Compensation Mechanism" (maximum amount of 241 million Euros), during 2016 there have not been variations in this guarantee. Payments made by the FROB amounted to 177 million Euros (170 million Euros during 2015 and 7 million Euros in 2014), which implies that the FROB holds shares in the company worth 36.7 million Euros. However, the FROB will have the right to sell and Banco CEISS the obligation to buy these shares when the payment made by the FROB under this warranty exceeds the 241 million Euros net of the resulting value of that mechanism and, in any case, as from December 31, 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. During 2016, payments have been settled for an amount of 85 thousand Euros; therefore, throughout the validity of said Mechanism, the FROB has settled a total of 187.6 million Euros.

The FROB and Bank of Spain approved, on December 20 and 22, 2016, respectively, the third modification of the Resolution Plan of Banco CEISS. Such modification includes an extension of Unicaja Banco's initial public offering commitment term.

3.2 Entities with plans in force and whose aids have been cancelled

NCG Banco, S.A. (NCG)

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

On May 6, 2016, the second payment of the entity's selling price was settled, for an amount of 300 million Euros; at December 31, 2016, 300 million Euros remain outstanding. On February 3, 2017, the outstanding amount for the entity's sale has been fully satisfied.

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 December 31, 2016, amounting to 531 million Euros, considering the effect of the Ruling by the Court of Justice of the European Union on floor clauses and the Royal Decree-Law 1/2017, of 20 January, on urgent measures for consumers' protection in relation to floor clauses, which has implied a negative impact in the profit and loss account of 2016 for an amount of 97 million Euros.

Additionally, during 2016, the purchaser received a first payment as guarantees, for an amount of 2.3 million Euros.

Catalunya Banc, S.A. (CX)

On July 21, 2014, after a competitive process, the FROB and the Deposits' Guarantee Fund (DGF) awarded the sale of their respective interests in the share capital of Catalunya Banc (98.4% of the entity's capital) to Banco Bilbao Vizcaya Argentaria, for an amount of 1,165 million Euros[5], which sale was formalized on April 24, 2015.

In parallel to this divestment process, the entity sold a credit portfolio (Hercules portfolio) to Blackstone through the Assets Securitization Fund (ASF). The sale was formalized on April 15, 2015.

Furthermore, within both selling processes, both for the asset portfolio and for the entity, the FROB awarded a series of guarantees that, at December 31, 2016, are recorded as provision for an amount of 170 million Euros.

With regards to these guarantees, during 2015, the class-B bond was subscribed for an amount of 524.9 million Euros, fully impaired, which payment was orchestrated through the FROB's issue of simple bonds guaranteed by the State, for an amount of 520 million Euros, which issue was fully and directly subscribed by Catalunya Banc, and the rest in cash. Additionally, one of the granted guarantees was liquidated, for the amount of its provision (139.4 million Euros).

During 2016, initial credit rights (the perimeter) were reviewed, as established on the Assets Securitization Fund's incorporation deed, implying an adjustment of said perimeter by 1.3 million Euros. Thus, on April 5, 2016, Bond B subscribed by the FROB was partially amortized, for an amount of 0.17 million Euros. As a consequence of this partial amortization, the FROB settled a payment to the DGF for an amount of 57 thousand Euros. Additionally, the estimate of these guarantees' cost has been corrected, for an amount of 3 million Euros, implying the release of guarantees in the profit and loss account for an amount of 2 million Euros and the liquidation in favour of the DGF for an amount of 1 million Euros.

In turn, the balance disposed of from the credit line, at December 31, 2016, is of 13.7 million Euros, generating finance income during the year by 0.5 million Euros.

Liberbank, S.A.

Liberbank's restructuring plan, approved on December 2012, included, among others, a series of measures, carried out during 2013: (i) injection of public funds by the FROB in the form of contingently convertible debentures (CoCos) for 124 million Euros (disbursed on March 12, 2013); (ii) transfer of assets to the Sareb (transfer price of 2,917 million Euros); (iii) exercise of hybrids' management.

On December 22, 2014, the entity returned the 124 million Euros of public aids received.

3.3 Entities with expired plans

Certain entities were subject to restructuring processes that have expired at December 31, 2016.

Banco de Valencia, S.A.

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

Later, on November 27, 2012, the FROB, in the framework of the entity's Resolution Plan, agreed to sell the shares to CaixaBank for 1 Euro, prior injection of 4,500 million Euros from the FROB, on February 28, 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 certain guarantees, including an asset protection scheme (APS) on a portfolio of loans to SMEs and self-employed and contingent risks, by which it covers 72.5% of losses that may arise from a closed portfolio of assets. At December 31, 2016 there is no payment expected to CaixaBank by

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[5] Of which 67.08% corresponds to the FROB and 32.92% to the DGF.

APS for 2016 as the 1st threshold loss exceeds the losses materialized to date. During 2016, the FROB has released a provision amounting to 34.7 million Euros, resulting a provision at year end for an amount of 491 million Euros, equivalent to the portfolio's expected loss affected to the APS, after deducting the first loss threshold and applied the percentage of the portfolio's coverage (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 assets to be transferred from that entity to Sareb and those finally transferred. Finally, the total amount paid by the FROB to Caixabank was of 165 million Euros, paid on December 5, 2014.

<u>Banco Gallego, S.A.</u>

In order to comply with the NCG Banco and Banco Gallego's Resolution Plans, on April 19, 2013 the entity's sale agreement to Banco Sabadell was signed, contemplating the transfer of the totality of shares comprised in the entity's share capital for 1 Euro, which effectiveness depended on the compliance with certain conditions precedent: i) achievement of the compulsory national and European authorizations, (ii) capital contribution by the FROB, for an amount of 245 million Euros, (iii) implementation of preference shares and subordinated debt's management actions.

Once conditions precedent had been met, on October 28, 2013, the entity's sale was notarized.

Additionally, as part of this transaction, the FROB granted the usual guarantees on past sales (excluding assets protection schemes), highlighting the guarantees regarding the transaction's tax effects. At December 31, 2016, the provision from the FROB to cover this set of contingencies amounted to 95 million Euros.

<u>Caja de Ahorros y Monte de Piedad de Córdoba (CajaSur)</u>

On July 15, 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 392 million Euros over five years. On May 31, 2015 the APS guarantee exhausted, having reached the maximum possible loss.

<u>**Other processes**</u>

The FROB, in turn, has participated in other restructuring operations where the Deposits' Guarantee Fund has granted financial support or asset protection schemes. The impact and evolution of the different supports granted by the Deposits' Guarantee Fund are included on its annual accounts.

Processes where the Deposits' Guarantee Fund has rendered financial support and where the FROB has contributed with any type of tax guarantee have been those for Caja de Ahorros del Mediterráneo (CAM) and Banco CAM S.A., and Unnim Banc.

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

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

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 100,000 Euros 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 losses arising from the valuation of assets pursuant to the accounting circular applying to the entity (Circular 5/2016 of 30 September, of Bank of Spain, by which the Sareb' accounting specificities are developed), it had at the end of 2016 a negative equity capital of 1,218 million Euros. Consequently, one of the assumptions for the conversion of subordinated debt into shares materialized, and therefore the Shareholders' Meeting of May 5, 2016 approved the corresponding measures to re-establish the entity's equity situation, including the conversion of subordinated debt by 2,170 million into capital. In the case of the FROB, these measures have implied the conversion into capital of 996 million Euros of subordinated debt. After said conversion, the FROB's investment in the company's capital is of 45.9%.

Additionally, Royal Decree-Law 4/2016, of 2 December, on urgent financial measures, was published and established that, among other measures, with retroactive effect, capital losses derived from the valuation of Sareb's assets will be charged to equity, instead of to the income statement, as until then. The impact has implied an increase of reserves for Sareb, in the amount of capital losses registered to date, net of tax impact (2,330 million Euros).

5.- SUBSEQUENT EVENTS AND PERSPECTIVES FOR 2017

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

- The Court of Audit published, on January 11, 2017, its audit report of the bank restructuring process from 2009 to 2015. The report's essential purpose is, on the one hand, to perform an updated estimate of the cost of public aids granted during the restructuring process and, on the other, verify whether actions undertaken by implied authorities duly adapted to the applicable regulation. The Court concludes that actions carried out by the FROB during the audited period adapted to the applicable regulation, and updates the estimate of costs derived from the restructuring process. Also, certain observations are made regarding incidents, mainly procedural, on which the FROB issued the corresponding pleadings.

- On February 3, 2017, Abanca Holding Financiero paid the 300 million Euros outstanding from the deferred selling price of NCG Banco, S.A., thus there not being any outstanding amount to be satisfied by the purchaser for the entity's purchase. Consequently, by virtue of the entity's purchase agreement, the FROB, during February 2017, has paid to the purchaser a portion of guarantees granted in the selling process, for an amount of 327 thousand Euros.

- On March 24, 2017, Ibercaja Banco has amortized the outstanding nominal, 223,600 thousand Euros, from the issue of CoCos performed by Banco Grupo Caja 3 and subscribed by the FROB in 2013, within the framework of its restructuring process. Also, amounts corresponding to interests accrued from CoCos issued by Ceiss and Caja 3, and subscribed by the FROB, have been collected.

- Based on conclusions obtained within the framework of the study carried out by the FROB since September 2016 on the reorganization of the FROB's investments in Bankia and BMN, and other possible divestment strategies, the FROB's Governing Committee, on its reduced composition, agreed, on March 14, 2017, to start the necessary works to merge both entities, as best strategy to optimize the public aids' recovery capacity before a future divestment process. On June 26, 2017, the Boards of Directors of BMN and Bankia approved the merger's Common Project for both entities, as a result of which the FROB will receive, in exchange for its investment in BMN, 134,013,852 shares of Bankia, S.A. The effect of the exchange equation has been considered in the FROB's financial statements at December 31, 2016.

- After the ruling from the Court of Justice of the European Union (CJEU) of December 21, 2016, establishing the total retroactivity in the nullity of floor clauses, on January 20, 2017 Royal Decree-Law 1/2017, of 20 January, on urgent measures for consumers' protection on floor clauses was approved, establishing measures to be implemented by credit entities to return unduly satisfied amounts in application of certain floor clauses. This circumstance has had a negative impact on the FROB's financial statements of 2016 for guarantees granted in NCG's selling process, for an amount of 97 million Euros.

- On April 30, 2017, the FROB bond issued in 2015, for a nominal amount of 520 million Euros, was amortized; therefore, at the 2016 annual accounts' formulation, there is no issue in circulation.

- In order to re-establish the FROB's negative equity situation, the request of a new partial conversion of the Spanish State's loan to the FROB has been launched, for an amount of 3,000,000 thousand Euros, in contribution to the FROB's equity allocation, by virtue of article 53.4 of Law 11/2015, and as foreseen by this loan's agreement, prior authorization by the ESM. In this sense, the ESM, on May 30, 2017, has given its consent to the conversion.

- Within the Single Resolution Mechanism, on June 7, 2017, the FROB's Governing Committee agreed to adopt the necessary measures to execute the decision of the Single Resolution Board (SRB), on its Extended Executive Session of June 7, 2017, which adopted the resolution device on the entity Banco Popular Español, S.A., after the European Central Bank declared the entity's unfeasibility, by virtue of the Regulation (EU) no. 806/2014, of the European Parliament and Council, of July 15, 2014.

  This has implied the sale of the entity's business, through a competitive process, to Banco Santander, for one Euro. The resolution thus guarantees full security to depositors of Banco Popular, and the ordinary continuity of its operations, without compromising public resources.

- The liquidation of the fee for activities performed by the FROB as resolution authority established by Law 11/2015, for 2017 has been made.

Regarding prospects for 2017, it presents itself as a year focused on continuing with tasks performed during 2016, in order to maintain the appropriate capacity to expeditiously and efficiently execute any resolution process considered within the Single Resolution Mechanism. Likewise, during next year, it will be essential to achieve a high level of coordination and collaboration among the different institutions with resolution and supervision competencies, both at national and international levels.

Furthermore, the FROB must continue managing restructuring and resolution processes in progress. Among others, the FROB will carry out: i) a detailed follow-up of the activity of entities where the FROB holds interests and which will largely be marked by works related to the merger between Bankia and BMN; ii) a follow-up, at a different intensity level, in those entities where creditor positions are held as a consequence of the subscription of convertible bonds (Banco CEISS, from Unicaja Group), and iii) the management, follow-up and control of the evolution of different guarantees granted by the FROB as support to credit entities' resolution processes.

In the same sense, in 2017, a high workload is also expected to arise from legal claims associated with the actions taken by the FROB within the restructuring/resolution process of the banking sector.

6.- OTHER DISCLOSURES

No research and development activities were performed in 2016.

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, authorizes for issue on June 29, 2017 these Annual Accounts of the FROB for the year ended December 31, 2016 and the Directors' Report for 2016, 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.

Signed: Jaime Ponce
Chairman of the FROB