

FONDO DE REESTRUCTURACIÓN ORDENADA BANCARIA

Annual Accounts
for the year ended
31 December 2012 and
Directors' Report

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

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

AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Governing Committee of
Fondo de Reestructuración Ordenada Bancaria:

1. We have audited the financial statements of Fondo de Reestructuración Ordenada Bancaria ("the FROB" or "the Fund"), which comprise the balance sheet at 31 December 2012 and the related income statement, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended. The Director General of the FROB is responsible for the preparation of the FROB's financial statements in accordance with the regulatory financial reporting framework applicable to the Fund (identified in Notes 1 and 2 to the accompanying financial statements) and, in particular, with the accounting principles and rules contained therein. Our responsibility is to express an opinion on the financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.
2. In our opinion, the accompanying financial statements for 2012 present fairly, in all material respects, the equity and financial position of Fondo de Reestructuración Ordenada Bancaria at 31 December 2012, and the results of its operations and its cash flows for the year then ended, in conformity with the regulatory financial reporting framework applicable to the Fund and, in particular, with the accounting principles and rules contained therein.
3. Without qualifying our audit opinion, we draw attention to the following matters detailed in Notes 9, 2.4 and 17 to the accompanying financial statements:

The financial statements at 31 December 2012 show an equity deficit of EUR 21,832 million. The FROB expects that the measures required to restore a positive equity position will be implemented in the course of 2013. These measures include the possibility of an agreement by the State to convert a portion of the loan granted to the FROB into an equity contribution to the Fund. This possibility, which is provided for in the loan agreement between the State and the FROB, requires prior authorisation by the European Stability Mechanism (ESM). In this regard, the ESM has granted its consent to this transaction.

In preparing these financial statements, estimates were made to measure certain of the items recognised therein. Taking into consideration the object of the FROB and the activities carried on by it, whereby it makes the investments in the form of equity interests in, and financing provided to, credit institutions that are presented in these financial statements, estimates were made for the purpose of measuring these investments and determining the possible existence of impairment thereof.

The recoverable amounts of the investments in share capital and preference shares, and the related impairment losses, were calculated on the basis of the economic value determined by the FROB in accordance with Article 5 of Law 9/2012, adjusted by the capital increases performed on the basis thereof and by the best estimate of the result of the various hybrid financial instrument management processes and

their subsequent effect on the FROB's ultimate percentage ownership interest in the entities (see Note 1). In addition, the financial support granted by the Deposit Guarantee Fund for Credit Institutions through the assumption of all or part of any losses that might exist on certain investments was taken into account.

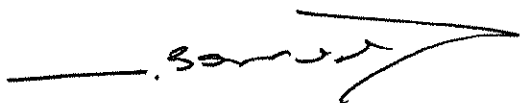
These economic values were obtained from the valuations carried out by independent experts, in accordance with the general criteria established by the FROB. The economic and financial projections used in these valuations are those included in the related resolution or restructuring plans prepared by each entity and approved by the FROB, the Executive Committee of the Bank of Spain and the European Commission. Also, the valuations were carried out in all cases on a going concern basis and not assuming liquidation of the entities, since the FROB considers that the likelihood that the entities will be liquidated is remote.

Although these estimates were made on the basis of the best information available at the date of preparation of these financial statements, the recovery of these assets at the value at which they were recognised will depend on the effective fulfilment of the key assumptions considered in the aforementioned plans and valuations.

Furthermore, as described in Note 17 to the accompanying financial statements, at the date of preparation of these financial statements, certain uncertainties exist as to the overall effect that could arise for the FROB's investees as a result of the following matters described in the aforementioned Note: the hybrid financial instrument management exercises; the claims made in court or through arbitration procedures received so far or that might be received in the future by the entities from their customers in relation to the sale of complex products; and the findings of the review of portfolios of restructured transactions required by the Bank of Spain and of that of the quality of the credit institutions' assets recommended by the European Banking Authority (EBA). The matters mentioned above, together with the entities' performance, could affect the valuation of the FROB's investments reflected in these financial statements.

4. The accompanying directors' report for 2012 contains the explanations which the Director General considers appropriate about the FROB's situation, the evolution of its activities and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for 2012. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the FROB's accounting records.

Deloitte, S.L.
Registered in ROAC under no. S0692



Carmen Barrasa Ruiz
17 July 2013

FONDO DE REESTRUCTURACIÓN ORDENADA BANCARIA
BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011 (Notes 1 to 4)
 (Thousands of Euros)

ASSETS		Notes	2012	2011 (*)	EQUITY AND LIABILITIES		Notes	2012	2011 (*)
NON-CURRENT ASSETS									
Property, plant and equipment		7	108	99	Equity				
Non-current investments in Group companies and associates			11,548,560	-	OWN FUNDS-		(21,921,522)	(1,861,000)	
Equity instruments		7	11,548,560	-	Equity fund		4,139,000	8,696,236	
Non-current financial assets			4,747,486	2,424,168	Loss for the year		(26,060,522)	(10,557,236)	
Loans to third parties			112	7,168	VALUATION ADJUSTMENTS-		89,802	-	
Debt instruments			4,747,374	2,417,000	Available-for-sale financial assets		89,802	-	
			16,296,154	2,424,267			(21,831,720)	(1,861,000)	
Total non-current assets					NON-CURRENT LIABILITIES				
					Non-current payables		48,039,901	10,913,448	
					Debt instruments and other marketable securities		8,774,525	10,913,448	
					Other non-current payables		39,265,376	-	
					Non-current provisions		598,000	6,854	
							48,637,901	10,920,302	
CURRENT ASSETS									
Non-current assets held for sale		6	2,410,000	1,021,834	Current payables		2,573,514	220,100	
Trade and other receivables			119	1,264	Debt instruments and other marketable securities		2,364,466	215,584	
Current financial assets		7.5	7,184,390	4,282,155	Current bank borrowings		-	4,516	
Loans to third parties		7.4	976,648	4,202,305	Current payables to Group companies and associates		209,048	-	
Debt instruments			6,207,742	79,850	Current provisions		-	165	
Current prepayments and accrued income		5	28	3,460	Trade and other payables		97,133	291,376	
Cash and cash equivalents			3,592,612	1,839,368	Sundry accounts payable		6,473	1,405	
			3,592,612	1,839,368	Other accounts payable to public authorities		6,308	1,251	
			13,187,147	7,148,081			165	154	
Total current assets					TOTAL EQUITY AND LIABILITIES				
TOTAL ASSETS			29,483,301	9,572,348			2,677,120	513,046	
							29,483,301	9,572,348	

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 18 are an integral part of the balance sheet at 31 December 2012.

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

FONDO DE REESTRUCTURACIÓN ORDENADA BANCARIA

INCOME STATEMENTS FOR THE YEARS ENDED

31 DECEMBER 2012 AND 2011 (Notes 1 to 4)

(Thousands of Euros)

	Notes	Income / (Expense)	
		2012	2011 (*)
CONTINUING OPERATIONS			
Finance income		357.935	831.018
Preference share interest	7	191.320	754.203
Bank interest	5	13.231	26.680
Loan interest	7	64.791	27.753
Public debt interest		88.593	22.382
Finance expenses		(500.253)	(329.829)
Interest and commissions	8	(498.510)	(297.380)
Provision adjustments	8 & 13	(1.743)	(32.449)
Other income		215	215
Asset protection scheme commissions		115	156
Other income		100	59
Period provisions	13	(688.000)	-
Period provisions for APS and other liabilities		(688.000)	-
Changes in fair value of financial instruments		30	-
Allocation to profit or loss of fair value changes in available-for-sale financial assets		30	-
Impairment and gains or losses on disposals of financial instruments		(25.213.172)	(11.050.953)
Impairment and other losses	6 & 7	(25.215.284)	(11.051.051)
Gains or losses on disposals and other	6	2.112	98
Depreciation and amortisation charge		(25)	(17)
Staff costs	14	(1.221)	(879)
Wages and salaries		(1.067)	(769)
Employee benefit costs		(154)	(110)
Other operating expenses	14	(16.031)	(6.791)
External services		(15.826)	(6.602)
Other current operating expenses		(205)	(189)
LOSS FOR THE YEAR		(26.060.522)	(10.557.236)

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 18 are an integral part of the income statement for 2012.

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

FONDO DE REESTRUCTURACIÓN ORDENADA BANCARIA

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011 (Notes 1 to 4)

A) STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011 (Thousands of Euros)

	Notes	Income / (Expense)	
		2012	2011 (*)
LOSS PER INCOME STATEMENT (I)		(26.060.522)	(10.557.236)
Income and expense recognised directly in equity			
- Measurement of financial instruments		89.832	-
Available-for-sale financial assets		89.832	-
Other income/expenses		-	-
- Cash flow hedges		-	-
- Grants, donations and legacies received		-	-
- Actuarial gains and losses and other adjustments		-	-
- Tax effect		-	-
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY (II)		89.832	-
Transfers to profit or loss			
- Measurement of financial instruments		(30)	-
Available-for-sale financial assets		(30)	-
Other income/expenses		-	-
- Cash flow hedges		-	-
- Grants, donations and legacies received		-	-
- Tax effect		-	-
TOTAL TRANSFERS TO PROFIT OR LOSS (III)		(30)	-
TOTAL RECOGNISED INCOME AND EXPENSE (I+II+III)		(25.970.720)	(10.557.236)

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 18 are an integral part of the statement of changes in equity for 2012.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011 (*) (Notes 1 to 4)

B) STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011 (*) (Notes 1 to 4)

(Thousands of Euros)

	Equity fund	Prior years profits (losses)	Profit (Loss) for the period	Other equity instruments	Valuation adjustments	TOTAL
Balance at 1 January 2011 (*)	9.010.327	-	(314.091)	-	-	8.696.236
Adjustments due to changes in policies in 2011	-	-	-	-	-	-
Adjustments due to errors in 2011	-	-	-	-	-	-
ADJUSTED BALANCE AT BEGINNING OF 2011 (*)	9.010.327	(314.091)	-	-	-	8.696.236
Total recognised income and expense	-	-	(10.557.236)	-	-	(10.557.236)
Transactions with Fund sponsors	(314.091)	314.091	-	-	-	-
- Allocation of prior year loss	(314.091)	314.091	-	-	-	-
- Return of amounts transferred to the fund	-	-	-	-	-	-
- Conversion of financial liabilities into equity	-	-	-	-	-	-
- Other transactions	-	-	-	-	-	-
Other changes in equity	-	-	-	-	-	-
Balance at 31 December 2011 (*)	8.696.236	-	(10.557.236)	-	-	(1.861.000)
Adjustments due to changes in policies in 2012	-	-	-	-	-	-
Adjustments due to errors in 2012	-	-	-	-	-	-
ADJUSTED BALANCE AT BEGINNING OF 2012	8.696.236	(10.557.236)	-	-	-	(1.861.000)
Total recognised income and expense	-	-	(26.060.522)	-	89.802	(25.970.720)
Transactions with Fund sponsors	(4.557.236)	10.557.236	-	-	-	6.000.000
- Amounts transferred to the fund	6.000.000	-	-	-	-	6.000.000
- Allocation of prior year loss	(10.557.236)	10.557.236	-	-	-	-
- Return of amounts transferred to the fund	-	-	-	-	-	-
- Conversion of financial liabilities into equity	-	-	-	-	-	-
- Other transactions	-	-	-	-	-	-
Other changes in equity	-	-	-	-	-	-
Balance at 31 December 2012	4.139.000	-	(26.060.522)	-	89.802	(21.831.720)

(*) The balances and changes relating to 2011 are presented for comparison purposes only. The accompanying Notes 1 to 18 are an integral part of the statement of changes in equity for 2012.

FONDO DE REESTRUCTURACIÓN ORDENADA BANCARIA

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED

31 DECEMBER 2012 AND 2011 (Notes 1 to 4)

(Thousands of Euros)

	Notes	Proceeds / (Payments)	
		2012	2011 (*)
CASH FLOWS FROM OPERATING ACTIVITIES (I)		66.199	622.677
Loss for the year before tax		(26.060.522)	(10.557.236)
Adjustments for:		26.045.218	10.517.684
- Depreciation and amortisation charge		25	17
- Impairment losses	6	25.215.284	11.051.051
- Changes in provisions	8 & 13	689.743	32.449
- Recognition of grants in profit or loss		-	-
- Gains/Losses on derecognition and disposal of non-current assets		-	-
- Gains/Losses on derecognition and disposal of financial instruments		(2.122)	-
- Finance income	7	(357.935)	(831.018)
- Finance costs	8	500.253	297.380
- Exchange differences		-	-
- Changes in fair value of financial instruments		(30)	-
- Other income and expenses		-	(32.195)
Changes in working capital		9.482	(1.222)
- Inventories		-	-
- Trade and other receivables	7	1.145	(1.056)
- Other current assets		3.434	-
- Trade and other payables		5.068	(166)
- Other current liabilities		(165)	-
- Other non-current assets and liabilities		-	-
Other cash flows from operating activities		72.021	663.451
- Interest paid	8	(281.246)	(92.015)
- Dividends received		-	-
- Interest received	7	353.267	746.632
- Income tax recovered (paid)		-	-
- Other amounts received (paid)		-	8.834
CASH FLOWS FROM INVESTING ACTIVITIES (II)		(4.308.439)	(10.020.000)
Payments due to investment		(8.284.674)	(10.020.000)
- Group companies and associates		-	(4.183.000)
- Intangible assets		-	-
- Property, plant and equipment		(34)	-
- Investment property		-	-
- Other financial assets		(8.284.640)	(4.877.000)
- Non-current assets held for sale		-	(568.000)
- Other assets		-	(392.000)
Proceeds from disposal		3.976.235	-
- Group companies and associates		-	-
- Intangible assets		-	-
- Property, plant and equipment		-	-
- Investment property		-	-
- Other financial assets		2.952.279	-
- Non-current assets classified as held for sale	6	1.023.956	-
- Other assets		-	-
CASH FLOWS FROM FINANCING ACTIVITIES (III)		5.995.484	7.945.000
Proceeds and payments relating to equity instruments	9	6.000.000	-
- Proceeds from issue of equity instruments		6.000.000	-
- Redemption of equity instruments		-	-
- Purchase of treasury shares		-	-
- Disposal of treasury shares		-	-
- Grants, donations and legacies received		-	-
Proceeds and payments relating to financial liability instruments	8	(4.516)	7.945.000
- Proceeds from issue of debt instruments and other marketable securities		-	7.945.000
- Proceeds from issue of bank borrowings		-	-
- Proceeds from issue of borrowings from Group companies and associates		-	-
- Proceeds from issue of other borrowings		-	-
- Redemption of debt instruments and other marketable securities		-	-
- Repayment of bank borrowings		(4.516)	-
- Repayment of borrowings from Group companies and associates		-	-
- Repayment of other borrowings		-	-
Dividends and returns on other equity instruments paid		-	-
- Dividends		-	-
- Returns on other equity instruments		-	-
EFFECT OF FOREIGN EXCHANGE RATE CHANGES (IV)		-	-
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		1.753.244	(1.452.323)
Cash and cash equivalents at beginning of year		1.839.368	3.291.691
Cash and cash equivalents at end of year		3.592.612	1.839.368

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 18 are an integral part of the statement of cash flows for 2012.

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

Notes to the financial statements for the year ended 31 December 2012

1. Activity

The Fondo de Reestructuración Ordenada Bancaria (the Fund for Orderly Bank Restructuring, "the FROB") is a public entity with legal personality and full public and private capacity to fulfil its purpose, which was incorporated on 14 July 2009 in accordance with the provisions of Royal Decree-Law 9/2009, of 26 June, on bank restructuring and reinforcement of credit entities' equity. Several amendments were made to this Royal Decree-Law¹ from its date of publication until its repeal² and the approval of Law 9/2012, of 14 November, on restructuring and resolution of credit institutions (hereinafter "Law 9/2012"), which currently contains the legal regime under which the FROB carries on its activities.

The FROB's purpose is to manage the restructuring and resolution processes of credit institutions in the terms established in the aforementioned Law 9/2012.

The objectives pursued by these restructuring and resolution processes, as determined in Article 3 of Law 9/2012, are as follows:

- *To ensure the continuity of any activities, services and operations whose interruption could disrupt the economy or the financial system and, in particular, financial systems of systemic importance and payment, clearing and settlement systems.*
- *To avoid adverse effects on the stability of the financial system, preventing contagion of the difficulties of one institution to the system as a whole and maintaining market discipline.*
- *To ensure the most efficient use of public resources, minimising the extraordinary public financial support which it may be necessary to grant.*
- *To protect depositors whose funds are guaranteed by the Deposit Guarantee Fund for Credit Institutions.*
- *To protect the repayable funds and other assets of credit institutions' customers.*

In order to achieve the objectives outlined above, the FROB may adopt the necessary financial support instruments. These may be implemented through the use of, inter alia, one or more of the following measures, in accordance with Article 28 of Law 9/2012:

- *Issuing of guarantees.*
- *Granting of loans or credit lines.*
- *Acquisition of assets or liabilities, whose management may be assumed by the FROB or commissioned to a third party.*

¹ By Royal Decree-Law 6/2010, of 9 April, containing a series of measures to encourage economic recovery and employment; by Royal Decree-Law 11/2010, of 9 July, on governing bodies and other aspects of the legal regime of savings banks; by Royal Decree-Law 2/2011, of 18 February, on the strengthening of the financial system; by Royal Decree-Law 2/2012, of 3 February, on the strengthening of the capital of credit institutions; and subsequently, Royal Decree-Law 24/2012, of 31 August 2012, on restructuring and resolution of credit institutions, repealed Royal Decree-Law 9/2009.

² Royal Decree-Law 24/2012, of 31 August, on restructuring and resolution of credit institutions, repealed Royal Decree-Law 9/2009. This Royal Decree-Law was, in turn, repealed by Law 9/2012.

- *Recapitalisation, through ordinary shares or capital contributions and/or instruments convertible into ordinary shares or contributions to share capital.*

These instruments will be eligible, in all cases, as Tier 1 and principal capital. The FROB may advance the subscription or acquisition price of these instruments in the form of a loan.

The FROB is not subject to the following legislation which, therefore, is not applicable to it:

- The provisions of Law 6/1997, of 14 April, on the organisation and working of the central government.
- The rules governing the budgetary, 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 General Budget Law 47/2003, of 26 November.
- The provisions of Law 33/2003, of 3 November, on public administration holdings.

The FROB shall receive funding out of the State Budget. Also, in order to achieve its aims, the FROB may raise financing on the securities markets by issuing fixed-income securities, receiving loans, requesting credit and performing any other borrowing transaction. Irrespective of how they are instrumented, the external funds obtained by the FROB must not exceed the limit established to that effect in the State Budget Laws for each year.

The FROB is managed and administered by a Governing Committee comprising nine members at 31 December 2012: four appointed by the Bank of Spain, including the Deputy Governor who acts as Chairman of the Governing Committee; the Secretary General for the Treasury and Financial Policy, who acts as Vice-Chairman; the Under-Secretary for Economic Affairs and Competitiveness; the Chairman of the Spanish Accounting and Audit Institute; the Director General for Economic Policy; and the Director General for Budgets. The meetings of the Governing Committee are also attended by a representative appointed by the General Comptroller of the State Administration and another appointed by the Attorney General-Director of the State Legal Service. The Director General of the FROB may attend the meetings of the Governing Committee, with the right to speak but not to vote.

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

In 2012, as in previous years, the FROB received various support services required in order to carry on its activity provided by the Management Company of the Deposit Guarantee Fund (Sociedad Gestora de los Fondos de Garantía de Depósitos en Entidades de Crédito, A.I.E.). After the dissolution of this company in December 2012, the Deposit Guarantee Fund for Credit Institutions assumed the provision of these services.

Significant events in 2012

Certain events that occurred in 2012 that are significant for understanding these annual accounts are described below:

Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector, published on 4 February 2012, and Royal Decree-Law 18/2012, of 11 May, on the clean-up and sale of property assets in the financial sector, published on 12 May, set forth new provisioning and capital requirements in addition to those required from the credit institutions at 31 December 2011, aimed at covering the impairment on banks' balance sheets caused by assets relating to the property business. These requirements, which had to be met by the credit institutions in the course of 2012, had a significant impact on their income statements and equity positions.

Royal Decree-Law 18/2012 stipulated that in cases where, as a result of meeting the new requirements for covering property risk, credit institutions suffered a deterioration in their capital adequacy to such an extent that they had a principal capital or capital shortfall, the credit institutions would be obliged to provide for alternative measures in their compliance plan in order to ensure that the provisions of the Royal Decree-Law were met. In particular, if the Bank of Spain deemed it appropriate in view of the economic and financial position of the credit institutions, they would be obliged to request public financial support through the intervention of the Fund for

Orderly Bank Restructuring. This institution would inject resources into the entities by acquiring either ordinary share capital or other instruments convertible into equity.

On 9 May 2012, the Banco Financiero y de Ahorros (BFA) Group, under the aforementioned legislation, submitted a request to the FROB, through the Bank of Spain, to convert into shares the issue of preference shares launched by this entity and subscribed by the FROB amounting to EUR 4,465 million. Furthermore, BFA, within the framework of the requirement made by the Bank of Spain under the provisions of Royal Decree-Law 2/2012 and Royal Decree-Law 18/2012, notified the Bank of Spain and the Ministry of Economy and Competitiveness that it would request a capital contribution from the FROB amounting to EUR 19,000 million.

On 27 June 2012, in order to put into effect the conversion of the preference shares, the shareholders at the General Meeting of Banco Financiero y de Ahorros, S.A. agreed unanimously to reduce the company's share capital to zero through the redemption of shares to offset losses, following the application of voluntary reserves, and to execute at the same time the increase in the share capital in order to carry out the conversion. As a result of the foregoing, following the aforementioned process to convert the preference shares, the FROB became the sole shareholder of Banco Financiero y de Ahorros, S.A.

Also, at the beginning of June 2012, the Spanish government launched a transparency exercise consisting of two private, independent aggregate valuation analyses of the loan portfolios in Spain of the fourteen largest banking groups, in order to assess the resilience of the Spanish financial sector to a severe deterioration of the Spanish economy. According to the published reports, the Spanish financial sector was estimated to need capital of between EUR 16,000 million and EUR 26,000 million in the basic macroeconomic scenario and between EUR 51,000 million and EUR 62,000 million in the adverse macroeconomic scenario. Additionally, one of the international consultancy firms mentioned above performed an analysis to determine the capital requirements that would correspond to each of the entities based on their risk profiles.

On 25 June 2012, the Spanish government submitted a formal request to the Eurogroup for financial assistance for the recapitalisation of the Spanish credit institutions. On 29 June it was established that the financial assistance would be provided by the European Financial Stability Facility (EFSF) until the European Stability Mechanism (ESM) was available and that the former would transfer it to the ESM without granting it priority.

As a result of this financial assistance programme, a Memorandum of Understanding on Financial-Sector Policy Conditionality (MoU) was signed on 23 July. The MoU establishes the conditions connected with the financial assistance granted by the EFSF or, where appropriate, the ESM. Among other measures, the MoU provides for the performance of a bank-by-bank stress test in order to estimate capital needs and for initiating a process of restructuring and/or resolution of entities through the measures established in Law 9/2012.

The financial assistance facility agreement for the recapitalisation of financial institutions (the FFA of the EFSF) for a maximum amount of EUR 100 billion was entered into on 24 July 2012 by the following parties: the EFSF as lender, the Kingdom of Spain as borrower, the FROB as guarantor and agent, and the Bank of Spain as disbursement agent. As established in the FFA, the disbursed funds will be channelled to the recipient entities through the FROB. Accordingly, following each request for funds and receipt of the necessary authorisations, the funds will be paid into a securities or cash account at the Bank of Spain. In addition, before the funds have been paid to the government of Spain, the ESM must have expressed its agreement with the documentation formalising the legal relationship between the FROB and the State governing the transfer of the funds to the FROB.


As part of the assistance programme to Spain for the recapitalisation of the financial sector, Royal Decree-Law 24/2012, of 31 August, on restructuring and resolution of credit institutions was published 31 August 2012, whereby a substantial reform was made of the Spanish scheme for the restructuring and resolution of credit institutions in place until that date. This Royal Decree-Law established the regime governing the restructuring and resolution of credit institutions and strengthened the FROB's powers of intervention. It also included voluntary and mandatory subordinated liability exercises for entities for which restructuring or resolution procedures have been initiated. Finally, provision was made for the incorporation of a company to manage the assets from the bank restructuring process, which will be responsible for managing the problem assets that the credit institutions must transfer to it. Furthermore, the organisational structure of the FROB was changed in order to avoid conflicts of interest due to the participation of the private sector in the Governing Committee through the Deposit Guarantee Fund for Credit Institutions. Measures were also included to enhance the protection of retail investors who subscribe financial products not covered by the Deposit Guarantee Fund for Credit Institutions. Lastly, changes were made to the definition of principal capital and the related requirements to be met by consolidable groups of credit institutions and by institutions not forming part of a consolidable group, and a single requirement of 9% of

risk-weighted exposures was established, which must be met as from 1 January 2013.

On 28 September 2012, the capital needs were disclosed for each of the credit institutions subject to analysis, classifying the four banks controlled by the FROB, which required state aid in the two scenarios envisaged in the analysis, in "Group 1"; and a further three banking groups -Banco Popular, BMN and the planned merger between Ibercaja, Liberbank and Caja 3- in "Group 2", i.e. the entities that would require additional capital in the adverse scenario. These entities submitted their recapitalisation plans in October 2012 for approval by the Bank of Spain and the European Commission. Based on these plans, the need for, and amount of, public aid were determined.

On 10 October 2012, the FROB published a document entitled "Guidelines on the methodology and procedures for determining an entity's economic and liquidation value" in accordance with the provisions of Royal Decree-Law 24/2012, which establishes that, prior to the adoption of any restructuring or resolution measure, the FROB will determine each entity's economic value for the purpose of recognising any losses that may arise from the application of the instruments that are to be used, and that this valuation will be subject to the procedure and will be performed in accordance with the criteria that the FROB determines in general, through a resolution adopted by its Governing Committee, in accordance with generally accepted methodologies.

On 29 October 2012, the FROB completed the design of the asset management company for the banking system restructuring, Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (Sareb), which was provided for in the MoU. This company's purpose is the transfer by the entities of problem assets relating to the property sector on the basis of prudent valuations, with the objective of ensuring the company's profitability over a period of 15 years, thereby substantially reducing any uncertainty regarding the viability of the entities that require public aid and enabling them to focus their management on their core business.




Law 9/2012, of 14 November, on the restructuring and resolution of credit institutions ("Law 9/2012") was approved in November 2012, thereby converting the provisions of Royal Decree-Law 24/2012 into law. Law 9/2012 establishes, inter alia, that the financial institutions' restructuring and resolution plans must envisage the performance of management exercises relating to hybrid capital and subordinated debt instruments issued by credit institutions in order to ensure an adequate allocation of the restructuring or resolution costs in accordance with the legislation governing European Union State aid and with the objectives and principles established in the aforementioned Law. The actions included in the restructuring and resolution plans may affect the issues of hybrid instruments, such as preference shares or subordinated financing obtained by the credit institution, either directly or through an entity wholly owned, either directly or indirectly, by the credit institution. The hybrid capital and subordinated debt instrument management exercises may consist of, among other measures: (i) offers for exchange for the credit institution's equity instruments, whether shares, non-voting equity units or contributions to capital; (ii) offers to buy back securities, by direct cash payment or payment conditional on, according to their present value, the subscription of the entity's shares, non-voting equity units or contributions to its share capital or on reinvestment of the buyback price in any other banking product; (iii) reduction in the face value of the debt; and (iv) early redemption at other than face value. The hybrid capital and subordinated debt instrument management exercises shall take into account the market value of the debt securities to which they are addressed, applying any premiums or discounts in accordance with European Union State aid legislation. The entity shall request the preparation of at least one independent expert opinion to substantiate market value. Without prejudice to the foregoing, Law 9/2012 establishes the FROB's capacity to resolve to perform, with the nature of an administrative act, actions relating to the management of hybrid capital and subordinated debt instruments in the case of the credit institutions referred to in Article 39.1 in this Law for which a restructuring or resolution plan has been prepared, and to include them in the related plan if it deems them necessary to achieve any of the following objectives:

- a) To ensure that the costs of restructuring or resolution of the credit institutions are divided appropriately, in accordance with European Union State aid legislation and in an endeavour to reduce the use of public funds to a minimum.
- b) To maintain or restore the financial position of credit institutions receiving financial support from the FROB.

The hybrid capital and subordinated debt instrument management exercises ordered by the FROB, pursuant to Law 9/2012, shall be binding on the credit institutions to which they are addressed, on any institutions that are wholly-owned directly or indirectly by them through which the issue has been made, and on the holders of the hybrid capital and subordinated debt instruments. The FROB shall determine which issues or sets of hybrid capital and subordinated debt instruments lie within the scope of application of the management exercise,

respecting, in this determination, the different order of priority, irrespective of the issue dates. Losses in excess of their proportional holdings cannot be attributed to holders of securities with more senior claims and, in any case, shareholders, non-voting equity unit holders or partners of the credit institution shall have to have absorbed losses to the greatest possible extent. One or more of the following hybrid capital and subordinated debt instrument management exercises may be ordered by the FROB pursuant to the provisions of this Law:

- a) Deferment, suspension, elimination or amendment of certain rights, obligations, terms and conditions of some or all of the hybrid capital and subordinated debt instrument issues of the institution within the meaning of Article 39.2 of Law 9/2012. The changes may affect, inter alia, the following:
 1. Payment of interest.
 2. Repayment of principal.
 3. Events of default.
 4. Maturity date.
 5. Investors' individual or collective rights.
 6. The right to apply for an event of default to be declared.
 7. The right to demand any payment relating to the securities.
- b) The entity's obligation to buy back the securities concerned at the price set by the FROB. The FROB is authorised to design the buyback procedure. The total buyback price of each of the issues may not exceed their market value, applying any premiums or discounts in accordance with European Union State aid legislation. In any case, investors shall receive a sum equivalent at least to that which they would have received had the institution been liquidated in an insolvency proceeding. Moreover, the FROB may stipulate that the buyback price be reinvested in subscribing shares, non-voting equity units or contributions to share capital, as appropriate, or that it be paid in kind in shares or non-voting equity units available in the entity's direct or indirect treasury shares.
- c) Any other measures that the credit institution concerned could have taken through a hybrid capital and subordinated debt instrument management exercise.



Lastly, on 28 November, at the proposal of the Bank of Spain and the FROB, the European Commission approved the restructuring/resolution plans of the four entities majority-owned by the FROB: Banco Financiero y de Ahorros, NCG Banco, Catalunya Banc and Banco de Valencia. The capital needs that were originally identified in the stress tests mentioned above were reduced as a result of the effect of the transfer of property assets to Sareb, to be performed in December 2012, and of the assumption of losses by the holders of hybrid instruments. The approved plans include significant business adjustment measures and reductions in the workforces and branch networks by the entities receiving public funds. They also include a financial burden sharing exercise that affects shareholders and holders of hybrid instruments, as set forth in the State aid legislation applied by the European Commission and provided for in the MoU. Accordingly, in order to minimise costs for the taxpayer, the shareholders of the restructured entities assume a reduction in the value of their investment in line with the registered losses or the economic valuation of the entity, and the dilution effect caused by the capital injections made by the FROB, and the holders of hybrid instruments issued by the entities that receive public aid contribute as much as possible to cover the capital needs and accept, following the application of considerable cuts, the exchange of their securities for assets as Tier 1 capital.

Note 7.2 details the capital aid effectively disbursed by the FROB in 2012.

Lastly, on 20 December 2012, the European Commission approved the restructuring plans of the entities forming part of Group 2 (Caja3, Banco Mare Nostrum, Banco Ceiss and Liberbank) following approval of these plans by the Bank of Spain. The capital that these four entities will receive is estimated at approximately EUR 1,865 million. This amount is less than that identified for capital needs by the aforementioned independent expert in the stress test, since they were reduced as a result of the transfer of problem assets to Sareb and the assumption of losses by the holders of preference shares and subordinated debt. Other mitigating measures implemented by the entities were also taken into consideration, such as the disposal of assets and other gains included in the restructuring plans. This figure may undergo changes when the actions envisaged in the plans are implemented.

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 Director General of the FROB in accordance with the regulatory financial reporting framework applicable to the Entity established in the following:

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

2.2 Fair presentation

The annual accounts of the FROB, which were obtained from its accounting records, are presented in accordance with the regulatory financial reporting framework applicable to the Entity (see 2.1) and, in particular, with the accounting principles and rules contained therein (see Note 4) and, accordingly, they present fairly the Entity's equity and the financial position at 31 December 2012, and its results, the changes in its equity and its cash flows in the year then ended, in accordance with the applicable regulatory framework and, in particular, with the accounting principles and rules contained therein.

The annual accounts of the FROB for 2011 were approved by the Governing Committee on 25 July 2012. The annual accounts for 2012, which were authorised for issue by the Director General of the FROB on 12 July 2013, will be submitted for approval by the Governing Committee, and it is considered that they will be approved without any changes.

2.3 Accounting policies applied

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

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

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

In preparing these annual accounts, estimates were made to measure certain of the items recognised therein. Taking into consideration the object of the FROB and the activities carried on by it, whereby it makes investments in the form of ownership interests in the share capital of, and financing provided to, the credit institutions that are presented in these annual accounts, estimates were made for the purpose of measuring these investments and determining the possible existence of impairment losses on these investments.

The recoverable amounts of the investments in share capital and preference shares, and the related impairment losses, were calculated on the basis of the economic value determined by the FROB in accordance with Article 5 of Law 9/2012, adjusted by the capital increases performed on the basis thereof and by the best estimate of the result of the various hybrid financial instrument management processes and their subsequent effect on the FROB's final percentage ownership interest in the entities (see Note 1). In addition, the financial support granted by the Deposit Guarantee Fund for Credit Institutions through the assumption of all or part of any losses that might exist on certain investments.

These economic values were obtained from the appraisals carried out by independent experts, in accordance with the general criteria established by the FROB. The economic and financial projections used in these valuations are those included in the related resolution or restructuring plans prepared by each entity and approved by the FROB, the Executive Committee of the Bank of Spain and the European Commission. Also, the valuations were carried out in all cases on an ongoing business basis and not assuming their liquidation, since the FROB considers that the likelihood that the entities will be liquidated is remote.

Although these estimates were made on the basis of the best information available at the date of preparation of these annual accounts, the recovery of these assets at the value at which they were recognised will depend on the effective compliance with the key assumptions included in the related plans and valuations.

Also, events that take place in the future, which include the results of the events after the reporting date mentioned in Note 17 and of any disposal processes carried out by the FROB with regard to its investments, might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in estimates would be applied prospectively.

2.5 Comparative information

The information contained in these annual accounts relating to 2011 is presented with the figures relating to 2012 for comparison purposes only. Therefore, the information relating to 2011 does not constitute the FROB's statutory annual accounts for 2011.


2.6 Environmental impact

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

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

Pursuant to Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, establishing measures to combat late payment in commercial transactions, which was implemented by the Resolution dated 29 December 2010 of the Spanish Accounting and Audit Institute, on disclosures to be included in the notes to annual accounts with regard to late payment to suppliers in commercial operations, the disclosures to be included in the notes to the annual accounts with regard to late payment to suppliers in commercial transactions are presented below.

The disclosures required by the aforementioned Resolution of the Spanish Accounting and Audit Institute are set forth below (in thousands of euros):



	Amounts Paid and Payable at the Balance Sheet Date			
	2012		2011	
	Amount	% (1)	Amount	% (1)
Paid within the maximum legal payment period (2)	12,939	100%	7,643	100%
Other	-	-	-	-
Total payments made in the year	12,939	100%	7,643	100%
Weighted average period of late payment (days)	-	-	-	-
Payments at 31 December 2012 exceeding the maximum legal payment period	-	-	-	-

(1) Percentage of the total amount.

(2) The maximum payment period is, in all cases, that relating to the nature of the asset or service received by the FROB in accordance with Law 3/2004, of 29 December, on combating late payment in commercial transactions.

2.8 Presentation of consolidated financial statements

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

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

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

In this context, the FROB has performed an analysis of the need to present consolidated annual accounts after having acquired, as described in Note 7 to these annual accounts, majority shareholdings in certain credit institutions, which led it to conclude, after consulting with the 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. The matters taken into consideration to reach this conclusion included the following:

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

3. Allocation of loss

Pursuant to Law 9/2012, any accrued and accounted profit will be paid into the Public Treasury. On the other hand, any negative results generated by the FROB's assets will be offset by its Equity Fund.

	Thousands of Euros
Basis of allocation:	
Loss per income statement	(26,060,522)
Allocation to:	
Equity Fund	(26,060,522)
	(26,060,522)

4. Accounting policies and measurement bases

The principal accounting policies and measurement bases used by the FROB in preparing the annual accounts for 2012, 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

Initial recognition -

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

The acquisition cost includes, as well as the amount billed by the supplier after deducting any discounts or

price reduction, all the directly related additional expenses that occur until the assets are ready for their intended use, including those relating to bringing them to their location and any other condition in order that they may operate as planned.

Subsequent measurement -

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

Depreciation -

Property, plant and equipment are depreciated systematically on a straight-line basis over their estimated useful lives, taking into consideration their estimated residual value at the end of this period. The estimated useful lives of the Entity's various items of property, plant and equipment at 31 December 2012, calculated on the basis of the Entity's best estimate of the decline in value normally caused by their use and by wear and tear, in addition to the consideration of any technical and commercial obsolescence that might affect them, is as follows:

	Years of Estimated Useful Life
Computer hardware	4
Furniture and other	5

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

In 2012 no changes occurred in the estimates of the useful lives of any items of property, plant and equipment owned by the Entity.

Impairment -

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

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

None of the Entity's items of property, plant and equipment were impaired at 31 December 2012 or in the year then ended.

4.2 Non-current assets held for sale

Definition -

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

- a) The assets must be available in their current condition for immediate sale, subject to the usual and customary terms for their sale; and

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

Measurement -

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

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

4.3 Financial assets - Categories of financial assets

4.3.1 Investments - Group companies

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

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

Any dividends accrued on these investments, provided that they do not arise unequivocally from the gains generated prior to their acquisition date, are recognised in the income statement. In 2012 these investments did not accrue any dividends.

Note 7.2 contains significant information on these investments.

4.3.2 Held-to-maturity investments

This category may include debt securities with fixed maturity and fixed or determinable payments that are traded in an active market and which the FROB has the positive intention and ability to hold to the date of maturity.

Initial recognition -

Held-to-maturity investments are initially recognised at fair value which, in the absence of evidence to the contrary, is the transaction price, which is the fair value of the consideration given, plus any directly attributable transaction costs.

Subsequent measurement -

Held-to-maturity investments are measured at amortised cost. The accrued interest is recognised in the income statement using the effective interest method.

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

There were no assets classified in this category at 31 December 2012 or in the year then ended.

4.3.3 Loans and receivables

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

Loans and receivables are recognised in the balance sheet at 31 December 2012 under, inter alia, "Non-Current Financial Assets", "Accounts Receivable" and "Current Financial Assets".

Initial recognition -

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

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

Subsequent measurement -

The assets included in this category are measured at amortised cost. The interest earned on these assets is recognised in the income statement using the effective interest method.

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

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

Notes 7.3, 7.4 and 7.5 contain significant information on these investments.

4.3.4 Available-for-sale financial assets

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

Initial recognition -

Available-for-sale financial assets are initially recognised at fair value which, in the absence of evidence to the contrary, is the transaction price, which is the fair value of the consideration given, plus any directly attributable transaction costs.

Subsequent measurement -

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

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

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

Notes 7.3 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 on the bank accounts held by the FROB is calculated using the effective interest method on the basis of their contractual rates and are recognised under "Finance Income - Bank Interest" in the income statement.

4.5 Impairment of financial assets

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

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

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

1. 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.
2. In the case of equity instruments, mean that their carrying amount may not be fully recovered.

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

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

4.5.1 Investments in entities

The FROB estimates and recognises impairment losses on the investments in Group entities provided that there is objective evidence, in accordance with the provisions of applicable legislation, that the carrying

amount of an investment in these companies may not be recoverable.

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

The amount of the impairment loss is estimated as the difference between the carrying amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. If there is no better evidence of the recoverable amount, the FROB estimates the impairment loss taking into consideration the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement, on the basis of the available information. In addition, in the estimate of the recoverable amount of these investments, the FROB takes into consideration the assumption by the Deposit 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 2012 year-end for estimating the recoverable amount of the various investments in capital and/or preference shares and, therefore, the related impairment losses are described in Note 2.4 to these annual accounts.

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

4.5.2 Debt instruments classified as "loans and receivables"

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

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

The circumstances that the FROB considers may have generated impairment on these investments that are taken into consideration in its estimates of impairment include: the non-payment of coupons on the preference shares that have been acquired, the existence of significant qualifications in the auditors' reports that might adversely affect the entity's performance or of situations that raise doubts as to the entities' viability or solvency, the notification by the Bank of Spain of the need for their early conversion into share capital or the existence of doubts on the fulfilment of financial commitments arising from the aforementioned securities, or the existence of other circumstances of a similar nature that might place in doubt the payment capacity of the issuers of the securities.

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

4.6 Financial liabilities - Accounts payable

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

Accounts payable are initially recognised at the fair value of the consideration received, adjusted by the

directly attributable transaction costs. These liabilities are subsequently measured at amortised cost (see Note 4.12).

4.7 Derecognition of financial instruments

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

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

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

4.8 Tax regime

Law 9/2012 establishes that, for tax purposes, the FROB will have the same treatment as the Deposit Guarantee Fund for Credit Institutions. Consequently, it 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 assets it realises and the transactions it performs in fulfilment of its objectives, and any other indirect taxes that may be passed on to it.

4.9 Revenue and expense recognition

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

In this regard, the accrued finance income and expense arising from the deposit held at the Bank of Spain from acquired preference shares, debt securities and issued debentures (see Notes 5, 7 and 8) are recognised in the income statement using the effective interest method (see Note 4.12).

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, the amount and/or timing of which cannot be determined. These obligations may arise from a legal provision, a contractual requirement or an implicit or constructive obligation assumed by the FROB.
- b) Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the FROB.

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

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences. Where discounting is used, adjustments made to provisions are recognised as interest cost on an accrual basis.

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

4.11 Related party transactions

For the purposes of preparing these annual accounts, the FROB's "related parties" are considered to be the 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 recognised in these annual accounts corresponding to related parties.

4.12 Definition of fair value and amortised cost

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

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

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

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

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

5. Cash and cash equivalents - Cash

At 31 December 2012, "Cash and Cash Equivalents - Cash" in the accompanying balance sheet, amounting to EUR 3,592,612 thousand (31 December 2011: EUR 1,839,368 thousand), related basically to the current account held by the FROB at the Bank of Spain (see Note 15).

This deposit earns interest equal to the arithmetic mean of the minimum rate pre-established for each weekly auction of the European Central Bank (main financing transactions) published in the period relating to the settlement of the account, less 25 basis points.

In 2012 the interest earned on the bank deposits held by the FROB amounted to EUR 13,231 thousand (31 December 2011: EUR 26,680 thousand), which was recognised under "Finance Income - Bank Interest" in the accompanying income statement (see Notes 7.6 and 15). At 31 December 2012, uncollected interest amounted to EUR 844 thousand, which was recognised under "Cash and Cash Equivalents - Cash" in the balance sheet at that date.

6. Non-current assets classified as held for sale

Following is a detailed description of the assets classified under this line item in the balance sheet at 31 December 2012:

2012

	Thousands of Euros		
	Gross Amount	Impairment Losses	Carrying Amount
Catalunya Banc, S.A.	9,084,000	(6,674,000)	2,410,000
Banco de Valencia, S.A.	5,498,448	(5,498,448)	-
Total non-current assets classified as held for sale	14,582,448	12,172,448	2,410,000

2011

	Thousands of Euros		
	Gross Amount	Impairment losses	Carrying Amount
Unnim Banc, S.A.U.	953,264	-	953,264
NCG Banco, S.A.	68,570	-	68,570
Total non-current assets classified as held for sale	1,021,834	-	1,021,834

Set forth below is certain information relating to the investments held by the FROB classified as "Non-Current Assets Classified as Held for Sale" at 31 December 2012:

	Ownership Interest	Location	Thousands of Euros			
			Share Capital (*)	Share Premium (*)	Reserves and Other Equity Items (*)	Profit (Loss) Attributable to the Parent (*)
Catalunya Banc, S.A.	100%	Barcelona	1,306,203	7,777,797	(306,741)	(8,191,996)
Banco de Valencia, S.A.	99%	Valencia	4,554,925	-	(86,812)	(2,235,471)

(*) The data relating to this company's equity position have been obtained from the audited consolidated financial statements at 31 December 2012.

The changes in 2012 and 2011 in this line item of the accompanying balance sheet were as follows:

	Thousands of Euros
Balance at beginning of 2011	-
Transfers	1,021,834
Disposals	-
Net charge for impairment losses	-
Balance at 31 December 2011	1,021,834
Additions	-
Transfers	2,410,000
Disposals	(1,021,834)
Net charge for impairment losses	-
Balance at 31 December 2012	2,410,000

The following is a description of the most significant changes:

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

In 2012, as part of the entities resolution plan indicated in Note 1, the FROB took the decision to initiate the necessary steps to sell its investment in CX. As a result, at 31 December 2012, the investment was reclassified from "Non-Current Investments in Group Companies and Associates - Equity Instruments" to "Non-Current Assets Classified as Held for Sale" for a net amount of EUR 2,410,000 thousand (see Note 7.2).

On 4 March 2013, on expiry of the deadline for submitting non-binding bids for acquiring the entity, the FROB announced its intention to not continue with the Catalunya Banc tender process.

In accordance with this entity's resolution plan approved by the European Commission, the FROB has a long deadline (2016) to finalise a sale agreement in the best possible conditions.

Banco de Valencia, S.A. ("Banco Valencia")

On 27 November 2012, the Governing Committee of the FROB and the Executive Committee of the Bank of Spain approved the resolution plan of Banco de Valencia, which was approved by the European authorities on 28 November 2012. This provided for, among other aspects, the transfer of all the shares representing the share capital of Banco de Valencia held by the FROB to CaixaBank, S.A. for EUR 1. This provision was implemented, following the related competitive process, in the sale agreement entered into on 27 November. As a result, the FROB reclassified the investment held by the FROB at 31 December 2012 in Banco de Valencia to "Non-Current Assets Classified as Held for Sale" at its carrying amount, which was EUR 0 (see Note 7.2).

Subsequent to 2012 year-end, on 11 February 2013, the Governing Committee of the FROB resolved to implement certain hybrid capital and subordinated debt instrument management exercises in executing the resolution plan of Banco de Valencia, S.A. ("Banco Valencia"). Furthermore, on 28 February 2013, the sale by the FROB to CaixaBank of its entire investment in the share capital of Banco de Valencia, S.A., which amounted to 98.9%, was formally executed. Lastly, the credit facility granted by the FROB on 22 November 2011 was cancelled.

Unnim Banc, S.A.U. ("Unnim")

On 26 September 2011, the Bank of Spain notified the FROB of the resolution adopted whereby it was considered unlikely, in view of the financial position of Caixa d'Estalvis Unió de Caixes de Manlleu, Sabadell i Terrassa and Unnim Banc, S.A., that the repurchase of the convertible preference shares issued on 28 July 2010 by the savings bank for EUR 380,000 thousand and subscribed by the FROB could be carried out in the terms and conditions set forth in the issue deed. As a consequence, the Governing Committee of the FROB resolved, by virtue of the provisions of Article 9.3 c) of Royal Decree-Law 9/2009, to request the conversion of these preference shares into shares. On the basis of the negative appraisal by the independent experts, it was concluded that 100% of the share capital of the entity corresponded to the FROB. As a result, the then

shareholder, Caixa d'Estalvis Unió de Caixes de Manlleu, Sabadell i Terrassa, transferred to the FROB the 18,050,000 shares that comprised its share capital for EUR 1.

On 30 September 2011, the following agreements were entered into: i) the conversion into shares of the convertible preference shares issued by Unnim, amounting to EUR 380,000 thousand, together with the accrued, uncollected interest that amounted to EUR 5,264 thousand at that date, as a consequence of which Unnim issued 385,263,780 shares with a par value of EUR 1 each, which were fully subscribed by the FROB; and ii) the increase of the share capital of Unnim by 568,000,000 shares with a par value of EUR 1 each, fully subscribed and paid by the FROB. Following the capital injection and the conversion, the FROB became the sole shareholder and director of Unnim Banc and, as a result, it owned 100% of the share capital of Unnim at 2011 year-end.

On 7 March 2012, the Governing Committee of the FROB issued a restructuring plan for Unnim Banc, S.A. that provided for the purchase by BBVA of 100% of the share capital of Unnim Banc, S.A. from the FROB for EUR 1. This sale was formally executed on 27 July 2012. Also, the Deposit Guarantee Fund undertook to provide financial support for this transaction, providing the necessary funds so that the FROB could recover, in the sale process, the total amount of its holding in Unnim, which amounted to EUR 953,264 thousand. At the date of authorisation for issue of these annual accounts, this amount had been paid in full by the Deposit Guarantee Fund.

NCG Banco, S.A.U.

In December 2011, the FROB classified under "Non-Current Assets Classified as Held for Sale" the amount relating to 2.59% of the shares of NCG Banco, S.A.U. on which there was an irrevocable sale commitment as a result of the announcement of the partial exercise of the call option that, in application of Article 9.8 of Royal Decree-Law 9/2009, the FROB had granted to Novacaixagalicia and NCG Banco (see Note 7.3).

On 12 January 2012, the sale of these shares became effective by public deed, whereby the FROB obtained a gain of EUR 2,112 thousand.

7. Financial assets

7.1 Detail of financial assets

The detail, classified in accordance with applicable legislation, of the financial assets owned by the FROB at 31 December 2012 and 2011 is as follows:

2012

Classes Categories	Thousands of Euros						Total
	Non-Current Financial Instruments			Current Financial Instruments			
	Equity Instruments (Note 7.2)	Debt Instruments (Note 7.3)	Loans, Derivatives and Other (Note 7.5)	Equity Instruments	Debt Instruments (Note 7.4)	Loans, Derivatives and Other (Note 7.5)	
Investments in Group companies, jointly controlled entities and associates (*)	11,548,560	-	-	-	-	-	11,548,560
Loans and receivables	-	2,922,345	112	-	72,112	976,648	3,971,217
Available-for-sale financial assets	-	1,825,029	-	-	6,135,630	-	7,960,659
Total	11,548,560	4,747,374	112	-	6,207,742	976,648	23,480,436

(*) Includes the amount of the investments, net of their accumulated impairment (see Note 7.3).

2011

Classes Categories	Thousands of Euros						
	Non-Current Financial Instruments			Current Financial Instruments			Total
	Equity Instruments (Note 7.2)	Debt Instruments (Note 7.3)	Loans, Derivatives and Other (Note 7.5)	Equity Instruments	Debt Instruments (Note 7.4)	Loans, Derivatives and Other (Note 7.5)	
Investments in Group companies, jointly controlled entities and associates (*)	-	-	-	-	-	-	-
Loans and receivables	-	2,417,000	7,168	-	79,850	4,207,029	6,711,047
Available-for-sale financial assets	-	-	-	-	-	-	-
Total	-	2,417,000	7,168	-	79,850	4,207,029	6,711,047

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

The detail of the investments comprising “Non-Current Investments in Group Companies and Associates – Equity Instruments” in the balance sheet at 31 December 2012 and 2011 is as follows:

2012

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 Loss	Carrying Amount
Banco Financiero y de Ahorros, S.A.	100%	Madrid	17,959,000	(674,946)	(10,791,410)	17,959,000	(9,176,000)	8,783,000
NCG Banco, S.A.	100%	A Coruña	1,480,524	7,753,028	(7,937,457)	5,425,000	(3,091,000)	2,334,000
Sareb	45.16%	Madrid	238,998	716,812	(5,488)	431,560	-	431,560
						23,815,560	(12,267,000)	11,548,560

(*) The data relating to the equity position of these companies were obtained from the audited consolidated financial statements at 31 December 2012, excluding non-controlling interests.

2011

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 Loss	Carrying Amount
Catalunya Banc, S.A. (*)	89.74%	Barcelona	176,413	3,410,112	(1,335,188)	1,718,000	(1,718,000)	-
NCG Banco, S.A. (**)	90.57%	A Coruña	2,681,838	47,213	(168,715)	2,396,430	(2,396,430)	-
						4,114,430	(4,114,430)	-

(*) There are call options on this entity sold to Catalunya Caixa, which in turn could designate one or more acquirers of the shares covered by the option, which could be exercised in the period of one year from the date of subscription of the initial shares by the FROB.

(**) Note 6 refers to the call options sold on the shares held by the FROB in NCG Banco, S.A.

(***) The data relating to the equity position of these companies were obtained from the audited consolidated financial statements at 31 December 2011, excluding non-controlling interests.

The changes in “Non-Current Investments in Group Companies and Associates - Equity Instruments” in the

accompanying balance sheet in 2012 and 2011 were as follows:

	Thousands of Euros
Balance at 31 December 2010	-
Additions	4,183,000
Transfers	(68,570)
Net charge for impairment losses	(4,114,430)
Balance at 31 December 2011	-
Additions	38,398,008
Disposals	-
Transfers	(2,410,000)
Net charge for impairment losses	(24,439,448)
Balance at 31 December 2012	11,548,560

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

On 27 November 2012, the Governing Committee of the FROB and the Executive Committee of the Bank of Spain approved the resolution plan of Catalunya Banc, S.A. (CX), which was approved by the European Commission on 28 November 2012.

In accordance with Articles 5 and 64.a) of Law 9/2012, the entity's economic value was determined (a negative amount of EUR 6,674,000 thousand) and was approved by the Governing Committee of the FROB on 14 December 2012. At the same time, for the purposes of complying with Article 44.2.b) of Law 9/2012, the entity's liquidation value was estimated, at a negative amount of EUR 17,846,000 thousand.

On 17 December 2012, the General Audit Office of the State Administration, in compliance with Article 30.1 of Law 9/2012, issued a report on compliance with the applicable rules of procedure for determining the conversion price of the convertible preference shares and the subscription price of the new shares.

At the same date, the Bank of Spain having confirmed the entity's impossibility to redeem the convertible preference shares subscribed by the FROB within the term established in the issue prospectus, a resolution was passed by the Governing Committee of the FROB, pursuant to Article 28.4 of Law 9/2012 and in accordance with the resolution plan, to request their conversion into ordinary shares of Catalunya Banc in the amount of EUR 1,250,000 thousand (see Note 7.3), which took place on 18 December 2012. At that date, these preference shares were fully impaired.

Also, taking into consideration the negative value of CX, at the same date, the FROB purchased all the shares of CX, which owned the special foundation arising from the former Caixa d'Estalvis de Catalunya, Tarragona i Manresa. As a result, the FROB became the sole shareholder of the Bank.

On 27 December 2012, in the framework of the resolution plan approved by the Bank of Spain, a capital increase of EUR 9,084,000 thousand was carried out, through the non-monetary contribution by the FROB of securities issued by the European Stability Mechanism (see Note 8.3).

In accordance with the criteria described in Notes 2.4 and 4.5 above, given the existence at 2012 year-end of clear indications of possible impairment in the value of the ownership interest in the share capital of CX, the FROB estimated the recoverable amount of this holding. Following this analysis, it recognised an impairment loss on this investment under "Impairment and Gains or Losses on Disposal of Financial Instruments - Impairment and Other Losses" in the accompanying income statement amounting to EUR 6,674,000 thousand.

At 31 December 2012, the holding in CX was transferred to "Non-Current Assets Classified as Held for Sale" at its net amount, i.e. EUR 2,410,000 thousand, since actions to sell the holding were in progress (see Note 6).

Banco de Valencia, S.A. ("Banco Valencia")

On 21 November 2011, the Executive Committee of the Bank of Spain approved the provisional replacement of the governing bodies of Banco de Valencia, and the designation of the FROB as its provisional administrator, pursuant to Article 7.2 of Royal Decree-Law 9/2009 and Title III of Law 26/1988, of 29 July, on discipline and intervention of credit institutions. For the purposes of providing stability for this entity, a resolution was passed for

the subscription and payment of a capital increase at Banco Valencia of up to EUR 1,000 million. On June 2012, Banco Valencia increased share capital by EUR 1,000,000 thousand through the issue of 5,000 million shares, of which the FROB subscribed 4,992,242,050 shares amounting to EUR 998,448 thousand. As a result of this increase, the FROB's holding in Banco de Valencia rose to 90.89%.

On 28 September 2012, the findings of the stress tests performed by Oliver Wyman were published, which resulted in capital needs for Banco de Valencia of EUR 1,845 million in the base scenario and of EUR 3,462 million in the adverse scenario.

On 27 November 2012, the Governing Committee of the FROB and the Executive Committee of the Bank of Spain approved the resolution plan of Banco de Valencia, which was approved by the European authorities on 28 November 2012. This provided for, among other aspects, the transfer of all the shares representing the share capital of Banco Valencia held by the FROB to CaixaBank, S.A. amounting to EUR 1. This provision was implemented, following the related competitive process, in the sale agreement entered into on 27 November.

As part of the sale agreement entered into, and pursuant to the protocol governing the financial aid measures, the transfer of shares would become effective on fulfilment of, inter alia, the following conditions: 1) Receipt of aid for absorbing losses, in order to capitalise the bank, of up to EUR 4,500,000 million; ii) To have in place an asset protection scheme ("APS") whereby the FROB will assume up to 72.5% of the amount by which losses exceed a threshold equal to the provisions recognised on the SMEs/self-employed risk and contingent liability portfolio (see Note 13); and iii) The launch of a restructuring process involving the rationalisation of its activity and the size of its branch network and workforce.

In accordance with Articles 5 and 64.a) of Law 9/2012, the entity's economic value was determined (a negative amount of EUR 2,244,500 thousand) and was approved by the Governing Committee of the FROB on 14 December 2012. At the same time, for the purposes of complying with Article 44.2.b) of Law 9/2012, the entity's liquidation value was estimated, at a negative amount of EUR 6,340,500 thousand.

On 26 December 2012, the Governing Committee of the FROB resolved to reduce the share capital through a decrease in the par value of the shares from EUR 0.20 per share to EUR 0.01 per share for the purpose of absorbing losses, and to increase share capital by EUR 4,500,000 thousand, through the subscription by the FROB of the entity's ordinary shares, through the contribution of securities issued by the European Stability Mechanism (see Note 8.3). As a result of the above, the FROB's holding in this entity rose to approximately 99%.

In accordance with the criteria described in Notes 2.4 and 4.5 above, the FROB estimated the recoverable amount of this holding at 2012 year-end to be EUR 1, taking into consideration the sale price agreed with CaixaBank, S.A. The FROB had recognised impairment losses amounting to EUR 5,498,448 thousand under "Impairment and Gains or Losses on Disposals of Financial Instruments - Impairment and Other Losses" in the accompanying income statement for 2012.

Also, at 31 December 2012, the holding was transferred to "Non-Current Assets Classified as Held for Sale" at its net amount, i.e. EUR 0, since the sale of the holding was in progress (see Note 6).

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

On 9 May 2012, the Board of Directors of BFA resolved to submit a request to the FROB, through the Bank of Spain, to apply the conversion process in order to convert the EUR 4,465 million issued in convertible preference shares subscribed by the FROB (see Note 7.3) into shares of the Bank. At its meeting of 14 May 2012, the Governing Committee of the FROB resolved to accept this request.

On 23 May 2012, BFA sent notifications to both the Bank of Spain and the FROB requesting a capital contribution of EUR 19,000 million as a result of the requirement made by the Bank of Spain pursuant to Royal Decree-Law 2/2012 and Royal Decree-Law 18/2012. On 24 May 2012, BFA was notified by both institutions of their willingness to immediately provide the aforementioned financial support once the requirements established in their regulations had been met.

The European Commission provided temporary authorisation, in accordance with EU State aid legislation, for the conversion of the state-owned convertible preference shares amounting to EUR 4,465 million into capital and granted the possibility to issue state-backed aid amounting to EUR 19,000 million to the BFA Group and its subsidiary Bankia.

On 27 June 2012, following completion of the convertible preference share conversion process (which gave rise, among other effects, to the prior reduction to zero of the Bank's share capital through the retirement of the 27,040,000 shares that, prior to the implementation of the conversion process, were owned by the Savings Banks), the FROB became the Bank's sole shareholder.

On 12 September, in order to strengthen the regulatory capital position of the BFA - Bankia Group, while the restructuring process was being completed, the FROB resolved to increase the share capital of BFA through a non-monetary contribution of EUR 4,500 million. At the same date, BFA granted a subordinated loan amounting to EUR 4,500 million, with an indeterminate maturity and an 8% interest rate, to Bankia, S.A.

Lastly, on 28 November 2012, the BFA-Bankia Group received approval from the European Commission, the Bank of Spain and the FROB for its restructuring plan for 2012 to 2017. The restructuring plan contained the final estimate of the public aid requirements at the BFA Group, which was EUR 17,959 million.

The capital needs of the Bankia Group, which should be understood to be included in the BFA Group's needs indicated above, were estimated at EUR 15,500 million. It is estimated that this amount will be covered by approximately EUR 4,800 million through the exchange of hybrid financial instruments mentioned above, while EUR 10,700 million must be contributed by Bankia's shareholders, whereby the capital increase at Bankia will be guaranteed in full by BFA.

In this context, on 26 December, in the framework of the restructuring plan mentioned above, the FROB passed the following resolutions:

- i) A capital increase of EUR 13,459 million at Banco Financiero y de Ahorros, S.A.U., which was subscribed and paid by the FROB through the non-monetary contribution of securities of the European Stability Mechanism (ESM). This increase followed another of EUR 4,500 million performed on 12 September 2012 which was carried out through the non-monetary contribution of treasury bills. These treasury bills were also exchanged for ESM securities (see Note 8.3).
- ii) The issue by Bankia of contingent convertible bonds with the disapplication of pre-emption rights amounting to EUR 10,700 million, which were also fully subscribed by BFA through the contribution of fixed-income securities issued by the ESM.

In accordance with the criteria described in Notes 2.4 and 4.5 above, given the existence at 2012 year-end of clear indications of possible impairment in the value of the ownership interest in the share capital of BFA, the FROB estimated the recoverable amount of this holding. Following this analysis, it recognised an impairment loss on this investment under "Impairment and Gains or Losses on Disposal of Financial Instruments - Impairment and Other Losses" in the accompanying income statement amounting to EUR 9,176,000 thousand.

Subsequent to year-end, on 16 April 2013, on the basis of the notification by the Governing Committee of 22 March 2012 that set the guidelines to be followed in the BFA-Bankia Group restructuring plan, it was resolved that the following measures should be taken:

- i) A reduction in the share capital through a decrease in the par value of the shares to one euro cent (EUR 0.01), resulting in share capital amounting to EUR 19,940 thousand, compared with an initial amount of EUR 3,987,927 thousand, the purpose of which is to set up a voluntary, restricted reserve to absorb losses.
- ii) A 100-1 reverse split to reduce the number of outstanding shares and, in particular, to ensure an appropriate share price, resulting in 19,939,633 new shares of EUR 1 par value each.
- iii) Full early redemption of 107,000 contingent convertible bonds issued by Bankia, S.A. for a par value of EUR 100,000 each.
- iv) A capital increase with pre-emptive subscription rights amounting to EUR 10,700 million.
- v) A capital increase at Bankia, S.A. with disapplication of pre-emption rights and the possibility of incomplete subscription, for a maximum amount of EUR 5,209,948 thousand, required for meeting the cash payment relating to the buyback of BFA preference shares, the subordinated bonds with no fixed maturity date of Bankia, S.A. and the subordinated bonds with a fixed maturity date of BFA for which the exchange option has been taken.

Also, subsequent to year-end, two significant events were published at the CNMV on 23 and 27 May 2013, whereby the share capital at this entity resulted in 11,517,328,544 fully paid and subscribed registered shares with a par value of EUR 1 each. This was the result of the capital increase with pre-emptive subscription rights

carried out from 30 April 2013 to 14 May 2013. Of these shares, 3,841,040,108 relate to BFA SAU through the exercise of its pre-emptive subscription rights and 4,010,665,326 by virtue of its commitment to subscribe any shares not subscribed by the other shareholders in the pre-emptive subscription period. These shares took the holding of BFA SAU in Bankia to 68.39% of the latter's share capital.

Also, in the period mentioned above, the compulsory buyback of hybrid and subordinated debt instruments was carried out, with the following results: i) 433,536,417 new shares were subscribed; ii) deposits were arranged for a total amount of EUR 51,291,562; and iii) following the change, the nominal amount of the bonds was EUR 190,666,742.04. Furthermore, the holders of hybrid and subordinated debt instruments without voting rights, subscribed and paid 3,153,528,422 new shares in total.

NCG Banco, S.A.U.

Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector, which was published on 4 February 2012, established various measures for cleaning up credit institutions' balance sheets. The aforementioned Royal Decree-Law 2/2012 established additional provisioning and capital requirements, focussed on the coverage of impairment caused by assets relating to the property business. The adjustments arising from this legislation must be recognised by the credit institutions in 2012. The NCG Banco estimated that the effect of this legislation would be additional provisions amounting to EUR 1,513 million and EUR 883 million in capital in addition to the Group's capital deficit of EUR 778 million at 2011 year-end.

In accordance with Royal Decree-Laws 2/2012 and 18/2012, the NCG Banco Group submitted plans for complying with these requirements to the Bank of Spain in which it indicated that the options for complying with the regulations and guaranteeing the continuity of operations were: i) to arrange a corporate transaction with a financial institution within the framework of a competitive process, under the provisions of Article 9.8 of Royal Decree-Law 9/2009; and ii) alternatively, to provide access to non-controlling investors through the granting by the FROB of an Asset Protection Scheme (APS). These plans were approved by the Bank of Spain, which opted for the first option proposed by the entity.

In accordance with Articles 5 and 64.a) of Law 9/2012, the entity's economic value was determined (a negative amount of EUR 3,091,000 thousand) and was approved by the Governing Committee of the FROB on 30 July 2012. At the same time, the entity's liquidation value was estimated, at a negative value of EUR 13,079,000 thousand.

Pursuant to Article 31.1 of Law 9/2012, the FROB's holding in the share capital of NCG should be adapted to the entity's negative valuation.

On 26 December 2012, in execution of the resolution plan, the Governing Committee of the FROB adopted the following resolutions:

- i) Reduction of share capital to zero through the redemption of the current shares that amount to EUR 2,681,838 thousand. The reduced amount will be allocated to increase the voluntary reserves.
- ii) At the same time, a resolution was taken to execute the capital increase for the conversion of the EUR 1,162,000 thousand of the preference shares owned by the FROB in ordinary shares (see Note 7.3). The new shares of NCG will have a par value of EUR 878,031 thousand and a total share premium of EUR 283,969 thousand.
- iii) A new capital reduction to zero through the redemption of the new shares and the increase in voluntary reserves.
- iv) A capital increase for the purpose of injecting capital amounting to EUR 5,425,000 thousand through the contribution of ESM fixed-income securities (see Note 8.3) and Spanish public debt securities amounting to EUR 368 thousand.
- v) Adoption of the related amendments to the bylaws.

In accordance with the criteria described in Notes 2.4 and 4.5.1 above, given the existence at 2012 year-end of clear indications of possible impairment in the value of the ownership interest in the share capital of NCG Banco, the FROB estimated the recoverable amount of this holding. Following this analysis, it recognised an impairment

loss on this investment under "Impairment and Gains or Losses on Disposal of Financial Instruments - Impairment and Other Losses" in the accompanying income statement amounting to EUR 3,091,000 thousand.

Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria ("Sareb")

The provisions of Royal Decree-Law 24/2012, of 31 August 2012, on restructuring and resolution of credit institutions and the subsequent repeal by Royal Decree-Law 9/2012, of 14 November 2012, on restructuring and resolution of credit institutions established the incorporation of Sareb, the main purpose of which is the administration and disposal of assets from nationalised entities that have received financial assistance, in a 15-year time horizon. The legal regime governing Sareb is stipulated by Royal Decree-Law 24/2012, currently Law 9/2012.

On 17 December 2012, Sareb carried out a capital increase in which the FROB subscribed a total of EUR 431,560 thousand, representing 45.15% of this entity's share capital at 31 December 2012.

The FROB may also, with the nature of an administrative act, oblige a credit institution to transfer to an asset management company certain categories of highly impaired assets or assets whose continued presence on the balance sheet could affect the viability of the entity's viability, in order to remove these assets from the balance sheet and enable the independent management of their realisation. Assets are transferred to Sareb without the need to obtain consent from third parties, by means of any legal transaction. Also prior to the transfer, the Bank of Spain determines the value of the assets on the basis of the appraisal reports.

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

This line item includes the preference shares convertible into shares acquired by the FROB in accordance with the provisions of Article 10 of Royal Decree-Law 9/2009 (see Note 1), and the non-guaranteed contingent convertible bonds issued by Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (Sareb) subscribed by the FROB.

The detail of the investments comprising "Non-Current Financial Assets - Debt Instruments" in the balance sheet at 31 December 2012 and 2011 is as follows:

Issuing Entity	Payment Date	Nominal Amount	Impairment Loss	Carrying Amount	Accrued Coupon (Note 7.4)	Interest Rate (1)	Interest Accrued (Note 7.6)	Repurchase Date (2)	Guarantees
Caja España de Inversiones, Salamanca y Soria, Caja de Ahorros y Monte de Piedad	29/10/10	525,000	(525,000)	-	-	7.90%-8.05%	38,725	5 years	Unlimited liability of the issuer
Banco Mare Nostrum, S.A. (3)	31/12/10	915,000	(241,255)	673,745	-	7.90%	73,811	5 years	Unlimited liability of Banco Mare Nostrum, S.A. and severally guaranteed by each of the savings banks
Banca Cívica, S.A. (4)	11/02/11	977,000	-	977,000	72,112	7.75%-7.90%	78,784	5 years	Unlimited liability of Banco Cívica, S.A. and severally guaranteed by each of the savings banks
Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.	31/12/12	1,271,600	-	1,271,600	-	8.00%	-	15 years	-
Total		3,688,600	(766,255)	2,922,345	72,112		191,320		

(1) This will increase by 15 basis points on each anniversary of the payment date (up to, and including, the fifth year). Subsequent to the fifth year, if the FROB grants an extension to the repurchase period, the rate will increase by 100 annual basis points (in a maximum period of two years).

(2) The preference shares will be repurchased from the FROB on one or more occasions as soon as it is able to do so within a maximum five-year period. Under certain circumstances, the issuer may request the FROB for an extension of said term of up to a maximum of two years, which must be authorised by the Bank of Spain. Subsequent to the fifth year, or the seventh year in the event of an extension, where the preference shares have not been repurchased by their issuer, the FROB will have six months in which to request the conversion of the preference shares into shares. Similarly, the FROB may request at any time the conversion into the issuer's shares if the Bank of Spain considers that the repurchase of the preference shares within the time limits set for these cases is unlikely. The acquisition or subscription price will be set, where appropriate, in accordance with the economic value of the credit institution.

(3) The company to which the financial business of Caja General de Ahorros de Granada, Caja de Ahorros de Murcia, la Caixa d'Estalvis del Penedés and Caja de Ahorros y Monte de Piedad de Baleares ("SA NOSTRA") was transferred.

(4) The company to which the financial business of Caja de Ahorros y Monte de Piedad de Navarra, Caja General de Ahorros de Canarias and Caja de Ahorros Municipal de Burgos (the founding savings banks) was transferred, and which Monte de Piedad y Caja de Ahorros San Fernando de Guadalajara, Huelva, Jerez y Sevilla (CajaSol) joined subsequently.

Data in thousands of euros

Issuing Entity	Payment Date	Nominal Amount	Impairment Loss	Carrying Amount	Accrued Coupon (Note 7.4)	Interest Rate (1)	Interest Accrued (Note 7.6)	Repurchase Date (2)	Guarantees
Catalunya Banc, S.A. (3)	28/07/10	1,250,000	(1,250,000)	-	-	7.75%-7.90%	100,268	5 years	Unlimited liability of the issuer
Unnim Banc, S.A. (4)	28/07/10	-	-	-	-	7.75%-7.90%	22,094	-	-
Caja España de Inversiones, Salamanca y Soria, Caja de Ahorros y Monte de Piedad	29/10/10	525,000	-	525,000	8,316	7.75%-7.90%	41,988	5 years	Unlimited liability of the issuer
NCG Banco, S.A. (5)	30/12/10	1,162,000	(1,162,000)	-	-	7.75%-7.90%	93,035	5 years	Unlimited liability of the issuer
Banco Financiero y de Ahorros, S.A. (6)	28/12/10	4,465,000	(4,465,000)	-	-	7.75%-7.90%	354,372	5 years	Unlimited liability of Banco Financiero y de Ahorros, S.A. and severally guaranteed by each of the savings banks
Banco Mare Nostrum, S.A. (7)	31/12/10	915,000	-	915,000	2,489	7.75%	73,401	5 years	Unlimited liability of Banco Mare Nostrum, S.A. and severally guaranteed by each of the savings banks
Banca Cívica, S.A. (8)	11/02/11	977,000	-	977,000	69,045	7.75%	69,045	5 years	Unlimited liability of Banco Cívica, S.A. and severally guaranteed by each of the savings banks
Total		9,294,000	(6,877,000)	2,417,000	79,850		754,203		

(1) This will increase by 15 basis points on each anniversary of the payment date (up to, and including, the fifth year). Subsequent to the fifth year, if the FROB grants an extension to the repurchase period, the rate will increase by 100 annual basis points (in a maximum period of two years).

(2) The preference shares will be repurchased from the FROB on one or more occasions as soon as it is able to do so within a maximum five-year period. Under certain circumstances, the issuer may request the FROB for an extension of said term of up to a maximum of two years, which must be authorised by the Bank of Spain. Subsequent to the fifth year, or the seventh year in the event of an extension, where the preference shares have not been repurchased by their issuer, the FROB will have six months in which to request the conversion of the preference shares into shares. Similarly, the FROB may request at any time the conversion into the issuer's shares if the Bank of Spain considers that the repurchase of the preference shares within the time limits set for these cases is unlikely. The acquisition or subscription price will be set, where appropriate, in accordance with the economic value of the credit institution.

(3) On 1 October 2011, the novation took place of the issue deed of the preference shares entered into with Caixa d'Estalvis de Catalunya, Tarragona i Manresa, whereby Catalunya Banc, S.A. became the new issuer of the preference shares.

(4) On 28 September 2011, the novation took place of the issue deed of the preference shares entered into with Caixa d'Estalvis Unió de Caixes de Marillev, Sabadell i Terrassa, whereby Unnim Banc, S.A. became the new issuer of the preference shares. Furthermore, as indicated in Note 6 above, these preference shares were converted into shares of the issuer in September 2011.

(5) On 14 September 2011, the novation took place of the issue deed of the preference shares entered into with Caixa de Ahorros de Galicia, Vigo, Ourense e Pontevedra, whereby NCG Banco, S.A. became the new issuer of the preference shares.

(6) Parent of Bankia, to which all the financial business of Caja de Ahorros y Monte de Piedad de Madrid, Caja de Ahorros de Valencia, Castellón y Alicante (Bancalaja), Caixa d'Estalvis Lletania, Caja de Ahorros y Monte de Piedad de Ávila, Caja de Ahorros y Monte de Segovia, Caja Insular de Ahorros de Canarias and Caja de Ahorros de La Rioja was initially transferred.

(7) The company to which the financial business of Caja General de Ahorros de Granada, Caja de Ahorros de Murcia, la Caixa d'Estalvis del Penedès and Caja de Ahorros y Monte de Piedad de Baleares ('SA NOSTRA') was transferred.

(8) The company to which the financial business of Caja de Ahorros y Monte de Piedad de Navarra, Caja General de Ahorros de Canarias and Caja de Ahorros Municipal de Burgos (the founding savings banks) was transferred, and which Monte de Piedad y Caja de Ahorros San Fernando de Guadalupe, Huelva, Jerez y Sevilla (CajaSol) joined subsequently.

As a general rule, the subscription by the FROB of these preference shares convertible into voting equity units or shares is subject to compliance by the recipient entities of a series of commitments to prevent distortions of competition. If any of these commitments is not met, the rate of remuneration of the preference shares is increased by 200 basis points.

Movements in this line item in 2012 and 2011 are as follows:

	Thousands of Euros
Balance at beginning of 2011	8,697,000
Additions	977,000
Transfers (Note 6)	(380,000)
Net charge for impairment losses	(6,877,000)
Balance at 31 December 2011	2,417,000
Additions	1,271,600
Transfers (Notes 6 and 7.2)	-
Net charge for impairment losses	(766,255)
Balance at 31 December 2012	2,922,345

The changes in 2012 are detailed below:

During 2012 the conversion into shares took place of convertible preference shares relating to Catalunya Banc, S.A. amounting to EUR 1,250,000 thousand, NCG Banco, S.A. amounting to EUR 1,162,000 thousand, and Banco Financiero y de Ahorros, S.A. amounting to EUR 4,465,000 thousand, which were fully impaired in the FROB's financial statements at 31 December 2011 (see Note 7.2).

On 31 December 2012, the FROB subscribed the issue of subordinated bonds launched by Sareb, the paid amount being EUR 1,271,600 thousand and the maturity date 27 November 2027. These bonds are classified as non-guaranteed, subordinated debt contingently convertible into newly-issued, ordinary shares of Sareb. The payment of interest is subject to the obtainment by Sareb of sufficient distributable profit. Once this condition is met, there must be sufficient cash to meet this payment. 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 amount payable 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.

In application of the criteria described in Note 4.5.2 above, in 2012 the FROB recognised impairment losses with a charge to "Impairment and Gains or Losses on Disposal of Financial Instruments - Impairment and Other Losses" in the incomes statement for the following amounts and items:

- EUR 525,000 thousand relating to preference shares convertible into shares of Caja España de Inversiones, Salamanca y Soria, Caja de Ahorros y Monte de Piedad and EUR 5,566 thousand relating to the accrued coupon at 31 December 2012, since its collection was deemed unlikely taking into account this entity's current economic and financial position.

Subsequent to year-end, on 24 April 2013, as part of the entity's resolution process, a decision was taken for the FROB to inject public aid through the subscription of bonds contingently convertible into ordinary shares of Banco CEISS amounting to EUR 604 million, paid on 30 April through a non-monetary contribution consisting of ESM securities.

In addition, on 16 May 2013, the Governing Committee of the FROB resolved to perform certain recapitalisation and hybrid capital and subordinated debt instrument management exercises in the implementation of the resolution plan of Banco Caja España de Inversiones, Salamanca y Soria, S.A. (Banco CEISS), consisting of: i) a capital reduction to zero through the redemption of 888,837,000 current shares of EUR 1 par value each, in order to set up a voluntary, restricted reserve to absorb losses; ii) a capital increase with disapplication of pre-emption rights for the current shareholders, for the conversion into shares of the convertible preference shares subscribed by the FROB amounting to EUR 525,000 thousand, with a nominal amount of EUR 392,664 thousand and a share premium of EUR

132,336 thousand; iii) a capital reduction to zero through the redemption of the shares mentioned in the previous point, in order to absorb losses; iv) a capital increase, with the possibility of incomplete subscription and the disapplication of pre-emption rights amounting to EUR 34,282 thousand, for the implementation of the hybrid capital and subordinated debt instrument management exercises.

- EUR 241,255 thousand relating to preference shares convertible into shares of Banco Mare Nostrum, S.A. and EUR 4,014 thousand relating to the accrued coupon at 31 December 2012, since its collection was deemed unlikely taking into account this entity's current economic and financial position.

Subsequent to year-end, on 15 February 2013, the Governing Committee of the FROB, as part of the entity's restructuring process, agreed the novation of the issue deed relating to the convertible preference shares of Banco Mare Nostrum, S.A., and to request the conversion of these preference shares into ordinary shares of the bank. As a result, on 19 February 2013, the EUR 915 million of preference shares were converted, with the consequent subscription and payment of the entity's new ordinary shares.

Also, on 12 March 2013, the subscription of ordinary shares issued by Banco Mare Nostrum, amounting to EUR 730 million, that was agreed by the Governing Committee of the FROB on 8 March, was paid through the non-monetary contribution consisting of ESM securities.

In addition, at 31 December 2012, the FROB had recognised under "Non-Current Financial Assets - Debt Instruments", in the accompanying balance sheet, one treasury bill, three government bonds and two government debentures, all of which were classified as available-for-sale financial assets with a market value of EUR 1,825,029 thousand. The interest earned on these securities in 2012 amounted to EUR 30,707 thousand and is recognised under "Finance Income - Public Debt Interest" in the accompanying income statement (see Note 7.6). At December 2012, positive valuation adjustments relating to these securities, amounting to EUR 73,554 thousand, had been recognised under "Valuation Adjustments - Available-for-Sale Financial Assets".

7.4. Current financial assets - Debt instruments classified as "loans and receivables" and "available-for-sale financial assets"

The detail of "Current Financial Assets - Debt Instruments" at 31 December 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	2011
Spanish government debt securities	5,338,793	-
Securities issued by the ESM	796,837	-
Interest from preference shares	72,112	79,850
Total	6,207,742	79,850

At 31 December 2012, the balance recognised under "Spanish Government Debt Securities" consists of four treasury bills, all of which were classified as available-for-sale financial assets with a market value of EUR 5,338,793 thousand. The interest earned on these securities in 2012 amounted to EUR 17,505 thousand and is recognised under "Finance Income - Loan Interest" in the accompanying income statement (see Note 7.6). At December 2012, positive valuation adjustments relating to these securities, amounting to EUR 16,248 thousand, had been recognised under "Valuation Adjustments - Available-for-Sale Financial Assets" (no valuation adjustments had been recognised at 31 December 2011).

Also, in the course of 2012, the FROB acquired treasury bills, bonds and debentures that matured in the year and generated interest amounting to EUR 36,847 thousand, which was recognised under "Finance Income - Loan Interest" in the accompanying income statement (see Note 7.6).

"Securities Issued by the ESM" in the foregoing table relate to the ESM securities classified as "loans and receivables" (see Note 8.3) that the FROB had not used among the recapitalised banks and that were included in its assets at year-end. The interest earned on these securities in 2012 amounted to EUR 3,534 thousand and is recognised under "Finance Income - Loan Interest" in the accompanying income statement (see Note 7.6).

Lastly, the balance recognised under "Interest from Preference Shares" in the foregoing table relates in full to the accrued interest receivable from the Banca Cívica preference shares acquired by the FROB, which were classified under "Loans and Receivables" (see Note 7.3).

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

The detail of the loans to companies classified as current "loans and receivables" at 2012 and 2011 year-end is as follows:

	Thousands of Euros	
	2012	2011
Deposit Guarantee Fund Loan (see Note 6)	953,264	-
Interest on the Deposit Guarantee Fund loan	15,345	-
APS loan	7,169	292,840
Interest (*)	89	3,028
Credit facilities	781	3,906,437
Total	976,648	4,202,305

(*) This balance relates in full to the balance of interest on the APS loan.

APS loan

In the context of the restructuring process of CajaSur, which resulted in the transfer on 1 January 2011 of this savings bank's assets and liabilities to Bilbao Bizkaia Kutxa ("BBK"), the FROB granted an Asset Protection Scheme ("APS") to cover any losses arising from a closed portfolio of CajaSur assets. By virtue of the APS, the FROB assumed, up to a maximum of EUR 392,000 thousand, 90% of any potential losses that might arise from the portfolio of guaranteed assets, the total nominal amount of which was EUR 5,542,518 thousand. (See Note 13).

Additionally, the FROB granted BBK a loan ("APS loan") with the following characteristics:

- Amount: EUR 392,000 thousand.
- Maturity date: 31 August 2015.
- Interest: 1-year Euribor + 0.5%.
- Repayments: Repayments are made progressively by partially offsetting the loan principal with the amount that the FROB would otherwise have had to pay BBK for the APS, after deducting from this amount that which BBK would have had to pay to the FROB in repayment of the APS.

At 31 December 2012, the outstanding balance of the APS loan granted to BBK, which amounted to EUR 7,169 thousand, is recognised under "Current Financial Assets - Loans to Third Parties". The interest earned on this loan in 2012 amounted to EUR 89 thousand (31 December 2011: EUR 3,028 thousand) and is recognised under "Finance Income - Loan Interest" in the accompanying income statement (see Note 7.6).

Credit facilities

On 21 November 2011, the Executive Committee of the Bank of Spain, at the request of the Board of Directors of Banco de Valencia, appointed the FROB as provisional administrator of Banco de Valencia, S.A. It was agreed that aid would be granted to the entity through a capital injection and the granting of a credit facility with a maximum amount of EUR 2,000,000 thousand to ensure its liquidity during the restructuring process, with a maturity date of 22 May 2013.

"Credit Facilities", amounting to EUR 781 thousand, included in the foregoing table, refers to the accrued interest receivable on the credit facility granted to Banco de Valencia, S.A.

The interest earned on this credit facility in 2012 amounted to EUR 37,606 thousand and is recognised under "Finance Income - Loan Interest" in the accompanying income statement (see Note 7.6). At the date of preparation of these annual accounts, following the completion of the sale of CaixaBank, S.A., this credit facility had been cancelled and all the amounts receivable had been settled in full.

7.6. Finance income

The detail of "Finance Income" in the accompanying income statement for 2012 is as follows:

	Thousands of Euros	
	2012	2011
Interest from preference shares (Note 7.3)	191,320	754,203
Bank interest (Note 5)	13,231	26,680
Loan interest (Note 7.5)		
- Interest from credit facilities (*)	49,357	24,725
- Interest on APS loan	89	3,028
- Interest on Interest on DGF loan	15,345	-
Interest on public debt (Notes 7.3 and 7.4) (**)	88,593	22,382
Total	357,935	831,018

(*) Includes EUR 11,751 thousand of interest on the credit facility held with Banco CAM until the sale of the entity to Banco Sabadell.

(**) This account includes EUR 3,534 thousand relating to accrued interest on the ESM debt (see Note 7.4).

8. Financial liabilities

8.1 Detail of financial liabilities

The detail, as required by applicable legislation, of the financial liabilities assumed by the FROB at 31 December 2012 and 2011 is as follows:

2012

Classes Categories	Thousands of Euros					Total
	Non-Current Financial Instruments		Current Financial Instruments			
	Debt Instruments and Other Marketable Securities (Note 8.2)	Other Non-Current Payables (Note 8.3)	Debt Instruments and Other Marketable Securities (Note 8.4)	Bank Borrowings	Other Current Payables (Note 8.6)	
Accounts payable	8,774,525	39,265,376	2,364,466	-	209,048	50,613,415
	8,774,525	39,265,376	2,364,466	-	209,048	50,613,415

2011

Classes Categories	Thousands of Euros					Total
	Non-Current Financial Instruments		Current Financial Instruments			
	Debt Instruments and Other Marketable Securities (Note 8.2)	Other Non-Current Payables	Debt Instruments and Other Marketable Securities (Note 8.4)	Bank borrowings (*)	Other Current Payables	
Accounts payable	10,913,448	-	215,584	4,516	-	11,133,548
	10,913,448	-	215,584	4,516	-	11,133,548

(*) At 31 December 2011, the balance of current bank borrowings on the liability side of the balance sheet consisted of the accrued costs associated with the credit facility, which was arranged for the purpose of obtaining more flexibility in its financial management and matured in 2012.

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

The balance recognised under “Non-Current Payables - Debt Instruments and Other Marketable Securities” in the accompanying balance sheet relates to payables arising from three issues of non-convertible bonds guaranteed by the central government, agreed by the Governing Committee, the detail being as follows:

- 1st issue, of 19 November 2009, maturing in five years.
- 2nd issue, of 3 February 2011, maturing in three years.
- 3rd issue, of 12 July 2011, maturing in five years.

In addition, in order to extend the FROB's financing possibilities and make them more flexible, issues already launched by the FROB were re-opened (“retaps”). From October to December 2011, the FROB launched retaps of the bonds relating to the first, third and fourth issues. The characteristics of these issues and their subsequent taps are as follows (in thousands of euros):

	Issue Date	Maturity Date	Nominal Amount	Interest Rate	Accrued Interest at 31/12/12
First issue	19/11/09	19/11/14	3,000,000	3.0%	104,580
First tap	22/12/11	19/11/14	290,000		
Second issue	03/02/11	03/02/14	3,000,000	4.5%	136,836
Third issue	12/07/11	12/07/16	1,750,000	5.5%	139,221
First tap	06/10/11	12/07/16	100,000		
Second tap	07/10/11	12/07/16	335,000		
Third tap	21/11/11	12/07/16	200,000		
Fourth tap	23/11/11	12/07/16	120,000		
Total issues			8,795,000		380,637

The finance costs accrued by these bonds in 2012 are recognised under "Finance Costs - Interest and Commissions" in the accompanying income statement (see Note 8.7).

At 31 December 2012 and 2011, the unmatured nominal amount of these issues was recognised under "Non-Current Payables - Debt Instruments and Other Marketable Securities" on the liability side of the balance sheets at those dates, net of the adjustments made as a result of using the effective interest method in order to present said issues at amortised cost. At 31 December 2012, the balance of these adjustments amounted to EUR 20,475 thousand (31 December 2011: EUR 29,940 thousand) which included, basically, the discount on the issue and the amount of the transaction costs associated with the issue of securities unearned at that date.

At 31 December 2012, the FROB's issues of non-convertible bonds described above had a credit rating of Bbb3 from Moody's, BBB- from Standard & Poor's and BBB from Fitch.

8.3 Non-current payables - Other non-current payables

On 3 December 2012, the Spanish government granted a loan to the FROB for a maximum amount of EUR 60,000 million, for the purpose of executing the European financial assistance programme for the recapitalisation of Spanish financial institutions. This loan enables the funds disbursed by the ESM FFA to the Kingdom of Spain to be channelled to the Spanish credit institutions. The financial conditions of this loan are the same as those established by the ESM FFA. It is agreed, inter alia, that the State may agree the total or partial conversion of the loan into an endowment contribution to the FROB, provided that prior, written authorisation has been obtained from the ESM.

The loan was disbursed, in the amount detailed below, through the contribution of financial instruments (bills and bonds) issued by the ESM, whose characteristics are as follows:

ISIN	Issue Date	Initial Maturity Date	Nominal Amount (Thousands of Euros)	Issue Price
EU000A1U97C2	11/12/12	11/02/13	2,500,000	100.00%
EU000A1U97D0	11/12/12	11/10/13	6,468,000	99.90%
EU000A1U98U2	11/12/12	11/06/14	6,500,000	100.00%
EU000A1U98V0	11/12/12	11/12/14	12,000,000	100.00%
EU000A1U98W8	11/12/12	11/12/15	12,000,000	100.00%
			39,468,000	

The first payment of the loan principal will fall due on 11 December 2022. From that date onwards, payments are annual until its maturity in 2027. At 31 December 2012, the amount recognised under "Non-Current Payables - Other Non-Current Payables" in the accompanying balance sheet relates to the cash value less arrangement costs.

The interest borne on this loan in 2012 amounted to EUR 10,959 thousand and was recognised under "Finance Costs - Interest and Commissions" in the accompanying income statement (see Note 8.7).

This loan also generated finance costs relating to origination and issue fees, which at 31 December 2012 amounted to EUR 2,098 thousand and were recognised under "Finance Costs - Interest and Commissions" in the accompanying income statement (see Note 8.7).

8.4 Current payables – Debt instruments and other marketable securities

At 31 December 2012, the balance recognised under "Current Payables - Debt Instruments and Other Marketable Securities" in the accompanying balance sheet relates mainly to payables arising from an issue of non-convertible bonds guaranteed by the central government, agreed by the Governing Committee, the detail being as follows:

- 4th issue, of 21 October 2011, maturing in two years.

In addition, in December 2011, in order to extend the FROB's financing possibilities and make them more flexible, two retaps were carried out of bonds relating to the fourth issue. The characteristics of this issue and its subsequent taps are as follows (in thousands of euros):

	Issue Date	Maturity Date	Notional Amount (thousands of euros)	Interest Rate	Accrued Interest at 31/12/12
Fourth issue	21/10/11	21/10/13	1,400,000		
First tap	22/12/11	21/10/13	250,000	4.40%	95,397
Second tap	23/12/11	21/10/13	500,000		
Total issues			2,150,000		95,397

The finance costs accrued by these bonds in 2012 are recognised under "Finance Costs - Interest and Commissions" in the accompanying income statement (see Note 8.7).

At 31 December 2012 and 2011, the unmatured nominal amount of this issue was recognised under "Current Payables - Debt Instruments and Other Marketable Securities" on the liability side of the balance sheets at those dates, net of the adjustments made as a result of using the effective interest method in order to present said issue at amortised cost. At 31 December 2012, the balance of these adjustments amounted to EUR 735 thousand (31 December 2011: EUR 1,612 thousand) which included, basically, the discount on the issue and the amount of the transaction costs associated with the issue of securities unearned at that date.

At 31 December 2012, the FROB's issue of non-convertible bonds indicated above had a credit rating of Bbb3 from Moody's, BBB- from Standard & Poor's and BBB from Fitch.

In addition, "Current Payables - Debt Instruments and Other Marketable Securities" on the liability side of the accompanying balance sheet at 31 December 2012 includes the earned, unpaid interest on the bond issues indicated above in Note 8.2 amounting to EUR 215,201 thousand (31 December 2011: EUR 215,584 thousand).

8.5 Current payables - Current bank borrowings

On 27 July 2012, the credit facility entered into by the FROB with 13 entities matured. It had a limit of EUR 3,000 million and was granted for the purpose of obtaining more flexibility in its financial management while enabling it to reduce its borrowing costs without compromising its liquidity position.

At 31 December 2012, the accrued costs associated with the aforementioned credit facility consisted of the expenses relating to the arrangement fees and availability of the credit facility unaccrued until the maturity date which amounted to EUR 9,419 thousand (31 December 2011: EUR 16,500 thousand) that were recognised under "Finance Costs - Interest and Commissions" in the accompanying income statement (see Note 8.7).

8.6 Current payables - Other current payables

At 31 December 2012, the balance recognised under "Current Payables - Other Current Payables" in the accompanying balance sheet relates to the accrued interest and commissions payable on non-current payables indicated in Note 8.3, which amounted to EUR 209,048 thousand.

8.7 Finance costs

The detail of "Finance Costs" in the accompanying income statements for 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	2011
Interest and commissions		
- Credit facility expenses (Note 8.5)	9,419	16,500
- Interest on debt instruments and bonds (Notes 8.2 and 8.4)	476,034	280,880
- Interest and commissions on other payables (Note 8.3)	13,057	-
Interest cost relating to provisions (Note 13)	1,743	32,449
Total	500,253	329,829

9. Equity

The following table contains a summary of the changes in the items composing the FROB's "Own Funds" and "Valuation Adjustments" in 2012 and 2011:

	Thousands of Euros			
	Equity Fund	Profit (Loss) for the Year	Valuation Adjustments	Total
Balance at 31 December 2010	9,010,327	(314,091)	-	8,696,236
Allocation of 2010 loss to Equity Fund	(314,091)	314,091	-	-
Profit (Loss) for the Year	-	(10,557,236)	-	(10,557,236)
Balance at 31 December 2011	8,696,236	(10,557,236)	-	(1,861,000)
Increase in the Equity Fund	6,000,000	-	-	6,000,000
Allocation of 2011 loss to Equity Fund	(10,557,236)	10,557,236	-	-
Valuation adjustments	-	-	89,802	89,802
Profit for the Year	-	(26,060,522)	-	(26,060,522)
Balance at 31 December 2012	4,139,000	(26,060,522)	89,802	(21,831,720)

At 31 December 2012, the FROB had negative equity of EUR 21,832 million.

The FROB expects that the measures required to restore its positive working capital position will be implemented in the course of 2013. These measures include the possibility of an agreement by the State to convert a portion of the loan granted to the FROB (see Note 8.3) into an equity contribution to the Fund. This possibility, which is provided for in the loan agreement between the State and the FROB, requires prior authorisation by the ESM. In this regard, the ESM has granted its consent to this transaction.

9.1 Equity Fund

As a result of the repeal of Royal Decree-Law 9/2009 (see Note 1), in accordance with the provisions of Article 53 of Law 9/2012, the FROB currently has a sole endowment financed by the State Budget.

The detail of the contributions made to the FROB since its date of incorporation in 2009 both in cash and through the non-monetary contribution of State fixed-income securities is as follows:

Contributing Entities	Thousands of Euros		
	Cash Disbursement	Fixed-Income Securities	Total
State Budget	12,750,000	-	12,750,000
- Royal Decree-Law 9/2009	6,750,000		6,750,000
- Royal Decree-Law 2/2012	6,000,000		6,000,000
Deposit Guarantee Fund for Credit Institutions (*)	531,164	265,438	796,602
Deposit Guarantee Fund for Savings Banks (*)	847,112	423,552	1,270,664
Deposit Guarantee Fund for Credit Cooperatives (*)	121,870	60,864	182,734
	14,250,146	749,854	15,000,000

(*) As a result of Royal Decree-Law 16/2011, of 14 October, the three Funds were integrated into one, the "Deposit Guarantee Fund for Credit Institutions".

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

Pursuant to Law 9/2012, any accrued profit accounted for in the FROB's annual accounts will be paid in to the Public Treasury. However, the Public Treasury may request advance payment by the FROB of any funds generated in the course of the calendar year.

The loss incurred in 2011 amounting to EUR 10,557,236 thousand was transferred to the FROB's Equity Fund in 2012, which amounted to EUR 4,139,000 thousand (2011: EUR 8,696,236 thousand).

9.2 Valuation adjustments

Available-for-sale financial assets

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

The statements of recognised income and expense for 2012 and 2011 include the changes in "Valuation Adjustments – Available-for-Sale Financial Assets" in the balance sheets in 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 is as follows.

Liquidity risk

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

The breakdown, by maturity, of the balances of certain items in the balance sheet at 31 December 2012, based on a scenario of "normal market conditions", in accordance with their contractual terms, is as follows:

2012

	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	3,592,612	-	-	-	-	-	3,592,612
Current financial assets							
<i>Loans to third parties</i>	976,648	-	-	-	-	-	976,648
<i>Debt instruments</i>	6,207,742	-	-	-	-	-	6,207,742
Current investments in Group companies and associates							
<i>Current receivables from other related parties</i>	-	-	-	-	-	-	-
Non-current financial assets							
<i>Loans to third parties</i>	-	112	-	-	-	-	112
<i>Debt instruments</i>	-	126,184	602,885	1,892,000	108,506	2,784,053	5,513,628
Total at 31 December 2012	10,777,002	126,296	602,885	1,892,000	108,506	2,784,053	16,290,742
Liabilities:							
Current payables to Group companies and associates	-	-	-	-	-	-	-
Current payables							
<i>Debt instruments and other marketable securities</i>	2,364,466	-	-	-	-	-	2,364,466
<i>Current bank borrowings</i>	-	-	-	-	-	-	-
<i>Other current liabilities</i>	209,048	-	-	-	-	-	209,048
Non-current payables							
<i>Debt instruments and other marketable securities</i>	-	6,276,084	-	2,498,441	-	-	8,774,525
<i>Other non-current payables</i>	-	-	-	-	-	39,265,375	39,265,375
Total at 31 December 2012	2,573,514	6,276,084	-	2,498,441	-	39,265,375	50,613,414
Assets minus liabilities at 31 December 2012	8,203,488	(6,149,788)	602,885	(606,441)	108,506	(36,481,322)	(34,322,672)
Assets minus liabilities at 31 December 2012 (accumulated)	8,203,488	2,053,700	2,656,585	2,050,144	2,158,650	(34,322,672)	

2011

	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	1,839,368	-	-	-	-	-	1,839,368
Current financial assets							
Loans to third parties	4,202,305	-	-	-	-	-	4,202,305
Debt instruments	79,850	-	-	-	-	-	79,850
Current investments in Group companies and associates	-	-	-	-	-	-	-
Non-current financial assets							
Loans to third parties	-	7,168	-	-	-	-	7,168
Debt instruments	-	6,877,000	-	525,000	1,892,000	-	9,294,000
Total at 31 December 2011	6,121,523	6,884,168	-	525,000	1,892,000	-	15,422,691
Liabilities:							
Current payables to Group companies and associates	165	-	-	-	-	-	165
Current payables							
Debt instruments and other marketable securities	215,584	-	-	-	-	-	215,584
Current bank borrowings	4,516	-	-	-	-	-	4,516
Other current liabilities	-	-	-	-	-	-	-
Non-current payables							
Debt instruments and other marketable securities	-	2,148,388	6,268,261	-	2,496,799	-	10,913,448
Other non-current payables	-	-	-	-	-	-	-
Total at 31 December 2011	220,265	2,148,388	6,268,261	-	2,496,799	-	11,133,713
Assets minus liabilities at 31 December 2011	5,901,258	4,735,780	(6,268,261)	525,000	(604,799)	-	4,288,978
Assets minus liabilities at 31 December 2011 (accumulated)	5,901,258	10,637,038	4,368,777	4,893,777	4,288,978	4,288,978	

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

- At 2012 year-end, the amount of liquid assets (accounts at the Bank of Spain and public debt portfolio) exceeds that of the bonds issued by the FROB maturing in 2013, 2014 (two) and 2016. In addition, the first maturity on the loan granted by the Treasury to the FROB is in 2022.

If a mismatch between the maturity of the assets and liabilities occurred from 2013 to 2016, it would be offset by the liquidity available to the FROB at 2012 year-end and by the possibility of realising other assets that mature subsequently, since all have maximum liquidity.

- Also, the FROB is empowered by law to raise funds on the capital markets and has a Spanish Treasury guarantee, which is a mechanism that it could use if necessary to cover any mismatches.

Credit risk

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

At 31 December 2012, this risk basically consisted of the existence of a series of convertible preference shares that had been subscribed and paid by the FROB as part of the support provided for the various integration processes (see Note 7.3) and the subordinated debentures issued by Sareb and subscribed by the FROB.

Interest rate risk

On-balance-sheet structural interest rate risk is defined as the exposure of the FROB's economic and financial position - resulting from the different maturity and repricing dates of its balance sheet items - to adverse fluctuations in interest rates.

As indicated in Note 8 above, the issues of bonds launched by the FROB earn interest at a fixed rate ranging from 3% to 5.5%. The preference shares earn interest at a fixed rate ranging from 7.90% to 8.05% at 31 December 2012.

At 31 December 2012, the financial assets exposed to interest rate risk were those held in cash (see Note 5), the APS loan that earns a floating rate of interest (see Note 7.5), the credit facility with an interest rate tied to the marginal interest rate of the Eurosystem plus 100 basis points (see Note 7.5) and the instruments granted to the FROB for cleaning up the Spanish financial system (see Note 8.3).

Market risk

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

At 31 December 2012, the financial assets exposed to market risk were government bills, bonds and debentures 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 in these notes to the annual accounts.

11. Other accounts payable to public authorities and tax matters

11.1 Other accounts payable to public authorities

The detail of "Current Liabilities - Trade and Other Payables - Other Accounts Payable to Public Authorities" in the balance sheets at 31 December 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	2011
Tax withholdings payable	133	142
VAT payable	22	
Accrued social security taxes payable	10	12
Total	165	154

11.2 Tax matters

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

12. Accounts payable

12.1 Trade and other payables - Sundry accounts payable

"Trade and Other Payables - Sundry Accounts Payable" in the balance sheet at 31 December 2012 amounted to EUR 6,308 thousand (31 December 2011: EUR 1,251 thousand) and included balances payable to several creditors for services.

The accrued expenses for these services in 2012 were recognised under "Other Operating Expenses" in the accompanying income statement (see Note 14.2).

13. Provisions and contingencies

13.1 Non-Current provisions

The detail of "Non-Current Provisions" on the liability side of the balance sheet at 31 December 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	2011
Caja Sur Asset Protection Scheme	-	6,854
Banco de Valencia Asset Protection Scheme	598,000	-
Total	598,000	6,854

Banco de Valencia Asset Protection Scheme

On 27 November 2012, as part of the restructuring process of Banco de Valencia, S.A., the FROB granted an Asset Protection Scheme ("APS") to cover 72.5% of any losses arising from a closed portfolio of assets of Banco de Valencia, S.A. amounting to EUR 6,021,982 thousand, with retroactive effect from 30 September 2012 and with a ten-year term from that date.

The FROB recognised a provision with a charge to the income statement at 31 December 2012 amounting to EUR 598,000 thousand, which was recognised under "Impairment and Gains or Losses on Disposals of Financial Instruments - Impairment and Other Losses", equal to the percentage covered by the FROB of the expected loss on the assets under the APS at year-end. This calculation was made on the basis of the methodology of the stress test and the entity's past experience.

13.2 Current provisions

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

On 16 July 2010, as part of the restructuring process of Caja de Ahorros y Monte de Piedad de Córdoba (CajaSur), the FROB granted an Asset Protection Scheme (APS) whereby it would cover any losses arising from CajaSur's closed asset portfolio. By virtue of the APS, the FROB assumes, up to a maximum of EUR 392,000 thousand, 90% of any potential losses that might arise from the portfolio of guaranteed assets, the nominal amount of which was EUR 5,542,518 thousand, assuming as a result the corresponding risk up to said maximum amount. The APS entered into force on 1 January 2011, taking effect retrospectively from 31 May 2010, with a five-year term from that date.

At 31 December 2012, the provision recognised in this connection amounted to EUR 7,133 thousand. It was recognised in full under "Current Provisions". In 2012 EUR 292,840 thousand were settled through the repayment of the loan granted to BBK in relation to the CajaSur APS for the same amount, relating to the guaranteed loss that occurred in 2011.

In 2012 the FROB recognised an increase in the provision recognised in the previous year of EUR 1,743 thousand (31 December 2011: EUR 32,449 thousand) as a result of the effect of the interest cost of this provision, which is recognised under "Finance Cost - Interest Cost Relating to Provisions" in the income statement at that date (see Note 8.7).

Banco de Valencia

In the process relating to the sale of Banco de Valencia to Caixabank, the former undertook to compensate the latter, in certain circumstances, for losses arising from changes occurring in the assets estimated to be transferred to Sareb by this entity and those finally transferred.

On 23 January 2013, the FROB received a claim from Caixabank in this regard.

At the date of preparation of these annual accounts, this claim was being analysed by the FROB's legal services. Without prejudice to the existence of possible lines of defence or of discussion regarding the amount claimed, the FROB recognised a provision amounting to EUR 90,000 thousand, with a charge to the income statement at 31 December 2012, recognised under "Impairment and Gains or Losses on Disposals of Financial Instruments - Impairment and Other Losses". This amount is slightly less than 50% of the total amount claimed.

13.3 Other guarantees and contingent liabilities granted

In the sale processes carried out by the FROB in 2012 of CAM, Unnim Banc, S.A. and Banco de Valencia, the FROB granted the purchasers, Banco Sabadell, BBVA and Caixabank, respectively, certain tax guarantees that mainly affect the use of the transferred entities' tax assets.

At 31 December 2012, the FROB deemed it unlikely that any obligation would arise from these commitments and, accordingly, it did not recognise any provision in the 2012 annual accounts in this connection.

13.4 Contingent assets

At 31 December 2012 and 2011, the FROB did not hold any contingent assets.

14. Income and expenses

14.1 Staff costs and average headcount

The detail of "Staff Costs" in the accompanying income statements for 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	2011
Wages, salaries and similar expenses	1,067	769
Social security costs	154	110
Total	1,221	879

The average number of employees at the FROB in 2012 and 2011, by professional category and gender, which does not differ significantly from the detail of the workforce at 31 December 2012 and 2011, is shown in the following table:

2012

	Average Number		
	Men	Women	Total
Technical Level 1	7.60	-	7.60
Technical Level 2	-	3.00	3.00
Technical Level 3	-	1.00	1.00
Total	7.60	4.00	11.60

2011

	Average Number		
	Men	Women	Total
Technical Level 1	4.33	-	4.33
Technical Level 2	-	2.25	2.25
Technical Level 3	-	1.00	1.00
Total	4.33	3.25	7.58

14.2 Other operating expenses

The detail of "Other Operating Expenses" in the income statements for 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	2011
Management Company Services (Note 15) (*)	414	342
Outside professional services	8,818	5,159
Governing Committee (Note 15)	205	189
Representatives at entities	3,305	996
Banking and similar services	169	40
Taxes other than income tax	3,048	-
Other operating expenses	72	65
Total	16,031	6,791

(*) On 19 December 2012, a service provision contract licence agreement was entered into between the Management Company of the DGF and the FROB whereby the latter would continue with the services provided until that date by the Management Company.

"Outside Professional Services" in 2012 includes, primarily, amounts invoiced by external advisers commissioned by the FROB in order to perform work in the credit institution restructuring and resolution processes.

In 2012 the remuneration of all kinds of the FROB's representatives at the entities in restructuring and resolution processes (CAM, Banco CAM, Unnim, Banco de Valencia, Catalunya Banc and NCG Banco and Banco Financiero y de Ahorros) amounted to EUR 3,305 thousand (31 December 2011: EUR 996 thousand).

14.3 Other disclosures

In 2012 and 2011, the fees for the financial audit services and other professional services provided by the auditor of the FROB, Deloitte, S.L., or by a firm related to the auditor as a result of a relationship of control, common ownership or common management were as follows (in thousands of euros):

2012

	Services Provided by the Auditor and Related Companies
Audit services	14
Other attest services	-
Total audit and related services	14
Tax counselling services	-
Other services	-
Total professional services	14


2011

	Services Provided by the Auditor and Related Companies
Audit services	11
Other attest services	-
Total audit and related services	11
Tax counselling services	-
Other services	699
Total professional services	710

15. Related party transactions and balances

The detail of the balances recognised by the FROB with related parties in these annual accounts for 2012 and 2011 is as follows (figures in thousands of euros):

2012



	Bank of Spain	Investees	Governing Committee and Senior Management
Assets:			
Non-current investments in Group companies and associates – Equity instruments (Note 7.3)	-	11,548,560	-
Non-current assets classified as held for sale (Note 6)	-	2,410,000	-
Cash and cash equivalents - Cash (Note 5)	3,592,235	-	-
Income statement:			
Finance income (Note 5)	13,229	37,605	-
Other income - other income	-	100	-
Staff costs (senior management)	-	-	174
Other operating expenses (Note 14.2)	148	-	205

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. As a result of this liquidation, the Deposit Guarantee Fund for Credit Institutions ceased to be considered a related party of the FROB in 2012.

2011

	Bank of Spain	Deposit Guarantee Fund for Credit Institutions	Management Company of the Deposit Guarantee Fund for Credit Institutions	Investees	Governing Committee and Senior Management
Assets:					
Non-current assets classified as held for sale (Note 6)	-	-	-	1,021,834	-
Cash and cash equivalents - Cash (Note 5)	1,838,751	-	-	-	-
Liabilities:					
Current payables to Group companies and associates (Note 12.1)	-	-	165	-	-
Income statement:					
Finance income (Note 5)	26,679	-	-	-	-
Other income - other income	-	-	-	-	-
Staff costs (senior management)	-	-	-	59	247
Other operating expenses (Note 14.2)	17	-	342	-	189

In 2012 the FROB recognised an expense for EUR 205 thousand (31 December 2011: EUR 189 thousand) related to attendance fees relating to the Governing Committee (see Note 14.2).

In 2012 the FROB had granted no advances or loans and had acquired no pension, life insurance or guarantee obligations to any of the members of its Governing Committee.

16. Fair value of financial instruments

Given the composition of the FROB's assets and liabilities at 31 December 2012, and the valuation exercises for the purpose of determining impairment carried out at year-end, it is important to note that, if the assets and liabilities had been recognised at their fair value at that date, the balance of the FROB's equity at 31 December 2012 would not have differed significantly from that calculated and prepared in accordance with the accounting principles applied by the FROB described in Note 4 to these annual accounts, on the basis of which these 2012 annual accounts are presented.

17. Events after the reporting period

The most significant events occurring between the reporting date and the date of authorisation for issue of these financial statements not mentioned in other Notes to these annual accounts are as follows:

On 7 February 2013, in compliance with the provisions of Law 9/2012, the Governing Committee determined the economic values of the Banco de Caja España de Inversiones, Salamanca y Soria Group, the Liberbank Group, Banco Grupo Cajates, the Banco Mare Nostrum Group and Banco Gallego, S.A., prepared in accordance with

the procedures established by the FROB and on the basis of the appraisal reports commissioned to three independent experts for each of them. The calculated values amounted to: EUR -288 million for the Banco de Caja España de Inversiones, Salamanca y Soria Group, EUR 1,113 million for the Liberbank Group, EUR 370 million for Banco Grupo Cajates, EUR 569 million for the Banco Mare Nostrum Group and EUR -150 million for Banco Gallego, S.A. These valuations were used as a basis for implementing the public financial support provided for in the restructuring/resolution plans approved in December 2012 by the Bank of Spain and the European Commission.

Following the inclusion in Spanish legislation of "hybrid capital and subordinated debt management exercises" which aim to ensure that an entity's creditors participate correctly in the costs arising from its restructuring or resolution, and, as a result of the growing number of claims filed by customers of the entities in relation to the marketing of these products, on 22 March 2013, Royal Decree-Law 6/2013, on protection of holders of certain savings and investment products and other financial measures, was approved, the objectives of which are as follows:

i) To monitor any claims filed by customers against financial institutions as a result of the sale of complex products and to make available, in certain cases, expeditious dispute settlement mechanisms, primarily through arbitration. A hybrid capital instrument and subordinated debt monitoring committee was created for this purpose. The committee's duties include the determination of the basic criteria to be applied by entities in which the FROB has invested in order to offer their customers the option to have any disputes arising in connection with these instruments to be submitted to arbitration, with the objective of ensuring that customers receive appropriate compensation if the arbitrator rules in their favour; and

ii) To provide liquidity for the shares that the holders of these instruments receive in exchange for them, in cases where the entities issuing these instruments are not listed on an official market, and do not intend to do so in the framework of the restructuring plans of the European Commission. In order to mitigate the effects of this situation, the Deposit Guarantee Fund was empowered to create market mechanisms to provide alternative liquidity for these shares.

On 5 April 2013, the Governing Committee approved the execution of hybrid capital and subordinated debt instrument management exercises in the implementation of the Liberbank, S.A. restructuring plan, through the binding buyback of preference shares and perpetual and fixed-term subordinated debentures, and the cash payment to be applied immediately to the subscription and payment of new shares issued by Liberbank, S.A. or, in certain cases relating to fixed-term subordinated debentures, to the arrangement of a deposit that is restricted until the related maturity date.

On 17 April 2013, the hybrid capital instrument and subordinated debt monitoring committee determined the aforementioned basic criteria for offering arbitration to customers. The FROB notified its investees of these criteria in order for them to apply the criteria immediately.

On 19 April 2013, the Governing Committee of the FROB approved the award of the tender for Banco Gallego, S.A. to the bid submitted by Banco Sabadell, S.A. The terms and conditions of the purchase agreement include the subscription by the FROB of a capital increase at Banco Gallego, S.A. amounting to EUR 245 million, and the subsequent transfer of all the shares to Banco Sabadell, S.A. for EUR 1.

On 30 April 2013, the Bank sent a written instruction to the Spanish credit institutions requiring the review, through a case-by-case analysis, of the classification for accounting purposes of the refinanced and rearranged portfolios, and the provisioning policies for these portfolios with regard to the criteria set forth in the written instruction. The entities must report the results of this review, and the related accounting effects, to the Bank of Spain before 30 September 2013.

In May and June 2013, the Governing Committee of the FROB approved the requirement of certain actions on BMN, Catalunya Banc and NCG Banco in order to comply with their related restructuring/resolution plans consisting of the binding buyback of preference shares and perpetual subordinated debt, that they will pay in cash for immediate application to the subscription and payment of the new shares issued by each of these entities, and for the fixed-term subordinated debt, in the choice between shares or senior debt with the same maturity as that of the subordinated debt, and with the various haircuts to the original nominal amount. It also approved the capital increases with disapplication of pre-emption rights and the possibility of incomplete subscription amounting to EUR 348 million, EUR 1,311 million and EUR 1,480 million, respectively, required for settling these hybrid capital and subordinated debt instrument management exercises.

Lastly, the European Banking Authority (EBA) recommended that the national supervisors perform reviews on how the major European banks assess and classify the quality of their assets, and announced that it will perform the next stress tests in 2014.

Subsequent to year-end, the FROB received and processed various administrative appeals against administrative decisions taken in the framework of Law 9/2012. These related mainly to decisions on capital reductions and increases and the implementation of hybrid capital and subordinated debt instrument management exercises, with the related adoption of losses by shareholders, partners or holders of these instruments. These claims were expressly dismissed within the applicable period by the Governing Committee of the FROB.

Also, certain court proceedings were brought against the FROB, some of which relate to the administrative appeals indicated above. These processes are currently at a very early stage. In most cases, information on the aspects relating to the appeals is incomplete and, therefore, it is not possible to estimate reliably their economic impact or the final likelihood of occurrence. Despite the above, on the basis of the analyses performed in processing the administrative appeals, to date the FROB has not detected any shortcomings or weaknesses in its decisions. Moreover, the matters of substance against which the appeals have been made are firmly supported by legal precepts and the related economic valuations. Therefore, it is currently not considered necessary to recognise any provision in this connection.

At the date of preparation of these annual accounts, certain uncertainties exist as to the overall effect that could arise for the entities from the matters indicated above: the hybrid capital and subordinated debt instrument management exercises; the claims made in court or through arbitration processes received already or that might be received in the future by the entities from their customers in relation to the sale of complex products; and the findings of the review of the portfolios of restructured transactions required by the Bank of Spain and of the quality of the credit institutions' assets recommended by the European Banking Authority (EBA). The matters mentioned above, together with the entities' performance, could affect the valuation of the FROB's investments reflected in these annual accounts.

18. Explanation added for translation to English

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

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

Fondo de Reestructuración Ordenada Bancaria

Directors' Report
for the year ended
31 December 2012

1. CONCLUSIONS

2012 was marked by the enactment of new legislation designed to speed up the process of cleaning up the banks' problem assets³ and by the launch of a new financial assistance programme to recapitalise the financial sector. In the framework of this programme, a stress test was carried out on the main Spanish banking groups in order to determine their capital needs. Also, Law 9/2012, of 14 November, on restructuring and resolution of credit institutions, set a new framework for the resolution of entities in crisis, in line with the principles set forth in the draft resolution Directive, which confers on the FROB the status of a resolution entity together with new powers to perform the related duties.

On 28 September 2012, the findings of the stress tests were published, pursuant to the Memorandum of Understanding entered into in July 2012 by the Spanish and European authorities. The capital deficit for the entities as a whole amounted to EUR 25,900 million in the base scenario and EUR 53,700 million in the adverse scenario. In this context, the resolution process would be applied to entities that are not viable, while the restructuring process would be applied to entities that require public financial support in order to ensure their viability and that have the capacity to return this financial support within the deadlines stipulated in the Law for each support instrument.

In each case a plan was prepared, for restructuring and resolution. Both were approved by the FROB, the Bank of Spain and the European authorities.

The approved plans require the related credit institution to transfer its problem assets to Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (Sareb). The assets were transferred from the entities majority-owned by the FROB with effect on 31 December 2012. The gross volume of the transferred assets was EUR 78,000 million, the transfer price being EUR 37,000 million.

These plans include the principle of burden-sharing between the entity's current shareholders and the holders of hybrid instruments (preference shares and subordinated debentures) who must share the entity's restructuring costs in order to reduce costs for the taxpayer.

The plans also provide for significant business adjustment measures and reductions in the workforces and branch networks by the entities receiving public funds, pursuant to the rules and precedents relating to State aid.

In accordance with the various approved plans, in the second half of December 2012, the FROB subscribed the capital increases at NCG, Catalunya Banc, BFA and Banco de Valencia amounting to EUR 36,968 million, in order to ensure these financial groups' compliance with capital adequacy requirements. Also, in the first half of 2013, the contingently convertible bonds (CoCos) of Liberbank, Caja3 and Ceiss, amounting to EUR 1,865 million, were subscribed.


³ Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector and Royal Decree-Law 18/2012, of 11 May, on the clean-up and sale of property assets in the financial sector.

With regard to the various bank sale processes, the resolution plan relating to Unnim was approved in 2012. This plan included its award to BBVA with the financial support of the Deposit Guarantee Fund (DGF) and the inclusion of certain guarantees by the FROB. The sale was completed in July 2012. Also, on 1 June 2012, once the pertinent authorisations had been obtained, the sale of Banco CAM to Banco Sabadell was completed. Furthermore, in November 2012, the sale of Banco de Valencia to CaixaBank was approved. The sale was completed on 28 February 2013. At the end of 2012, the process was initiated to dispose of the investment of NovaCaixaGalicia in Banco Gallego, which was awarded to Banco Sabadell in April 2013.

Lastly, as a result of the impairment in the investments it holds in the entities (detected in the economic valuations that were performed) the FROB's income statement presents a loss that, combined with the loss from 2011, have an adverse effect on its equity. In order to boost the solvency of the FROB and to present financial statements that reflect the actual situation with regard to the obligations assumed and its liquidity position, measures will be taken to restore the FROB's positive equity position in the course of 2013. These measures include the possibility of an agreement by the State to convert a portion of the loan granted to the FROB into an equity contribution to the Fund. This possibility, which is provided for in the loan agreement between the State and the FROB, requires prior authorisation by the ESM. In this regard, the ESM has granted its consent to this transaction.

2. ORGANISATION AND OPERATION. RELEVANT MATTERS

With regard to organisational aspects of the FROB, the following agreements and measures were adopted in 2012:

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- The budget settlement for the FROB's operating expenses and non-financial investments for 2011 and the budget for 2012 were approved. Also, the FROB's annual accounts for 2011 were prepared and approved.
 - The composition of the Governing Committee was adapted in accordance with the provisions of Law 9/2012. Furthermore, authorisation was granted to changes in the FROB's organisational structure, and to its remuneration scheme, and to the provision of additional funds in order to adapt the organisation to the new functions and duties conferred on the FROB by this Law. In addition, the FROB's Internal Contracting Instructions were approved, in accordance with the new regulatory framework.
 - As a result of the new requirements included in Law 9/2012, approval was given for an increase in the workforce, following a public tender, of up to 51 employees, as well as the transfer of the FROB's offices to a new location in Avenida General Perón, 38.
 - An agreement was entered into with the Attorney General's Office-State Legal Service Department to provide the FROB with legal assistance and represent it at the various courts in relation to any administrative or labour disputes that may exist or arise.
 - A procedure protocol was approved for cases where irregular acts are detected at the entities in which the FROB is the provisional administrator.
 - Approval was granted for the FROB's participation in the implementation of the European financial assistance to recapitalise Spain's financial institutions and for the criteria and conditions regarding the FROB's actions in the procedures to strengthen credit institutions' capital, within the scope of the European assistance programme. This scheme was, in turn, approved by the European Commission on 25 July 2012.
 - The methodology for the economic valuation of entities and for determining the liquidating dividend, pursuant to Law 9/2012, was approved.

As established in Additional Provision 7 of Law 9/2012, Sareb was incorporated, its chairman and chief executive were appointed, and various services and supplies (consolidation of the databases, IT and the design of policies and procedures) were commissioned that were required for its initial operational capacity.

3. FINANCIAL TRANSACTIONS

The FROB did not launch any issues in 2012, although on 12 September the increase in the FROB's funding out of the State Budget was paid. This amounted to EUR 6,000 million and was provided for in Additional Provision 4 of Royal Decree-Law 2/2012.

Also, on 11 December, the first tranche of the financial assistance for the recapitalisation of the banking system by the European Stability Mechanism (ESM) was paid. The amount paid was EUR 39,468 million, through the delivery of ESM bonds with the following characteristics:

ISIN code	Issue Date	Maturity	Format	Coupon	Nominal	Price	Value on issue Date
EU000A1U97C2	11-Dec-12	11-Feb-13	Bill (Discount)	Zero	€ 2,500,000,000	99.99655%	€ 2,499,913,750.00
EU000A1U97D0	11-Dec-12	11-Oct-13	Bill (Discount)	Zero	€ 6,468,000,000	99.89876%	€ 6,461,451,796.80
EU000A1U98U2	11-Dec-12	11-Jun-14	Bond - FRN	6m Euribor - 0.12%	€ 6,500,000,000	100%	€ 6,500,000,000
EU000A1U98V0	11-Dec-12	11-Dec-14	Bond - FRN	6m Euribor - 0.12%	€ 12,000,000,000	100%	€ 12,000,000,000
EU000A1U98W8	11-Dec-12	11-Dec-15	Bond - FRN	6m Euribor - 0.06%	€ 12,000,000,000	100%	€ 12,000,000,000

These funds were received in response to the first funding requirement for recapitalising the Group 1 entities and for financing the FROB's contribution to Sareb⁴. This recapitalisation was carried out on 26 December through the injection of EUR 36,968 million in BFA-Bankia, NCG Banco, Catalunya Banc and Banco de Valencia, as described in the following sections of this report. With respect to Sareb, on 31 December 2012, delivery had been made of the bonds for paying Sareb's capital and subordinated debt, amounting to EUR 1,703 million. The amount delivered reached EUR 2,192 million in February 2013.

The funds were channelled to the FROB through a loan⁵ from the State, as the lender, to the FROB, as the borrower, entered into on 3 December 2012, to which the same financial conditions prevailing in the loan entered into between the Kingdom of Spain and the ESM are applicable.

At 31 December the outstanding nominal amount of the outstanding issues remained unchanged:

- FROB bonds 3.0% maturing 19/11/14	EUR 3,290 million
- FROB bonds 4.5% maturing 03/02/14	EUR 3,000 million
- FROB bonds 5.5% maturing 12/07/16	EUR 2,505 million
- FROB bonds 4.4% maturing 21/10/13	EUR 2,150 million
TOTAL	EUR 10,945 million

The borrowing limit established in the State Budget Law is EUR 120,000 million. The FROB's capacity for issuing State-backed debt is EUR 13,055 million in addition to the EUR 10,945 million already issued.

The credit facility provided to Banco de Valencia in the context of its restructuring process was formally cancelled on the date on which the FROB's holding was effectively transferred to Caixabank. The credit facility granted to Banco CAM was cancelled on 1 June 2012.

⁴ On 5 February 2013, the second tranche for the recapitalisation of the Group 2 entities, amounting to EUR 1,865 million, was paid.

⁵ At any time, the State may approve the conversion of the loan into an equity contribution to the FROB subject to authorisation by the ESM.

At 31 December 2012, the FROB had disposable liquid funds amounting to EUR 10,750 million.

4. THE FROB'S PARTICIPATION IN THE PROCESSES TO RESTRUCTURE AND STRENGTHEN THE CAPITAL OF CREDIT INSTITUTIONS

4.1 Integration processes

The activities relating to the integration processes were limited to, primarily, the management and monitoring of the aid assistance granted and committed in 2010.

Following the conversion of the convertible preference shares relating to Catalunya Banc (EUR 1,250 million) NCG (EUR 1,162 million) and BFA (EUR 4,465 million) approved in December 2012, the support in convertible preference shares at 31 December provided by the FROB amounted to EUR 2,417 million, the detail being as follows:

Integration Processes (Convertible Preference Shares)	Structure	FROB Approval	Status	Amount of Assistance (Millions of Euros)	Payment Date
CEISS Caja España and Caja Duero	Merger	25/03/10	Subscribed and paid	525	29/10/10
BANCO MARE NOSTRUM Caja Murcia, Caja Granada, Caixa Penedés and SaNostra	IPS	29/06/10	Subscribed and paid	915	31/12/10
BANCA CÍVICA Caja de Navarra, CajaSol (including Caja Guadalajara, CajaGeneral de Canarias and Caja Municipal de Burgos	IPS	22/12/10	Subscribed and paid	977	11/02/11
A) Total integration processes (convertible preference shares)				2,417	

In 2012 the FROB collected the annual coupons relating to the preference shares issued by Banca Cívica, Banco Mare Nostrum and Ceiss for a total amount of EUR 189 million.

At 31 December 2012, an analysis was carried out of the existence of objective evidence of impairment on these investments in order to estimate and recognised the amount of any losses in this respect, based on the entities' economic values.

Also, with regard to the above processes, the six-monthly monitoring reports were sent to the European Commission in relation to the progress of the various integration processes that have received support from the FROB.

4.2 Resolution and restructuring processes Group 1

In 2012 the FROB subscribed capital increases carried out by Catalunya Banc, NGC Banco, Banco de Valencia and BFA in the framework of the aid granted to these entities, in order to comply with the capital requirements under current legislation. The ownership interests in share capital held by the FROB amount to EUR 37,966 million, the detail being as follows:

Resolution and Restructuring Processes (Shares)	FROB Approval	Status	Amount of Assistance (Millions of Euros)	Payment Date	% Acquired
NovaCaixaGalicia	27/11/12	Subscribed and paid	5,425	26/12/12	100.0%
Caixa Galicia and CaixaNova					
Catalunya Caixa	27/11/12	Subscribed and paid	9,084	26/12/12	100.0%
Caixa d' Estalvis de Catalunya, Tarragona y Manresa					
BANCO FINANCIERO Y DE AHORROS (*)					
Caja de Ahorro de Madrid, Bancaja, Caja Avila, Caja Segovia, Caja Insular de Canarias, Caixa Laietana and Caja Rloja	IPS 03/09/12 & 27/11/12	Subscribed and paid	17,959	12/09/12 & 26/12/12	100.0%
Banco de Valencia	27/11/12	Subscribed and paid	5,498	26/12/12	99.9%
B) Total resolution and restructuring processes			37,966		

Of this amount, EUR 998 million were injected in Banco de Valencia on 26 June 2012 and the remainder, EUR 36,968 million relate to the total figure injected in CX, NCG, BFA-Bankia and Banco de Valencia in the second half of December using the funds from the European Stability Mechanism (ESM).

The progress in these processes was as follows:

Catalunya Banc, S.A. (CX)

The findings of the stress tests indicate additional capital needs of EUR 6,488 million in the base scenario and EUR 10,825 million in the adverse scenario. In view of these findings, on 20 November 2012, the Board of Directors of Catalunya Banc approved the entity's resolution plan. This plan was approved by the Governing Committee of the FROB, the Executive Committee of the Bank of Spain and the European Commission. It provides for the granting of financial support by the FROB through an additional injection of funds in the form of ordinary shares, the transfer of problem assets to Sociedad de Gestión de Activos Inmobiliarios (Sareb) and the performance of hybrid instrument management exercises.

As a result of the application of these measures and those taken in prior years, the funds injected by the FROB in the entity amount to EUR 12,052 million. Therefore, following the due diligence review and the valuation performed by three independent experts, which amounted to EUR -6,674 million, the FROB's ownership interest rose to 100%, bearing in mind that certain hybrid instrument management measures will be carried out in the first half of 2013.

Lastly, in December 2012, the entity transferred its property assets to Sareb for a transfer price of EUR 6,708 million.

NovaGalicia Banco, S.A. (NCG Banco)

In view of the findings from the stress tests that indicated capital needs of EUR 3,966 million in the base scenario and EUR 7,176 million in the adverse scenario, on 27 November 2012, the Board of Directors of NCG Banco approved the entity's resolution plan. This plan was approved by the Governing Committee of the FROB, the Executive Committee of the Bank of Spain and the European Commission. It provides for the granting of financial support by the FROB through an additional injection of funds in the form of ordinary shares, the transfer of problem assets to Sareb and the performance of hybrid instrument management exercises.

As a result of the application of these measures and those taken in prior years, the funds injected by the FROB in the entity amount to EUR 8,981 million. Therefore, following the due diligence review and the valuation of the entity performed by three independent experts, which amounted to EUR -3,901 million, its share capital was reduced to zero (whereby the shareholders at that time ceased to hold ownership interests in the bank and lost all their investment) with immediate application. Accordingly, the FROB's

ownership interest in the entity rose to 100%, bearing in mind that certain hybrid instrument management measures will be carried out in the first half of 2013.

Lastly, in December 2012, with a reference date of 31 December, the entity transferred its property assets to Sareb for a transfer price of EUR 5,079 million.

Banco Gallego, S.A.

At the beginning of 2012, Banco Gallego was 49.85%-owned by NCG Banco and formed part of its consolidable group. The resolution plan of NCG Banco, approved by the FROB the Bank of Spain and the European Commission, includes Banco Gallego, and provides for, in respect to the latter, the granting of financial support by the FROB, the transfer of problem assets to Sareb and the performance of hybrid instrument management exercises. In addition, it includes the sale of the entity by no later than 30 April 2013.

At 31 October 2012, the entity had negative equity of EUR 0.3 million. Therefore, the shareholders at the extraordinary general meeting held on 29 January 2013 approved a reduction in capital to zero (whereby the shareholders at that time ceased to hold ownership interests in the bank and lost all their investment) and a simultaneous capital increase with pre-emptive subscription rights. The FROB, through NCG Banco, subscribed this increase.

Furthermore, in order to comply with the provisions of Article 5 of Law 9/2012, the FROB determined the economic value of Banco Gallego, through an appraisal performed by three independent experts and, following a due diligence review carried out by an auditor, the economic value approved by the Governing Committee of the FROB on 7 February 2013 was a negative amount of EUR 150 million.

Lastly, in order to comply with the resolution plan, Banco Gallego was awarded to Banco Sabadell in April 2013, the price being EUR 1. The sale was made under the premise that it would be completed once the capital increase at Banco Gallego was carried out, funded by the FROB. The increase amounted to EUR 245 million in addition to the performance of management exercises in relation to Banco Gallego hybrid instruments, in execution of the entity's resolution plan. Completion of the transaction is also subject to obtainment of the related regulatory authorisations.

Banco de Valencia, S.A.

On 21 November 2011, following the notification received from the entity, the Executive Committee of the Bank of Spain approved the appointment of the FROB as this entity's provisional administrator, since its situation was as provided for in Articles 6 and 7 of Royal Decree-Law 9/2009. For the purposes of providing stability for this entity, a resolution was passed for the subscription and payment of a capital increase at Banco Valencia of up to EUR 1,000 million. As a result of this increase, the FROB's holding in Banco de Valencia rose to 90.89%.

The capital needs estimated for Banco de Valencia in the stress tests amounted to EUR 1,845 million in the base scenario and EUR 3,462 million in the adverse scenario. At the end of November, the entity's resolution plan was approved by the Governing Committee of the FROB, the Executive Committee of the Bank of Spain and the European Commission. In view of the entity's situation, this plan provided for the sale of the entity before 30 November or its liquidation.

Banco de Valencia was sold to CaixaBank in a transaction representing an estimated cost to public funds of EUR 5,000 million, in addition to those already injected, as a result of the recapitalisation of Banco de Valencia by the FROB and the granting by the FROB to the purchaser of an asset protection scheme (APS) covering SME and self-employed loans and contingent liabilities. The sale also provides for the transfer of the problem assets to Sareb and the performance of certain hybrid instrument management exercises. The decision to sell the entity gave rise to fewer costs for the State than the

entity's liquidation. An independent expert cooperated with the FROB to calculate the estimated liquidation cost.

The sale was completed in February, thereby concluding the entity's resolution plan. Lastly, on 13 March 2013, once the entity had been sold, the Executive Committee of the Bank of Spain approved the termination of the measure relating to the provisional replacement of the governing body.

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

As a result of Royal Decree-Law 2/2012 and Royal Decree-Law 18/2012, the financial restructuring needs of the BFA-Bankia Group increased by EUR 8,376 million. The boards of directors of BFA and Bankia authorised for issue the 2011 annual accounts for a second time on 28 May 2012. These annual accounts presented a loss of EUR 3,318 thousand.

In view of its situation, the BFA Group approved a clean-up and recapitalisation plan giving rise to additional capital needs of EUR 19,000 million. It also requested the conversion into ordinary shares of the convertible preference shares with a nominal amount of EUR 4,465 million that were subscribed by the FROB in 2010.

Since the buyback of these convertible preference shares in the terms to which BFA was committed in the issue deed was unlikely, the Governing Committee of the FROB approved a request at its meeting of 14 May 2012 to convert the convertible preference shares into BFA shares. By carrying out the capital increase through an accordion operation, the FROB became the sole shareholder of BFA.

The financial information for the first half of 2012 disclosed attributable losses of EUR 2,807 million at the BFA Group and EUR 4,448 million at Bankia as a result of the partial recognition, based on the forecast schedule, of the heavy provisions required by Royal Decree-Law 2/2012 and Royal Decree-Law 18/2012. As a result of the write-downs charged to income in the first half of 2012, BFA had negative equity and both BFA and Bankia had large regulatory capital deficits. As a result, with the European authorities' approval, on 3 September, the decision was taken to increase capital at BFA by EUR 4,500 million and grant a loan to Bankia of EUR 4,500 million within the financial institution restructuring framework.

On 28 September 2012, the BFA Group's capital needs arising from the findings of the separate stress test were published. They amounted to EUR 13,230 million in a base scenario and EUR 24,743 million in an adverse scenario.

On 27 November 2012, the restructuring plan was approved by the Spanish and European authorities, which included an injection of public funds amounting to EUR 17,959 million in BFA. This amount included the EUR 4,500 million injected in September.

In view of the valuation made of the entity that assigned an economic value to BFA of EUR -10,444 million and to Bankia of EUR -4,148 million, on 26 December 2012, the FROB adopted a resolution for: a) a capital increase at BFA of EUR 13,459 million. This increase, in addition to that of September, would be subscribed by the non-monetary contribution of ESM securities made by the FROB; b) the exchange of the treasury bills delivered earlier in September for securities of the European Stability Mechanism (ESM); and c) the issue by Bankia of contingent convertible bonds with disapplication of pre-emption rights amounting to EUR 10,700 million, which would be subscribed by BFA.

At the end of December 2012, the asset transfer to Sareb was carried out for a transfer price of EUR 22,317 million.

At the date of approval of the annual accounts, after implementing the various measures amounting to EUR 22,425 million and following the performance of management exercises in relation to the entity's hybrid instruments, the FROB owned 100% of BFA directly and 68.32% of Bankia indirectly through BFA.

4.3 Resolution and restructuring processes Group 2

The entities forming part of Group 2 are Caja3, Banco Mare Nostrum, Liberbank and Banco Ceiss. With regard to these entities, the Bank of Spain concluded that they could not meet the capital deficit identified in the stress test carried out by Oliver Wyman using their own funds, without public aid.

On 19 December 2012, the Governing Committee of the FROB agreed to submit to the Bank of Spain the restructuring plans of the Group 2 entities, which were approved by this authority on the same day. The plans were also approved by the European Commission on 20 December.

The restructuring and resolution plans of the Group 2 entities include, in compliance with the provisions of the MoU, under the following scheme: (i) the transfer of problem assets to the asset management company (Sareb); (ii) significant business adjustment measures and reductions in the workforces and branch networks by the entities receiving public funds, pursuant to the rules and precedents relating to State aid; and (iii) a financial burden sharing exercise that affects shareholders and holders of hybrid instruments.

In accordance with the requirements and procedures established by the European Commission, pursuant to the principles of the restructuring processes set forth in Law 9/2012, the shareholders of the Group 2 entities will assume a reduction in the value of their investment in line with the registered losses of the entity and the dilution effect caused by the capital injections made by the FROB and the capital increase as a result of the hybrid capital and subordinated debt instrument management exercises. For their part, the holders of hybrid and subordinated debt instruments issued by these entities must also contribute to the coverage of capital needs. Therefore, they must accept, following the application of the related haircuts in each case, the exchange of their securities for assets generally considered eligible capital

The transfer of problem assets was completed at the end of February 2013. The progress in the processes was as follows:

Banco CEISS

The findings of the stress tests indicated additional capital needs of EUR 2,063 million in the adverse scenario. In view of these findings, on 17 December 2012, the Board of Directors of CEISS approved the entity's resolution plan. This plan was approved by the Governing Committee of the FROB, the Executive Committee of the Bank of Spain and by the European Commission.

The general provisions of the plan are as follows: (i) separation of the entity into two units for management purposes ("core Bank" and "legacy unit" (LU)); the former will carry on the entity's main banking activities, primarily the retail and SME businesses, the latter is the unit that will encompass all other activities that will be managed with the objective of the sale, liquidation or maturity of the operations comprising this unit; (ii) the transfer of property assets to the asset management company (Sareb); (iii) the burden-sharing principle; (iv) a reduction in the entity's structure through the sale of investees, and a reduction in the number of branches and employees; (v) Banco CEISS included in the plan a request for an injection of public funds to be made by the FROB in the form of the bank's ordinary shares amounting to EUR 604 million; and (vi) the sale of the entity.

Banco Caja 3

The findings of the stress tests indicated additional capital needs of EUR 779 million in the adverse scenario. In view of these findings, on 18 December 2012, the Board of Directors of Caja 3 approved the

entity's resolution plan. This plan was approved by the Governing Committee of the FROB, the Executive Committee of the Bank of Spain and by the European Commission.

The general provisions of the plan include the following: (i) integration in another entity (finally, Ibercaja); (ii) the transfer of property assets to the asset management company (Sareb); (iii) the burden-sharing principle; (iv) a reduction in the entity's structure through the sale of investees, and a reduction in the number of branches and employees; and (v) a request for the injection of public funds to be made by the FROB in the form of contingent convertible bonds (CoCos) amounting to EUR 407 million.

Banco Mare Nostrum, S.A. (BMN)

As a result of the stress test, capital needs of EUR 2,208 million in the adverse scenario were detected. In view of these findings, on 18 December 2012, the Board of Directors of BMN approved the entity's resolution plan. This plan was approved by the Governing Committee of the FROB, the Executive Committee of the Bank of Spain and by the European Commission.

The general provisions of the plan include: (i) a request for the injection of public funds to be made by the FROB in the form of the bank's ordinary shares amounting to EUR 730 million; (ii) the transfer of property assets to the asset management company (Sareb); (iii) the burden-sharing principle; and the sale of the Caixa Penedés network to Banco de Sabadell. Lastly, following implementation of the various measures, the FROB's final ownership interest in BMN is set at 64% or more.



Liberbank

As a result of the stress test, capital needs of EUR 1,198 million in the adverse scenario were detected. On 17 December 2012, the Board of Directors of Liberbank approved the entity's restructuring plan. Subsequently, the restructuring plan was approved by the FROB and the Bank of Spain on 19 December, and by the European Commission on 20 December.

The plan provides for the restructuring of the entity, transforming it into a smaller bank with improved efficiency ratios. According to the projections, if the related assumptions are met, the entity would have the correct levels of capital adequacy on an individual basis and will be able to repay the aid in the proper form within the time prescribed.

The general provisions of the plan include: (i) the transfer of property assets to the asset management company (Sareb); (ii) the burden-sharing principle; (iii) the sale of assets, thereby reducing its capital needs by EUR 215 million; and (iv) a request for the injection of public funds to be made by the FROB in the form of contingent convertible bonds (CoCos) amounting to EUR 124 million.

The public aid received by the entity amounts to EUR 3,775 million, although EUR 3,631 million relate to aid received by Caja Castilla la Mancha, which belonged to Cajastur and subsequently Liberbank. In April 2013, after the hybrid instruments had been converted, the FROB's ownership interest was zero and it held an investment in CoCos amounting to EUR 124 million.

4.4 Completed restructuring processes

The situation of the various entities involved in restructuring processes is as follows:

- **Caja de Ahorros del Mediterráneo (CAM) y Banco CAM, S.A.** Pursuant to the provisions of Royal Decree-Law 9/2009, following the implementation of the related competitive process, the FROB prepared a restructuring plan of Banco CAM that provided for its sale to Banco Sabadell. This transaction received public support through the Deposit Guarantee Fund (DGF), pursuant to Articles 12 and 13 of Royal Decree-Law 16/2011.


The Banco CAM restructuring plan was submitted to the European Union competition authorities for which the required authorisation was given on 30 May 2012. The effective transfer of Banco CAM to Banco de Sabadell was formally executed on 1 June 2012.

Following publication in the Official State Gazette of Law 9/2012, of 14 November, on the restructuring and resolution processes of credit institutions, in which Final Provision Thirteen amends Royal Decree-Law 11/2010, of 9 July, on governing bodies and other aspects of the legal regime of savings banks, CAM automatically converted into a special foundation, all its governing bodies were dissolved and it had to be removed from the special register of credit institutions.

After its conversion into a special foundation, the Bank of Spain, at its meeting of 20 November 2012, approved the termination of the measure relating to the provisional replacement of CAM's governing body.

- **Unnim Banc, S.A.** Pursuant to the provisions of Royal Decree-Law 9/2009, following the implementation of the related competitive process, on 7 March 2012, the Governing Committee of the FROB prepared a restructuring plan of Unnim Banc that provided for its sale to BBVA and that received financial support from the DGF.

The financial support from the DGF and the FROB was structured as follows:

- 
- i. Also, the DGF provided financial support for the sale of the share capital of Unnim Banc by the FROB to BBVA, providing the necessary funds so that the FROB could recover, in the sale process, the total amount of its holding in Unnim Banc, which amounted to EUR 953 million.
 - ii. In addition, the DGF granted an asset protection scheme (APS) to Unnim Bank on a certain portfolio of assets that amounted to EUR 7,360 million, in relation to which provisions amounting to EUR 1,330 million had been recognised. Once this threshold is exceeded, the DGF will assume 80% of the losses arising from this portfolio and, accordingly, the maximum amount covered by the scheme is EUR 4,824 million.

On 27 July 2012, the sale by the FROB to BBVA of all the shares representing the share capital of Unnim Banc, the price of which was EUR 1, was completed. Once the related deed was executed, following the adoption of the relevant decision by the Bank of Spain, the FROB ceased to be the administrator of Unnim Banc.
 - iii. For its part, the FROB assumed certain commitments relating to tax matters with Unnim Banc.

- **Caja de Ahorros y Monte de Piedad de Córdoba (CajaSur).** In February 2012, the second settlement was made of losses relating to 2011, guaranteed by the APS granted under the restructuring plan, which amounted to EUR 293 million.

In addition, in the sale processes carried out by the FROB in 2012 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.

In this regard, the FROB deemed it unlikely that any obligation would arise from these commitments and, accordingly, it did not recognise any provision in the 2012 annual accounts in this connection.

Also, in the process relating to the sale of Banco de Valencia to Caixabank, the FROB undertook to compensate this entity, in certain circumstances, for losses arising from changes occurring in the assets estimated to be transferred to Sareb by this entity and those finally transferred.

On 23 January 2013, the FROB received a claim from Caixabank in this regard.

At the date of preparation of these annual accounts, this claim was being analysed by the FROB's legal services. Without prejudice to the existence of possible lines of defence or of discussion regarding the amount claimed, the FROB recognised a provision amounting to EUR 90 million which is slightly less than 50% of the total amount claimed.

4.5 SAREB

In 2012, in compliance with the legal mandate established in Royal Decree-Law 24/2013, of 31 August, on restructuring and resolution of credit institutions, currently in Law 9/2012, all the actions required for creating Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (Sareb) were carried out, and the latter was incorporated as a public limited liability company for a fixed period of time until November 2027.

The first step was the creation of the Sareb development company on 28 November 2012, which converted into Sareb on 13 December 2012, the date on which its Board of Directors was formed.

Its sole company object is the holding, management, direct or indirect administration, acquisition and disposal of the assets transferred to it by the credit institutions that, on entry into force of Royal Decree-Law 24/2012, of 31 August, of restructuring and resolution of credit institutions, are majority-owned by the FROB or that, in the opinion of the Bank of Spain, will require the initiation of a restructuring or resolution process as provided for in Law 9/2012.

Sareb's capital amounts to EUR 4,800 million (8% of the total volume of assets), of which EUR 1,200 million relate to share capital and EUR 3,600 million relate to two issues of non-guaranteed, contingently convertible subordinated debt subscribed by the shareholders. The FROB holds 45.15% of Sareb's share capital.

Article 48 of Royal Decree 1559/2012 establishes the categories of assets to be transferred to Sareb by the entities. The assets of the entities classified in Group 1 (BFA-Bankia, Catalunya Banc, Novagalicia Banco and Banco Valencia) were transferred on 31 December 2012, and the assets of the Group 2 entities (Liberbank, BMN, CEISS and Caja3) were transferred on 28 February 2013, for a total price of EUR 50,781 million.

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

5. EVENTS AFTER THE REPORTING DATE AND OUTLOOK FOR 2013

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

- In the first quarter of 2013, the second payment under the financial assistance programme for the restructuring and recapitalisation of the Spanish financial system, approved on 24 July 2012, was received. This second tranche of aid amounted to EUR 1,865 million, with a cost to the State of 0.55% p.a., which was channelled through the delivery of a bond with the following characteristics:

ISIN	Issue Date	Maturity Date	Nominal Value	Issue Price	Issue Cash Value	Coupon
EU000A1U98X6	05/02/13	05/08/15	1,865,000,000	100%	1.865,000,000	6m Euribor-0.15%
Total			1,865,000,000		1.865,000,000	

The aid was to be allocated as follows:


▪ Banco Mare Nostrum	EUR 730 million
▪ CEISS	EUR 604 million
▪ Caja 3	EUR 407 million
▪ Liberbank	EUR 124 million
TOTAL	EUR 1,865 million

- On 12 March 2013, payment was made of the capital injection in BMN and of the contingent convertible bonds at Liberbank and Banco Grupo Caja 3 in relation to the second tranche of aid. Also, on 10 May 2013, the capital injection in CEISS in the form of contingent convertible bonds was approved.
- In the course of the first half of the year, hybrid capital and subordinated debt instrument management exercises were approved at NCG Banco, Catalunya Banc, Banco Mare Nostrum, CEISS, BFA-Bankia, Banco de Valencia and Liberbank, in execution of their respective restructuring or resolution plans.
- With regard to the APS granted to CajaSur, the 2012 losses guaranteed by the APS in 2012, amounting to EUR 7 million, were settled in February 2013. As a result, the maximum amount of losses guaranteed by the FROB in the APS (EUR 392 million) was reached and, therefore, the APS loan that had been granted was fully repaid.
- On 19 February 2013, the preference shares of Banco Mare Nostrum, S.A. (EUR 915 million) were converted into capital.
- With regard to the various bank sale processes, on 28 February 2013, the sale of the FROB's holding in Banco de Valencia to CaixaBank was completed. As a result, the FROB ceased to be the entity's administrator on 14 March 2013.
- The auction process of Catalunya Banc was suspended on 4 March 2013 following the submission of non-binding bids to acquire the entity.
- CaixaBank integrated Banca Cívica and, accordingly, it redeemed the convertible preference shares subscribed by the FROB in February 2011. The redemption, which was carried out on 8 April 2013, amounted to EUR 977 million that were repaid into the FROB's treasury.
- On 19 April 2013, Banco Gallego was awarded to Banco Sabadell, since it was considered that its bid was the most competitive in accordance with the established valuation criteria and that it represented the best use of public funds.
- With regard to Banco CEISS, as a matter of urgency in order for the entity to continue as an eligible counterparty in relation to the ECB, on 30 April 2013, the FROB injected capital amounting to EUR 604 million through the subscription of contingent convertible bonds (CoCos) issued by Banco CEISS. This public aid was provided for in the related plan through the subscription of shares. However, in view of the bid submitted by another credit institution in February, described below, given the possibility to repay the aid if the two entities were to integrate, the convertible debt instrument was deemed to be the most appropriate.

On 16 May 2013, through a Resolution of the Governing Committee of the FROB, the following recapitalisation transactions were approved: (i) a reduction of share capital to zero (the savings bank's withdrawal from the shareholder structure); (ii) the conversion of the convertible preference shares issued by Caja CEISS (EUR 525 million) into shares; and (iii) a new reduction of share capital to zero in order to absorb losses, and a capital increase following the implementation of hybrid instrument management measures, after which the holders of institutional hybrid instruments become the owners of 100% of the entity's shares.

The conditional bid for Banco CEISS submitted by another credit institution, if it were finally submitted, relates to the shares or convertible instruments held by the former holders of hybrid instruments and fixed-term subordinated debt (securities exchange). With regard to a possible completion of the bid, the potential bidder is awaiting confirmation of the fulfilment of one or more of the financial conditions precedent and, accordingly, it has not formally submitted the bid. Furthermore, at the date of this report, the related economic terms and conditions had not been published. It is therefore currently difficult to gauge the bid's possibility of success. The legal deadline for executing the bid, pursuant to the Decision of the EC, is 31 July 2013.

Correct compliance with the resolution and restructuring plans involves taking socially complicated decisions in the course of 2013, particularly in relation to the hybrid instrument conversion exercises and proposals for collective redundancy procedures. In this regard, the recent enactment of Royal Decree-Law 6/2013 of 22 March, *on protection of holders of certain savings and investment products and other financial measures*, obliges the FROB's investees to provide arbitration mechanisms, which will have a certain impact on the entities, which will be offset as the liquidity mechanisms through the Deposit Guarantee Fund are implemented.



In addition, the disposals envisaged in the plans create uncertainty with regard to the most appropriate time and method for selling assets. For example, for entities in which the plans require their sale, questions arise that go beyond the transaction price, such as the overall sale, by business area, or even their overall integration (or that of certain areas) in a public holding. In short, the risks and uncertainties faced by the FROB make it necessary to take careful consideration in order to minimise losses for the taxpayer, comply with the terms and conditions of the plans and optimise the disposals. To this end, the FROB hired a strategic consulting firm and an investment bank. The findings of their reports and the subsequent analysis thereof by the FROB should contribute to optimising results as desired.

Moreover, the FROB has assumed ownership of a large number of holdings in a short space of time. Therefore, it must adapt to this situation as quickly as possible in 2013, by preparing the most effective management and control criteria, and by adopting the most appropriate corporate governance structure for itself and for the entities for the purposes established in Law 9/2012.

Lastly, a new European Directive on the resolution of entities is expected to be passed in 2013 which would include obligations and responsibilities for the FROB. The adaptation by the FROB in line with the provisions of the Directive which include notably the preparation by the supervisor of resolution plans for the financial institutions (in line with the recommendation issued on 23 January by the European Banking Association) is a challenge to be met this year.

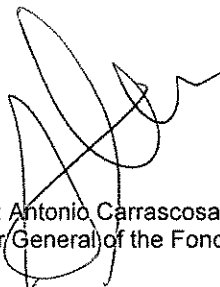
6. OTHER DISCLOSURES

No research and development activities were performed in 2012.

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

Fondo de Reestructuración Ordenada Bancaria

The undersigned, Director General of the Fondo de Reestructuración Ordenada Bancaria, authorises for issue on 12 July 2013 these Annual Accounts of the Fondo de Reestructuración Ordenada Bancaria for the year ended 31 December 2012 and the Directors' Report for 2012, which are printed on the accompanying 67 pages, duly countersigned by me for the purpose of their identification, and which will be submitted for approval by the Governing Committee.

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end, positioned over the printed name and title.

Signed: Antonio Carrascosa
Director General of the Fondo de Reestructuración Ordenada Bancaria