# FONDO DE REESTRUCTURACIÓN ORDENADA BANCARIA

Annual Accounts
for the year ended
31 December 2014 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.*

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# Independent auditor's report on the annual accounts

*(Translation of a report and accounts originally issued in Spanish and prepared in accordance with Spanish generally accepted accounting principles. In the event of a discrepancy, the Spanish-language version prevails)*

*To the Governing Committee of Fondo de Restructuración Ordenada Bancaria*

## Report on the annual accounts

We have audited the accompanying annual accounts of Fondo de Restructuración Ordenada Bancaria (hereafter, ´the FROB´ or ´the Fund´) which comprise the balance sheet at 31 December 2014, the profit and loss account, the statement of changes in net equity, the statement of cash flows and the notes to the accounts for the year ended on that date.

*Responsibility of the Director General concerning the annual accounts*

The Director General of the FROB is responsible for drawing up the attached annual accounts, so that they show a true and fair view of the net equity, the financial situation and the results of the FROB, in accordance with the framework of financial reporting standards applicable to the entity in Spain, which is explained in notes 1 and 2 to the annual accounts, and for such internal control that they consider necessary to enable the preparation of annual accounts that are free from material misstatements, whether due to fraud or error.

*Responsibility of the auditor*

Our responsibility is to express an opinion on the accompanying annual accounts based on our audit. We conducted our audit in accordance with the legislation regulating the auditing of financial statements in Spain. This legislation requires that we comply with ethical requirements and plan and execute our audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit requires the performance of procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend upon the judgement of the auditor, including the assessment of the risks of material misstatement in the annual accounts, due to fraud or error. In making those risk assessments, the auditor takes into account the internal controls relevant to the preparation of annual accounts by the entity, in order to design audit procedures that are appropriate in the circumstances, but not with the aim of expressing an opinion on the effectiveness of the internal controls of the entity. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the presentation of the annual accounts as a whole.

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

*Opinion*

In our opinion, the accompanying annual accounts present, in all material aspects, a true and fair view of the net equity and the financial situation of Fondo de Restructuración Ordenada Bancaria at 31 December 2014, and of the results of its operations and its cash flows for the year ended on that date, in accordance with the applicable framework of financial reporting standards, and in particular, in compliance with the accounting principles and criteria contained in that framework.

*Emphasis of Matter*

We draw attention to notes 2.4 and 7 to the annual accounts which indicate that in preparing these annual account, estimates were made for the purpose of measuring the investments in form of equity shareholding and financing provided to certain credit institutions and SAREB, and determining the possible existence of impairment thereof.

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

Additionally, at the date of preparation of these annual accounts, there are some uncertainties on the whole of the investees or financed by the FROB entities that may impact on their financial position, including which are the outcome of the litigation related to the shares' public offer subscription held in 2011 with the entry of Bankia, S.A. to the stock market and the final outcome of the lawsuits filed by the holders of hybrid instruments and subordinated debt. Also, there is a reference to the recapitalization and restructuring plan approved by the Board of Directors of the Banco Mare Nostrum S.A. Group and the commitments made by the Kingdom of Spain to the European Commission for the restructuring of BMN Group and the actions taken to generate own resources and the compliance with these commitments. With regard to the SAREB, at the date of preparation of the annual accounts of the subsidiary, the accounting Circular referred to in paragraph 10 of the 7th Additional Provision of Law 9/2012 has not been approved. Until this Circular is in force, and in accordance with the provisions of the additional provision, the Bank of Spain will solve the queries raised by the entity on certain accounting issues. In this context, SAREB has made a request to the Bank of Spain regarding the eventual recording of impairment losses in its portfolio of assets, and has made the corresponding record in the year 2014 in accordance with the considerations set forth by the Bank of Spain regarding to that query. These facts, together with the evolution of the entities, could affect the valuation of investments of the FROB reflected in these annual accounts.

Moreover, we draw attention to notes 2.4 and 13, where it is described that the FROB has granted various guarantees in the context of the processes of sale of certain holdings and as well as other guarantees whose aim is to compensate those retail holders of hybrids who proceeded to their exchange.

The management of the FROB has estimated the amount of the provisions made according to the method indicated in that note 13. These estimates were made based on the best information available at the date of preparation of the annual accounts, although the adequacy of the provisions made for these items will depend on the effective performance of the key assumptions used in their determination as well as the future development of the contingencies covered by these warranties. Our opinion is not qualified in respect of this matter.

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## Report on Other Legal and Regulatory Requirements

The attached report of the directors for 2014 contains the explanations that the Director General considers necessary concerning the situation of the Fund, the development of its business and other matters. It does not form an integral part of the annual accounts. We have verified that the accounting information contained in the aforementioned report of the directors agrees with the 2014 annual accounts. Our work as auditors is limited to verifying the report of the directors in accordance with the scope mentioned in this paragraph and does not include the review of any information other than that obtained from the accounting records of the Fund.

Grant Thornton

Alfredo González del Olmo

16 June 2015

*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

## BALANCE SHEETS AT 31 DECEMBER 2014

(Thousands of Euros)

| ASSETS | Notes | 2014 | 2013 | EQUITY AND LIABILITIES | Notes | 2014 | 2013 |
|---|---|---|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | **EQUITY** | | | |
| **Intangible assets** | | **65** | **8** | **OWN FUNDS-** | **9** | **1,599,874** | **2,461,367** |
| **Property, plant and equipment** | | **348** | **383** | Equity fund | | 2,461,367 | 5,248,479 |
| **Non-current investments in Group companies and associates** | **7** | **12,739,464** | **13,303,805** | Loss for the year | | (861,493) | (2,787,112) |
| Equity instruments | | 12,739,464 | 13,303,805 | | | | |
| **Non-current financial assets** | **7** | **4,813,514** | **5,587,353** | **VALUATION ADJUSTMENTS-** | **9** | **13,527** | **12,082** |
| Loans to third parties | | 568,489 | - | Available-for-sale financial assets | | 13,527 | 12,082 |
| Debt instruments | | 4,241,150 | 5,486,603 | | | | |
| Other financial assets | | 3,875 | 100,750 | | | **1,613,401** | **2,473,449** |
| **Total non-current assets** | | **17,553,391** | **18,891,549** | **NON-CURRENT LIABILITIES** | | | |
| | | | | **Non-current provisions** | **13** | **1,353,547** | **1,074,793** |
| | | | | **Non-current payables** | **8** | **15,957,006** | **16,290,662** |
| | | | | Debt instruments and other marketable securities | | 2,502,004 | 2,500,174 |
| | | | | Other non-current payables | | 13,455,002 | 13,790,488 |
| | | | | | | **17,310,553** | **17,365,455** |
| | | | | **CURRENT LIABILITIES** | | | |
| **CURRENT ASSETS** | | | | **Current provisions** | **13** | **916,523** | **378,936** |
| **Non-current assets classified as held for sale** | **6** | **781,728** | **683,000** | **Current payables** | **8** | **1,981,121** | **7,360,815** |
| **Trade and other receivables** | | **401** | **566** | Debt instruments and other marketable securities | | 63,455 | 6,481,019 |
| **Current financial assets** | **7** | **1,244,134** | **4,083,650** | Current bank borrowings | | 1,895,692 | 559,989 |
| Loans to third parties | | - | 703,092 | Other current payables | | 21,974 | 319,807 |
| Debt instruments | | 969,122 | 3,380,458 | | | | |
| Other financial assets | | 275,012 | - | | | | |
| **Current prepayments and accrued income** | | **30** | **27** | **Trade and other payables** | | **982** | **3,129** |
| **Cash and cash equivalents** | **5** | **2,242,896** | **3,923,092** | Sundry accounts payable | 12 | 738 | 2,891 |
| Cash | | 2,242,896 | 3,923,092 | Other accounts payable to public authorities | 11 | 244 | 238 |
| **Total current assets** | | **4,269,189** | **8,690,235** | | | **2,898,626** | **7,742,880** |
| **TOTAL ASSETS** | | 21,822,580 | 27,581,784 | **TOTAL EQUITY AND LIABILITIES** | | 21,822,580 | 27,581,784 |

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# FONDO DE REESTRUCTURACIÓN ORDENADA BANCARIA

## INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

(Thousands of Euros)

| | Notes | Income / (Expense) | |
|---|---|---|---|
| | | 2014 | 2013 |
| **CONTINUING OPERATIONS** | | | |
| **Finance income** | | **238,118** | **301,574** |
| Preference share interest | 7 | - | 17,137 |
| Bank interest | 5 & 7 | 50,914 | 24,616 |
| Loan interest | 7 | 6,245 | 6,232 |
| Public debt interest | 7 | 82,669 | 182,772 |
| Convertible bonds interest | 7 | 98,290 | 70,817 |
| **Finance costs** | 8 | **(401,921)** | **(815,445)** |
| Interest and commissions | | (396,186) | (815,409) |
| Provisions adjustments | 13 | (5,735) | (36) |
| **Other income** | | **782** | **514** |
| Other income | | 782 | 514 |
| **Period provisions** | 13 | **(934,948)** | **(668,665)** |
| Period provisions for APS and other responsibilities | | (934,948) | (668,665) |
| **Changes in fair value of financial instruments** | 7 | **16,411** | **143,610** |
| Allocation to profit or loss of fair value changes in available-for-sale financial assets | | 16,411 | 143,610 |
| **Impairment and gains or losses on disposals of financial instruments** | | **220,676** | **(1,729,004)** |
| Impairment and other losses | 6 & 7 | 220,676 | (1,729,000) |
| Gains or losses on disposals and other | 6 | - | (4) |
| **Depreciation and amortisation charge** | | **(96)** | **(65)** |
| **Surplus provisions** | 13 | **10,316** | **-** |
| **Staff costs** | 14 | **(4,095)** | **(3,786)** |
| Wages and salaries | | (3,477) | (3,304) |
| Employee benefit costs | | (618) | (482) |
| **Other operating expenses** | 14 | **(6,736)** | **(15,845)** |
| External services | | (6,622) | (15,722) |
| Other current operating expenses | | (114) | (123) |
| **LOSS FOR THE YEAR** | | **(861,493)** | **(2,787,112)** |

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# FONDO DE REESTRUCTURACIÓN ORDENADA BANCARIA

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

### A) STATEMENT OF RECOGNISED INCOME AND EXPENSE

(Thousands of Euros)

| | Income / (Expense) | |
|---|---|---|
| | **2014** | **2013** |
| **LOSS PER INCOME STATEMENT (I)** | **(861,493)** | **(2,787,112)** |
| **Income and expense recognised directly in equity** | | |
| **- Measurement of financial instruments** | **17,856** | **65,890** |
| Available-for-sale financial assets | 17,856 | 65,890 |
| **- Tax effect** | - | - |
| **TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY (II)** | **17,856** | **65,890** |
| **Transfers to profit or loss** | | |
| **- Measurement of financial instruments** | **(16,411)** | **(143,610)** |
| Available-for-sale financial assets | (16,411) | (143,610) |
| **- Tax effect** | - | - |
| **TOTAL TRANSFERS TO PROFIT OR LOSS (III)** | **(16,411)** | **(143,610)** |
| **TOTAL RECOGNISED INCOME AND EXPENSE (I+II+III)** | **(860,048)** | **(2,864,832)** |

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## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

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

| | Equity Fund | Profits (losses) | Valuation adjustments | TOTAL |
|---|---|---|---|---|
| ADJUSTED BALANCE AT BEGINNING OF 2013 | 4,139,000 | (26,060,522) | 89,802 | (21,831,720) |
| Total recognised income and expense | - | (2,787,112) | (77,720) | (2,864,832) |
| Transactions with Fund sponsors | 1,109,478 | 26,060,522 | - | 27,170,000 |
| - Allocation of prior year loss | (26,060,522) | 26,060,522 | - | - |
| - Conversion of financial liabilities into equity (Note 9.1) | 27,170,000 | - | - | 27,170,000 |
| Other changes in equity | | | | |
| Balance at 31 December 2013 | 5,248,479 | (2,787,112) | 12,082 | 2,473,449 |
| Total recognised income and expense | - | (861,493) | 1,445 | (860,048) |
| Transactions with Fund sponsors | (2,787,112) | 2,787,112 | - | - |
| - Distribución de resultado del ejercicio anterior (Nota 3) | (2,787,112) | 2,787,112 | - | - |
| Other changes in equity | | | | |
| Balance at 31 December 2014 | 2,461,367 | (861,493) | 13,527 | 1,613,401 |

# FONDO DE REESTRUCTURACIÓN ORDENADA BANCARIA

## STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014
(Thousands of Euros)

| | Notes | Proceeds / (Payments) | |
|---|---|---|---|
| | | **2014** | **2013** |
| **CASH FLOWS FROM OPERATING ACTIVITIES (I)** | | **(606,305)** | **(260,013)** |
| **Loss for the year before tax** | | **(861,493)** | **(2,787,112)** |
| **Adjustments for:** | | **839,070** | **2,766,121** |
| - Depreciation and amortisation charge | | 96 | 65 |
| - Impairment losses | 6 | (220,676) | 1,729,000 |
| - Changes in provisions | 8 & 13 | 912,258 | 666,791 |
| - Gains/Losses on derecognition and disposal of financial instruments | | - | 4 |
| - Finance income | 7 | (238,118) | (301,574) |
| - Finance costs | 8 | 401,921 | 815,445 |
| - Changes in fair value of financial instruments | | (16,411) | (143,610) |
| **Changes in working capital** | | **(344,351)** | **329,163** |
| - Trade and other receivables | 7 | 165 | (447) |
| - Other current assets | | (18,423) | 32,141 |
| - Trade and other payables | | (2,147) | (3,344) |
| - Other current liabilities | | 103,915 | 404,699 |
| - Other non-current assets and liabilities | | (427,861) | (103,886) |
| **Other cash flows from operating activities** | | **(239,531)** | **(568,185)** |
| - Interest paid | 8 | (496,069) | (837,617) |
| - Interest received | 7 | 256,538 | 269,432 |
| **CASH FLOWS FROM INVESTING ACTIVITIES (II)** | | **4,586,776** | **2,181,052** |
| **Payments due to investment** | | **(2,769,291)** | **(9,898,280)** |
| - Group companies and associates | | - | (108,500) |
| - Intangible assets | | (59) | (10) |
| - Property, plant and equipment | | (59) | (336) |
| - Other financial assets | | (2,769,173) | (9,544,434) |
| - Non-current assets classified as held for sale | | - | (245,000) |
| **Proceeds from disposal** | | **7,356,067** | **12,079,332** |
| - Other financial assets | | 7,069,476 | 12,079,332 |
| - Non-current assets classified as held for sale | 6 | 286,591 | - |
| **CASH FLOWS FROM FINANCING ACTIVITIES (III)** | | **(5,660,667)** | **(1,590,559)** |
| **Proceeds and payments relating to financial liability instruments** | 8 | **(5,660,667)** | **(1,590,559)** |
| - Proceeds from issue of bank borrowings | | 1,895,538 | 559,441 |
| - Redemption of debt instruments and other marketable securities | | (6,290,000) | (2,150,000) |
| - Repayment of bank borrowings | | (559,440) | - |
| - Repayment of borrowings from Group companies and associates | | - | - |
| - Repayment of other borrowings | | (706,765) | - |
| **Dividends and returns on other equity instruments paid** | | - | - |
| - Dividends | | - | - |
| - Returns on other equity instruments | | - | - |
| **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)** | | **(1,680,196)** | **330,480** |
| Cash and cash equivalents at beginning of year | | 3,923,092 | 3,592,612 |
| Cash and cash equivalents at end of year | | 2,242,896 | 3,923,092 |

*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 2014

## 1. Activity

The Fondo de Reestructuración Ordenada Bancaria (the Fund for Orderly Bank Restructuring, hereinafter 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[1]. Currently the legal regime under which the FROB carries on its activities can be found in Law 9/2012, of 14 November, on restructuring and resolution of credit institutions[2] (hereinafter "Law 9/2012").

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, the 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.*

- *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.

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[1]Repealed by the Royal Decree-Law 24/2012, of 31 August, on restructuring and resolution of credit institutions. Law 9/2012, of 14 November, also repealed this Royal Decree-Law, on restructuring and resolution of credit institutions, converting into a law what was established therein.

[2]Modified by Royal Decree-Law 6/2013, of 22 March, on protection of certain savings and investments, products holders and other financial measures and the Royal Decree-Law 14/2013, of 29 November, on urgent measures to adapt the Spanish law to the European Union legislation on supervision and capital adequacy of financial institutions and the Royal Decree-Law 11/2014, of 5 September, on urgent insolvency matters.

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. Additionally, the equity of the FROB may increase through the capitalization of loans, credit or any other form of borrowing of the FROB in which the Central Government appears as a creditor. Also, in order to achieve its aims, the FROB may rise financing by issuing fixed-income securities, receiving loans, request the opening of credits and perform 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 2014: 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.

**Significant events in 2014 and 2013**

Certain events that occurred in 2014 and 2013 that are significant for understanding these annual accounts are described below:

**Year 2014**

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

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

- Regarding NCG resolution process, on 17 January 2014, the Executive Committee of the Bank of Spain agreed to replace the Board of Directors and appoint the FROB as administrator of the entity.

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

- On 25 February 2014 it was conducted the sale of the BFA's investment in Bankia, S.A. of 7.5% of the entity's capital at a price of EUR 1.51 per share. After this operation, the investment of BFA in Bankia has been reduced from 68.39% to 60.89%. Note that the operation has not required any commitment or guarantee by the FROB. (see Note 7.2).

- With regard to Catalunya Banc, S.A. on 2 June 2014, the Governing Committee of the FROB agreed the start of the auction process of the entity, agreeing on 21 July 2014 the award of this entity to Banco Bilbao Vizcaya Argentaria, SA, subject to compliance with certain conditions.

- This process was developed in parallel with the sale of a portfolio of mortgage loans of the entity, completed on 17 July 2014 with the award to Blackstone. The transaction involved the transfer of the portfolio to an asset securitization fund. This operation received financial support from the FROB (see Note 6 and 13).

On 22 December 2014 Liberbank redeemed early the entire issue of Contingent Convertible Liabilities, amounting to EUR 124 million which was fully subscribed by the FROB on 12 April 2013, as part of its restructuring plan approved by the European Commission in December 2012 (see Note 7.3).

**Year 2013**

i. 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 (Ceiss), the Liberbank Group (Liberbank), Banco Grupo Caja 3, (Caja 3) the Banco Mare Nostrum Group (BMN) and Banco Gallego, S.A., 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 minus 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 Caja 3, EUR 569 million for the Banco Mare Nostrum Group and EUR minus 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.

ii. 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:

    a. 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

    b. to provide liquidity for the shares that the holders of these instruments will receive in exchange for them, being that 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 passed by 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.

iii. With regard to Banco de Valencia, S.A. on 11 February 2013, the Governing Committee of the FROB agreed to implement certain hybrid capital and subordinated debt instrument management exercises on executing the resolution plan of the entity. 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. The conditions of the sale included the grant of an assets protection scheme (APS) and the additional guarantee regarding the financial damage caused by the assets transferred to SAREB (see Note 13).

iv. On 12 March 2013, the FROB performed the disbursement of public funding approved by its Governing Committee on March 8, 2013 to the following Group 2 entities:

- Banco Mare Nostrum, S.A., through subscription of ordinary shares amounting to EUR 730 million.
- Liberbank, S.A., through subscription of contingent convertible bonds amounting to EUR 124 million.
- Banco Grupo Caja 3, S.A., through subscription of contingent convertible bonds amounting to EUR 407 million.

v. On 8 April 2013 CaixaBank, S.A. repaid the convertible preference shares issued by Banca Cívica and subscribed by the FROB in 2011 amounting to EUR 989,067 thousand, of which EUR 977,000 thousand corresponded to the par value of the preference shares and the rest in unpaid accrued interest to date.

vi. On 30 April 2013, the FROB made the disbursement of public support to Banco Ceiss, S.A, through the subscription of contingent convertible bonds amounting to EUR 604 million.

vii. On 28 October 2013, it was formalized in a public deed the sale of Banco Gallego, S.A., to Banco Sabadell, S.A., culminating the implementing of the resolution plans for the entity (see Note 6).

viii. On 31 October 2013, the Governing Committee of the FROB adopted an agreement, which gives it a course of action that allows, in accordance with the objectives and principles contained in Law 9/2012, to facilitate the success of corporate operations intended to the resolution of a credit institution. The decisions that the FROB may take in the scope of the framework agreement should be analysed for each credit institution and each specific corporate transaction; in any case they must be based on the following premises:

a) Its purpose is to avoid serious problems of equity in relation to creditors or shareholders of a credit institution resulting from the general rules applied.

b) Have a clear economic justification validated by an independent expert, evidencing preserving value for FROB and minimizing costs to the public treasury.

c) Conforms to the State aid regulations.

ix. On 18 December 2013, the Governing Committee of the FROB agreed awarding NCG Banco, S:A. to Grupo Banesco, subject to compliance with legal requirements and provided the appropriate approval from national and international competent authorities (see Note 6).

## 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 1514/2007on 16 November with the amendments introduced by Royal Decree 1159/2010 on 17 September.

c) The mandatory rules approved by the Spanish Accounting and Audit Institute in order to implement the Spanish National Chart of Accounts and the relevant secondary legislation.

d) All other applicable Spanish accounting legislation.

### 2.2 Fair presentation

The annual accounts of the FROB, which were obtained from its accounting records, are presented in accordance with the regulatory financial reporting framework applicable to the Entity (see 2.1) and, in particular, with the accounting principles and rules contained therein (see Note 4) and, accordingly, they present fairly the Entity's equity and the financial position at 31 December 2014, 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 2013 were approved by the Governing Committee on 27 June 2014. The annual accounts for 2014 which were authorised for issue by the Director General of the FROB on 15 June 2015 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 and SAREB that are presented in these annual accounts, estimates were made for the purpose of measuring these investments, the granted funds and determining the possible existence of impairment losses on these investments.

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

a.- In the case of Catalunya Banc (CX), from its sale price (see Note 6).

b.- In the case of SAREB, from the business plan approved by the Board of Directors of that institution on 25 February 2015. Such valuation method matches the one applied to the subordinated debt issued by the entity and subscribed by the FROB.

c.- Regarding the remaining shares in the group's companies, the FROB considered that the best evidence of its recoverable amount, as well as the corresponding impairment losses, as provided by the 9th accounting and measurement rule of Royal Decree 1514/2007, is the consolidated equity of the investee as evidenced by their corresponding consolidated and audited for the year 2014 financial statements, excluding minority interests, adjusted, if it were the case, for unrealized gains on the date of valuation that apply to identifiable items in the consolidated balance sheet of the investee.

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

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

Additionally, at the date of preparation of these annual accounts, there are some uncertainties on the whole of the investees or financed by the FROB entities that may impact on their financial position, including which are the outcome of the litigation related to the shares' public offer subscription held in 2011 with the entry of Bankia, S.A. to the stock market and the final outcome of the lawsuits filed by the holders of hybrid instruments and subordinated debt. Also, there is a reference to the recapitalization and restructuring plan approved by the Board of Directors of the Banco Mare Nostrum S.A. Group and the commitments made by the Kingdom of Spain to the European Commission for the restructuring of BMN Group and the actions taken to generate own resources and the compliance with these commitments. With regard to the SAREB, at the date of preparation of the annual accounts of the subsidiary, the accounting Circular referred to in paragraph 10 of the 7th Additional Provision of Law 9/2012 has not been approved. Until this Circular is in force, and in accordance with the provisions of the additional provision, the Bank of Spain will solve the queries raised by the entity on certain accounting issues. In this context, SAREB has made a request to the Bank of Spain regarding the eventual recording of impairment losses in its portfolio of assets, and has made the corresponding record in the year 2014 in accordance with the considerations set forth by the Bank of Spain regarding to that query. These facts, together with the evolution of the entities, could affect the valuation of investments of the FROB reflected in these annual accounts.

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

Additionally, the FROB has granted different guarantees in order to carry out the sales process of certain entities as well as other guarantees whose aim is to compensate retail holders of hybrid that proceeded to swap them (see Note 13). The FROB has estimated the amount of provisions made in accordance with the methodology set out in this Note. Although these estimates were made on the basis of the best information available at the date of preparation of these annual accounts, the adequacy of the provisions made for these items will depend on the fulfilment of the key assumptions used for its determining, as well as the future developments of the contingencies covered by these warranties.

### 2.5 Comparative Information

The information contained in these annual accounts relating to 2013 is presented with the figures relating to 2014 for comparison purposes only. Therefore, the information relating to 2013 does not constitute the FROB's statutory annual accounts for 2013.

### 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

Information on deferred payment to suppliers in commercial transactions is set forth below (in thousands of Euros):

| | Amounts paid and payable at the balance sheet date | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| | Amount | % (1) | Amount | % (1) |
| Paid within the maximum legal payment period (2) | 7,072 | 100% | 15,558 | 100% |
| Other | - | - | - | - |
| **Total payments made in the year** | **7,072** | **100%** | **15,558** | **100%** |
| Weighted average period of late payment (days) | - | - | - | - |
| Payments at 31 December 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. Otherwise, the negative results generated by the assets of the FROB will be integrated into its Equity Fund. The application of the loss for 2014 and 2013 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2014 | 2013 |
| **Basis of allocation:** | | |
| Loss per income statement | (861,493) | (2,787,112) |
| **Allocation to:** | | |
| Equity Fund | (861,493) | (2,787,112) |
| | **(861,493)** | **(2,787,112)** |

## 4. Accounting policies and measurement bases

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

### 4.1 Property, plant and equipment

#### 4.1.1. Intangible assets

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

Maintenance costs of the applications are expensed in the year they are incurred. At December 31, 2014 did not exist, nor has been impaired during the year 2014, any of the FROB's intangible assets.

#### 4.1.2. 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 2014, 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 2014 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 FROB's items of property, plant and equipment were impaired at 31 December 2014 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 2014 these investments did not accrue any dividends.

Note 7.2 contains significant information on these investments.

### 4.3.2 Loans and receivables

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

Loans and receivables are recognised in the balance sheet at 31 December 2014 under inter alia, "Non-Current Financial Assets", "Trade and other receivables" and "Current Financial Assets".

*Initial recognition -*

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

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

*Subsequent measurement -*

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

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

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

Notes 7.3 and 7.5 contain significant information on these investments.

### 4.3.3 Available-for-sale financial assets

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

*Initial recognition -*

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

*Subsequent measurement -*

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

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

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

Notes 7.3 and 7.4 contain significant information on these investments.

**4.4 Cash**

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

The interest earned by the bank accounts and bank deposits held by the FROB is calculated using the effective interest method on the basis of their contractual rates and are recognised under "Finance Income - Bank Interest" 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 notwithstanding the provisions of Resolution of 18 September 2013 of the Spanish Accounting and Audit Institute, include: the adverse economic and financial performance of the entities and, in particular, the existence of losses and, where appropriate, significant variances with respect to the financial projections envisaged in the corresponding restructuring/resolution plans on which the calculations of the acquisition prices were based; in the case of listed securities, a prolonged decline in their fair value, particularly when a decline occurs over a period of 18 months or of 40% in the market value without the value having recovered and without prejudice to the possible need to recognise an impairment loss before this period has elapsed or the market value has fallen to this extent; the existence of significant qualifications in the audit of the entities' financial statements and situations that raise doubts as to their viability or solvency, or the existence of other circumstances of a similar nature that could place in doubt the recoverability of the carrying amount of the investments.

The amount of the impairment losses is estimated as the difference between the book value of the investments and their recoverable amount. Recoverable amount is the higher of its fair value minus costs of disposal and the present value of the future cash flows arising from the investment. If there is no better evidence of the recoverable amount, the FROB estimates the impairment loss taking into consideration the equity of the investee, excluding minority interests, adjusted by the amount of the unrealised gains existing at the date of measurement, on the basis of the available information. In addition, in the estimate of the recoverable amount of these investments, the FROB takes into consideration the assumption by the 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 2014 year-end for estimating the recoverable amount of the various investments in capital and, therefore, the related impairment losses are described in Note 2.4 to these annual accounts.

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

#### 4.5.2 Debt instruments classified as "loans and receivables"

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

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

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

The most significant aspects of the methodology used at year-end 2014 to estimate the recoverable value of the contingently convertible bonds and subordinated debt and, therefore, the corresponding impairments are described in Note 2.4 of these annual accounts.

Impairment losses and the reversal thereof are recognised as an expense and income, respectively, in the income statement (see Note 7.3 and 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 (see Notes 5, 7 and 8) are recognised in the income statement using the effective interest method (see Note 4.12).

*Operating leases*

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

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

| Lease term | Penalties |
|---|---|
| 31 January 2018 | In advance resolution |

The amount of dues of the operating lease is charged directly to the income statement (see Note 14.2).

### 4.10 Provisions and contingencies

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

a) Provisions: credit balances covering present obligations arising from past events, the settlement of which is likely to give rise to an outflow of resources, and the amount and/or timing of which cannot be determined. These obligations may arise from a legal provision, a contractual requirement or an implicit or constructive obligation assumed by the FROB.

b) Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the FROB.

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

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

The compensation receivable from a third party on settlement of 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 2014 and 2013, "Cash and Cash Equivalents - Cash" in the accompanying balance sheet corresponds to the following details:

| | Thousands of Euros | |
|---|---|---|
| | 2014 | 2013 |
| Short-term deposits | - | 2,334,000 |
| Accounts held in Bank of Spain | 660 | 115,908 |
| Current accounts in other entities | 2,239,396 | 1,468,039 |
| Pending accrued interests | 2,840 | 5,145 |
| | **2,242,896** | **3,923,092** |

At 31 December 2014, accounts held by the FROB in the Bank of Spain earn a 0%, based on Article 4 of the Decision of the European Central Bank on 5 June 2014 (ECB / 2014/23) concerning the remuneration of General Government deposits at a National Central Bank.

At 31 December 2013 these accounts earned an 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, minus 25 basis points.

In 2014 the interest earned on the bank deposits and current accounts in other entities held by the FROB amounted to EUR 50,914 thousand (31 December 2013: EUR 24,616 thousand), which was recognised under "Finance Income - Bank Interest" in the accompanying income statement (see Notes 7.6 and 15) of which EUR 2,840 thousand are uncollected as at 31 December 2014 (31 December 2013: EUR 5,145 thousand).

## 6. Non-current assets classified as held for sale

Following is a detailed description of the assets classified under this line item in the balance sheet at 31 December 2014 and 2013:

**2014**

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

**2013**

| | Thousands of Euros | | |
|---|---|---|---|
| | Gross Amount | Impairment Losses | Carrying Amount |
| NCG Banco, S.A. | 5,425,000 | (4,742,000) | 683,000 |
| **Total non-current assets classified as held for sale** | **5,425,000** | **(4,742,000)** | **683,000** |

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 2014 and 2013:

**2014**

| | Ownership Interest | Location | Thousands of Euros | | | |
|---|---|---|---|---|---|---|
| | | | Share Capital (*) | Share Premium (*) | Reserves and Other Equity Items (*) | Profit (Loss) Attributable to the Parent (*) |
| Catalunya Banc, S.A. | 66,01% | Barcelona | 1,978,783 | 8,323,677 | (7,830,874) | (122,818) |

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

**2013**

| | Ownership Interest | Location | Thousands of Euros | | | |
|---|---|---|---|---|---|---|
| | | | Share Capital (*) | Share Premium (*) | Reserves and Other Equity Items (*) | Profit (Loss) Attributable to the Parent (*) |
| NCG Banco, S.A. | 62.75% | Coruña | 2,359,246 | 5,571,998 | (5,242,759) | 17,900 |

*(*) The data relating to this company's equity position have been obtained from the audited consolidated financial statements at 31 December 2013.*

The changes in 2014 and 2013 in this line item of the accompanying balance sheet were as follows:

| | Thousands of Euros |
|---|---|
| Balance at beginning of 2013 | 2,410,000 |
| Transfers | (76,000) |
| Net provision for impairment losses charged to the profit and loss account | (1,651,000) |
| **Balance at 31 December 2013** | **683,000** |
| Transfers (Note 7.2) | 1,858,000 |
| Disposals | (686,289) |
| Net provision for impairment losses charged to the profit and loss account | (1,072,983) |
| **Balance at 31 December 2014** | **781,728** |

The following is a description of the most significant changes:

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

At 31 December 2013, FROB's participation in Catalunya Banc, S.A. was classified as "Non-Current Investments in Group Companies and Associates - Equity Instruments" for an amount of EUR 1,858,000 thousand, as a result of the announcement made by the FROB of not going forward with the entity auction process once the deadline has passed for submitting non-binding offers to acquire CX.

As a result of the exchange of hybrid instruments held by the entity in 2013, the participation of the FROB in CX amounted to 66.01% of its share capital, and 32.39% owned by the Deposit Guarantee Fund (DGF).

On 2 June 2014, the FROB agreed the start of the auction process of the entity. As a result of this process, and after studying the binding offers received, the Governing Committee of the FROB agreed, on 21 July 2014, the award of Catalunya Banc, S.A. to Banco Bilbao Vizcaya Argentaria, S.A. Consequently, the FROB has transferred its CX participation under "Non-current assets held for sale" amounting EUR 1,165,308 thousand corresponding to the sale price of FROB's and DGF's holding which represents 98.4% of the share capital of CX.

"Impairment and Gains or Losses on Disposal of Financial Instruments" in the accompanying income statement for year 2014 includes EUR 1,076,272 thousand relating to the difference between the sale price and the carrying amount at which such participation was recorded prior to the transaction (EUR 552,000 thousand in 2013).

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

Lastly, at 31 December 2014 a short-term asset was recognised (see Note 7.5) under "Other current financial assets" in the accompanying balance sheet, amounting to EUR 275,012 thousand which includes the share of the DGF by the guarantees granted.

On 15 April 2015, it was formalized the sale, by Catalunya Banc of its portfolio of assets allocated to Blackstone on 17 July 2014. The transaction was structured by transferring the portfolio to an assets securitization fund and other companies of the Blackstone Group as part of the divestment of the FROB in Catalunya Banc. FROB's support in this operation is formalized by the signing of a subordinated bond amounting EUR 524,878 thousand (see Note 13) and by a guarantee for faulty loans whose fair value amounts to EUR 124,000 thousand (see Note 13) after assessment made by an independent expert. It has also been granted a credit line for a maximum amount of EUR 400 million.

On 24 April 2015 has risen to public the sale of the entity to BBVA of 98.4% (of which 66.01% belongs to the FROB and 32.30% to the DGF) of the capital of Catalunya Banc, S.A. for a total price of EUR 1,165,308 thousand.

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

In July 2013, the Governing Committee of the FROB made certain management actions of hybrid instruments, after which the extent of the FROB and the DGF in the NCG capital amounted to 62.75% and 25.58%, respectively.

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

The effectiveness of such sale was subject to compliance with certain conditions, so in the meantime, in order to complete the entity's resolution plan, the Executive Committee of the Bank of Spain, at its meeting on 17 January 2014, agreed to the replacement of the Board of Directors of the entity and the appointment of the FROB as administrator of the entity.

Under the sale contract, 60% of the sale price would be paid in successive installments until 2018 and the remaining 40% -EUR 403,000 thousand, was paid on 25 June 2014, date of the sale, upon fulfilment of the prior conditions, and therefore, the date of transfer of shares. At this time, when the derecognition should have taken place and recognize an asset against Banesco for the amount of the deferred payment, the present value of the expected cash flows to be received by the FROB, calculated from the date of the actual sale, was EUR 686,289 thousand, which meant the registration of a reversal of impairment amounting to EUR 3,289 thousand under "Impairment and gains on disposal of financial instruments" in the income statement.

At 31 December 2014, the selling price uncollected amounts to EUR 568,489 thousand (see Note 7.7), which corresponds to the present value of the expected cash flows based on the payment schedule, of which EUR 5,372 thousand (see Note 7.6) correspond to accrued interest on such updating.

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

Finally, it has been recorded a liability (see Note 8.3) amounting EUR 54,887 thousand which reflects the share of the DGF in relation to the sale price (EUR 164,659 thousand) minus the part it must assume because of the guarantees granted (EUR 109,772 thousand).

*Banco Gallego, S.A. ("Banco Gallego")*

In 2013, the Governing Committee of the FROB agreed awarding Banco Gallego to Banco Sabadell S.A.. The terms of the formalized sale agreement included the FROB subscription of a capital increase of Banco Gallego amounting to EUR 245,000 thousand, and the subsequent transmission of all the shares to Banco Sabadell for the price of EUR 1, which took place in October 2013. Accordingly, in 2013 it was recorded an impairment loss of EUR 245,000 thousand which is recognised under "Impairment and Gains or Losses on Disposal of Financial Instruments - Impairment and Other Losses" in the accompanying income statement for year 2013.

Likewise, the conditions of the sale contract included the granting by the FROB of certain guarantees to the buyer on certain risks that could be faced in the future (see Note 13).

## 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 2014 and 2013 is as follows:

**2014**

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

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

**2013**

| Categories \ Classes | Thousands of Euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | Non-Current Financial Instruments | | | Current Financial Instruments | | | Total |
| | Equity Instruments (Note 7.2) | Debt Instruments (Note 7.3) | Loans and Other (Note 7.7) | Equity Instruments | Debt Instruments (Note 7.4) | Loans and Other (Note 7.5) | |
| Investments in Group companies, jointly controlled entities and associates (*) | 13,303,805 | - | - | - | - | - | 13,303,805 |
| Loans and receivables | - | 2,787,400 | 100,750 | - | 36,811 | 703,092 | 3,628,053 |
| Available-for-sale financial assets | - | 2,699,203 | - | | 3,343,647 | - | 6,042,850 |
| **Total** | **13,303,805** | **5,486,603** | **100,750** | - | **3,380,458** | **703,092** | **22,974,708** |

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

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

The detail of the investments comprising "Non-Current Investments in Group Companies and Associates – Equity Instruments" in the balance sheet at 31 December 2014 and 2013 is as follows:

**2014**

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

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

**2013**

| 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. | 66.01% | Barcelona | 1,978,783 | 20,800 | 532,185 | 9,084,000 | (7,226,000) | 1,858,000 |
| Banco Financiero y de Ahorros, S.A. | 100% | Madrid | 17,959,000 | (11,262,875) | 1,996,760 | 17,959,000 | (8,467,000) | 9,492,000 |
| Banco Mare Nostrum | 65.027% | Madrid | 1,613,653 | 440,079 | 22,794 | 1,645,000 | (231,255) | 1,413,745 |
| SAREB | 45.01% | Madrid | 300,060 | 628,553 | (260,533) | 540,060 | - | 540,060 |
| | | | | | | **29,228,060** | **(15,924,255)** | **13,303,805** |

*(*) The data relating to the equity position of these companies were obtained from the audited consolidated financial statements at 31 December 2013, excluding non-controlling interests.*

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

| | Thousands of Euros |
|---|---|
| **Balance at 31 December 2012** | **11,548,560** |
| Additions | 838,500 |
| Transfers | 749,745 |
| Net recovery of impairment losses credited to the income statement | 167,000 |
| **Balance at 31 December 2013** | **13,303,805** |
| Transfers (*) | (1,858,000) |
| Net recovery of impairment losses credited to the income statement | 1,293,659 |
| **Balance at 31 December 2014** | **12,739,464** |

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

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

On 16 April 2013, the FROB's Governing Committee passed a Resolution performing certain recapitalisation and hybrid capital management of BFA-Bankia Group restructuring plan.

Also, on 23 and 27 May 2013 two Bankia's significant events were published at the CNMV, whereby the share capital of this entity was set to 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 belong to BFA 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. Thus, BFA contributed EUR 10,620.7million and third party shareholders contributed EUR 79.3 million.

In turn, as part of the hybrid capital instruments and subordinated debt management exercises agreed by the FROB were issued and signed: 3,587,064,839 shares of EUR 1 face value and EUR 0.35266266 premium each one of them, totalling EUR 4.852 million of capital increase, and EUR 242 million were exchanged for senior debt to wholesalers and retailers' deposits.

Once these two capital increases were performed, BFA participation in the share capital of Bankia increased to 68.39%.

On the other hand, the restructuring plan contemplated that BFA should take some of the following measures prior to 31 December 2013:

- its merger into a single company with Bankia, S.A.; or,

- its conversion into a holding company without a banking license.

In this sense, last 19 December 2013, the Board of Directors of BFA agreed, pursuant to a resolution adopted by the FROB's Governing Committee, request the waiver to continue operating as a credit institution. On 2 January 2015 BFA is not longer considered a credit institution maintaining itself as a holding entity of Bankia.

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

At year-end 2014, according to the criteria set out in Notes 2.4 and 4.5 above, the FROB has proceeded to estimate the recoverable amount of such investment. After the analysis it recorded a recovery of impairment on such participation of EUR 1,235,000 thousand (EUR 709,000 thousand, at 31 December 2013) credited to the heading "Impairment and Gains on Disposals of Financial Instruments-Impairments and Losses" in the income statement of the attached exercise.

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

FROB participation in SAREB is classified under "Non-current investments in Group companies and associates". The details of the investment held by the FROB in SAREB at year-end 2014 and 2013 (thousands of Euros):

| Year | Number of shares | Equity | Percentage share | Share premium | Cost of investment | Impairment Loss | Net book value |
|---|---|---|---|---|---|---|---|
| 01.01.2013 | 107,890,000 | 107,890,000 | **45.15%** | 323,670,000 | 431,560 | - | 431,560 |
| Additions 02.19.13 (*) | 27,125,000 | 27,125,000 | - 0.15% | 81,375,000 | 108,500 | - | 108,500 |
| **12.31.2013** | **135,015,000** | **135,015,000** | **45.00%** | **405,045,000** | **540,060** | - | **540,060** |
| **12.31.2014** | **135,015,000** | **135,015,000** | **45.00%** | **405,045,000** | **540,060** | **124,733** | **415,327** |

*(*) On 13 February 2013, the General Meeting of Shareholders of SAREB approved a capital increase of the Company through the issuance of 61,062,500 ordinary shares of EUR 1 face value and share premium of EUR 3 each; prior to it a waiver of pre-emption by the shareholders of the entity was issued. The subscription and payment was made on 19 February 2013, amounting to EUR 108,500 thousand, corresponding to 27,125,000 shares.*

At 31 December 2014, according to the criteria set out in Notes 2.4 and 4.5 above, the FROB has proceeded to estimate the recoverable amount of such investment on the basis of the Business Plan prepared by the Board of Directors of the aforementioned company on 25 February 2015 concluding that it is necessary to record a valuation adjustment for impairment amounting EUR 124,733 thousand under "Impairment and Gains or Losses on Disposal of Financial Instruments - Impairment and Other Losses" in the accompanying income statement (there is not impairment at year-end 2013). The main assumptions on which such plan is made are the following:

- Sales by analysis of absorption rates and prices based on macroeconomic variables.
- Proactive management for placing for rent a significant volume of households.
- Urban development of land with pending management for subsequent sale and property development on a pack of land owned by the company.

On these and other assumptions, the model takes into account the full return of capital and subordinated debt issued by SAREB.

On 16 May 2014, Bank of Spain issued a Draft Circular that could have, if approved, impact on the results of the entity. This project includes the development of the criteria on which will be based the methodology used by SAREB to estimate the present value of the assets, which will be consistent with that used for the determination of transfer prices to SAREB. According to this provision, later assessments shall be calculated considering the specificities of SAREB, taking into account the evolution of market prices and in accordance with the timeframes set out in the Business Plan. Value adjustments made necessary by application of the above methodology will be calculated by units of assets.

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

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

On 12 March 2013, the FROB subscribed and paid an extension of capital of 725,554,629 shares of EUR 1 par value each, for a total amount of EUR 730,000 thousand, through non-monetary contribution of debt securities issued by the European Stability Mechanism (ESM).

On 27 May 2013, through a Resolution of the Governing Committee of the FROB, management actions of capital hybrids and subordinated debt, in compliance with the restructuring plan, were implemented. On 24 June 2013, the Governing Committee of the FROB executed the agreed capital increase amounting to EUR 309 million through the issuance and payment of 230,518,234 new shares. Following the management exercise of hybrids, the FROB's holding in the entity rose to 65,027% of the share capital.

At 31 December 2014, according to the criteria set out in Notes 2.4 and 4.5 above, the FROB has proceeded to estimate the recoverable amount of its investment. After the analysis it recorded a recovery of impairment in "Impairment and Gains or Losses on Disposal of Financial Instruments - Impairment and Other Losses" in the accompanying yearly income statement amounting to EUR 183,392 thousand (EUR 10,000 thousand at 31 December 2013).

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

In "Loans and receivables" at year-end 2014 and 2013 are included contingently convertible subordinated unsecured obligations issued by SAREB and subscribed by the FROB and contingent convertible bonds disbursed by the FROB as public support for Group 2 entities (CoCos) under the program of financial assistance to Spain. )

The detail of the investments comprising "Non-Current Financial Assets - Debt Instruments" in the balance sheet at 31 December 2014 and 2013 is as follows:

**2014**

*Data in thousands of Euros*

| Issuing Entity | Financial Instrument | Payment Date | Nominal Amount | Impairmet loss | Carrying Amount | Accrued Coupon (Note 7.4) | Interest Rate (1) | Interest Accrued (Note 7.6) | Repurchase Date (2) | Guarantees |
|---|---|---|---|---|---|---|---|---|---|---|
| Banco Ceiss, S.A. (3) | CoCos | 30/4/2013 | 604,000 | - | 604,000 | 8,977 | 8.75% | 52,354 | Perpetual | Unlimited liability of the issuer |
| Banco Grupo Caja 3, S.A. (3) | CoCos | 12/3/2013 | 407,000 | - | 407,000 | 1,854 | 8.75% | 35,415 | Perpetual | Unlimited liability of the issuer |
| SAREB (4) | Subordinated Debt | 31/12/2012 | 1,271,600 | - | 1,271,600 | - | 8.00% | - | 27/11/2027 | - |
| SAREB (4) | Subordinated Debt | 26/02/2013 | 380,800 | - | 380,800 | - | 8.00% | - | 27/11/2027 | - |
| Total | | | **2,663,400** | - | **2,663,400** | **10,831** | | **98,290** | | |

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

(2) The CoCos are perpetual. However, as established by Law9/2012, the entity has to repurchase or redeem the securities as soon as it is able to do so under the terms involved in the restructuring plan. Also, the FROB may voluntarily encourage the conversion into shares of the issuer in the following dates and assumptions; (i) on the fifth anniversary from the date of disbursement, the FROB will request conversion in a maximum of 6 months, or (ii) at any time prior to the fifth anniversary from the date of disbursement if, with previous report of the Bank of Spain, the FROB considers unlikely that the repurchase of the CoCos could take place. Additionally there is the contingent event for which the conversion is automatic, which would occur when the issuer submits a core capital ratio of less than 5.125%.

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

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

**2013**

*Data in thousands of Euros*

| Issuing Entity | Financial Instrument | Payment Date | Nominal Amount | Impairmet loss | Carrying Amount | Accrued Coupon (Note 7.4) | Interest Rate (1) | Interest Accrued (Note 7.6) | Repurchase Date (2) | Guarantees |
|---|---|---|---|---|---|---|---|---|---|---|
| BancoCeiss, S.A. (3) | CoCos | 30/4/2013 | 604,000 | - | 604,000 | 34,461 | 8.5% | 34,461 | Perpetual | Unlimited liability of the issuer |
| Banco Grupo Caja 3, S.A. (3) | CoCos | 12/3/2013 | 407,000 | - | 407,000 | 1,801 | 8.5% | 27,866 | Perpetual | Unlimited liability of the issuer |
| Liberbank, S.A. (3) | CoCos | 12/3/2013 | 124,000 | - | 124,000 | 549 | 8.5% | 8,490 | Perpetual | Unlimited liability of the issuer |
| SAREB (4) | Subordinated Debt | 31/12/2012 | 1,271,600 | - | 1,271,600 | - | 8.00% | - | 27/11/2027 | |
| SAREB (4) | Subordinated Debt | 26/02/2013 | 380,800 | - | 380,800 | - | 8.00% | - | 27/11/2027 | |
| Total | | | **2,787,400** | - | **2,787,400** | **36,811** | | **70,817** | | |

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

(2) The CoCos are perpetual. However, as established by Law9/2012, the entity has to repurchase or redeem the securities as soon as it is able to do so under the terms involved in the restructuring plan. Also, the FROB may voluntarily encourage the conversion into shares of the issuer in the following dates and assumptions; (i) on the fifth anniversary from the date of disbursement, the FROB will request conversion in a maximum of 6 months, or (ii) at any time prior to the fifth anniversary from the date of disbursement if, with previous report of the Bank of Spain, the FROB considers unlikely that the repurchase of the CoCos could take place. Additionally there is the contingent event for which the conversion is automatic, which would occur when the issuer submits a core capital ratio of less than 5.125%.

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

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

Movements in this line item in 2014 and 2013 are as follows:

| | Thousands of Euros |
|---|---|
| Balance at the beginning of 2013 | **2,922,345** |
| Additions | 1,515,800 |
| Transfers (Note 7.2) | (673,745) |
| Withdrawals | (977,000) |
| **Balance at 31 December 2013** | **2,787,400** |
| Amortizations | (124,000) |
| Net recovery of impairment losses credited to the income statement | - |
| **Balance at 31 December 2014** | **2,663,400** |

*SAREB*

On 31 December 2012 and 26 February 2013, the FROB subscribed an issue of subordinated bonds launched by SAREB, the paid amount being EUR 1,271,600 thousand and EUR 380,800 thousand. The maturity of both issues is 27 November 2027.

These bonds are classified as non-guaranteed subordinated debt contingently convertible into newly-issued, ordinary shares of SAREB and partial redemption is possible at the discretion of SAREB as from the fifth year of the issue, according to its solvency and leverage ratios. The accrual of interest is subject to the obtainment by SAREB of sufficient distributable profit. If this condition is met, for the payment of such interest that there be adequate cash shall be required. Otherwise, the payment will be delayed as a non-subordinated credit payable to the FROB until SAREB has sufficient cash to meet the payment. The accrued payable amount will in turn accrue interest at 12-month Euribor. If the payment of interest is declared, the applicable interest rate will be a fixed annual rate of 8% on the unmatured bonds. Since in 2014 SAREB obtained no distributable profit, the FROB has not registered interests on such assets in 2014.

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

At 31 December 2014, based on the business plan of SAREB whose assumptions are described in Note7.2, there is no evidence of impairment of these investments.

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

On 24 April 2013, as part of the entity's resolution process, a decision was taken by the FROB to inject public aid through the subscription of bonds contingently convertible into ordinary shares (CoCos) of Banco Ceiss amounting to EUR 604,000 thousand, paid on 30 April 2013 through a non-monetary contribution consisting of 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 the entity, consisting of: i) reduce capital 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) increase capital with the exclusion 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) reduce capital to zero through the redemption of the shares mentioned in the previous point, in order to absorb losses; iv) increase capital, with the possibility of incomplete subscription and the exclusion of pre-emption rights amounting to EUR 34,282 thousand, for the implementation of the hybrid capital and subordinated debt instrument management exercises.

On 9 May 2013, the Governing Committee of the FROB approved an amendment to the Banco Ceiss Resolution Plan to incorporate the offer of Unicaja Banco. This amendment was passed by the Executive Committee of the Bank of Spain on 10 May 2013 and by the European Commission on 13 May 2013. In April 2014, subject to fulfilment of the prior conditions and obtaining the required regulatory approvals and exemptions, Unicaja Bank became the owner of 100% of the share capital of Banco Ceiss. In 2013 and 2014, under the entity's resolution plan Unicaja has assumed certain commitments in relation to the review mechanism and compensation (see Note 13.2)

Interest earned on these assets in 2014 amounted to EUR 52,354 thousand (see Note 7.6), from which EUR 8,977 thousand are outstanding at 31 December 2014, so they are recognised under "Current financial assets – Debt instruments" (see Note 7.4).

At 31 December 2013, all the interest accrued on these instruments was outstanding (EUR 34,461 thousand) as a result of the resolution of the Governing Committee of the FROB, published on 4 July 2013, modifying the resolution of 24 April 2013 on that the first payment period comes to have an annual basis, keeping the rest on a quarterly basis.

*Banco Grupo Caja 3, S.A. ("Caja 3")*

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

On 1 October 2014 Banco Grupo Caja 3 was absorbed by Ibercaja Banco S.A. with the dissolution without liquidation of the absorbed company and the transfer by universal succession, of their assets to the acquiring company. The former entities shareholders of Caja 3 have a combined share of 12.20% of Ibercaja.

Interest earned on these assets in 2014 amounted to EUR 35,415 thousand (EUR 27,866 thousand at 31 December 2013) (see Note 7.6), of which EUR 1,854 thousand are outstanding at 31 December 2014, so they are recognised under "Current Financial Assets - Debt Instruments" (see Note 7.4).

*Liberbank, S.A.*

Under the provisions of Liberbank restructuring plan, the FROB's Government Committee agreed on 8 March 2013, to fully underwrite the issue by the Bank of contingently convertible bonds ("CoCos") amounting to EUR 124,000 thousand which were fully subscribed and paid by the FROB on 12 March 2013, by delivery of fixed-rate bonds issued by the European Stability Mechanism.

On 22 December 2014, amortization of the mentioned CoCos by Liberbank occurred.

Interest earned on these assets in 2014 amounted to EUR 10,521 thousand (EUR 8,490 thousand at 31 December 2013) (see Note 7.6). At 31 December 2014, no amount is to be recovered for this concept (EUR 549 thousand were outstanding at 31 December 2013, recognised under "Current Financial Assets - Debt Instruments") (see Note 7.4).

*Financial Assets held for sale*

In this item, at 31 December 2014, the FROB recognises under "Non-Current Financial Assets - Debt Instruments" certain State debt titles, with a market value of EUR 1,577,750 thousand (EUR 2,699,203 thousand at 31 December 2013). The interest earned on these securities in 2014 amounted to EUR 40,742 thousand (EUR 63,868 thousand in 2013) recognised under "Finance Income - Public Debt Interest" in the accompanying income statement (see Note 7.6). The valuation adjustments at the mentioned date amounting to EUR 20,683 thousand (EUR 17,583 thousand at 31 December 2013) are recognised under "Valuation Adjustments - Available-for-Sale Financial Assets".

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

The detail of "Current Financial Assets - Debt Instruments" at 31 December 2014 and 2013 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2014 | 2013 |
| Spanish government debt securities | 958,291 | 3,343,647 |
| Interest from contingent convertible bonds (Note 7.3) | 10,831 | 36,811 |
| **Total** | **969,122** | **3,380,458** |

At 31 December 2014 and 2013, the balance recognised under "Spanish Government Debt Securities" of the foregoing table is composed of state debt all of which was classified as available-for-sale financial assets with a market value of EUR 958,291 thousand (EUR 3,343,647 thousand at 31 December 2013). The interest earned on these securities in 2014 amounted to EUR 24,849 thousand (EUR 31,842 thousand in 2013) and is recognised under "Finance Income –Public Debt Interest" in the accompanying income statement (see Note 7.6). At December 2014, negative valuation adjustments relating to these securities, amounting to EUR 7,156 thousand (EUR 5,501 thousand at 31 December 2013), had been recognised under "Valuation Adjustments - Available-for-Sale Financial Assets".

Also, in the course of 2014 and 2013, the FROB acquired treasury bills, bonds and debentures that matured along the year and generated interest amounting to EUR 17,078 thousand (EUR 86,437 thousand in 2013), which was recognised under "Finance Income – Public Debt Interest" in the accompanying income statement (see Note 7.6).

In 2014 have also been sold government bonds with a positive outcome of EUR 16,411 thousand recognised under "Allocation to profit or loss of fair value changes in Available-for-sale financial assets" in the income statement (EUR 143,610 thousand in 2013).

### 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 2014 and 2013 year-end is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2014 | 2013 |
| Deposit Guarantee Fund loan | - | 700,000 |
| Sale guarantee CX (Note 13.2) | 275,012 | - |
| Other | - | - |
| Interest on the Deposit Guarantee Fund loan | - | 3,092 |
| **Total** | **275,012** | **703,092** |

*Loan from Deposit Guarantee Fund*

The Management Committee of the Deposit Guarantee Fund (DGF) at its meeting held on 4 and 7 June 2013, approved two bids related to the shares that NCG Banco, S.A. and Catalunya Banc, S.A. would issue under management exercises of hybrid capital instruments and subordinated debt that could be approved by the FROB, subject thereto to obtain the necessary financing until 28 February 2014, to the extent that the total purchase price of the shares subject to such bids exceeded EUR 1,100 million. Once the period of acceptance of offers is over, the total amount to be paid by the DGF amounted to EUR 1,802,627 thousand so that on 18 July 2013 the FROB granted the DGF a loan amounting to EUR 700,000 thousand, maturing on 28 February 2014, date on which has been effective the redemption. Accrued interest on this loan in 2014 amounted to EUR 873 thousand (EUR 3,092 thousand at 31 December 2013) pending to collect at that date and were paid at the time of repayment of the loan, on 28 February 2014) (see Note 7.6).

### 7.6. Finance income

The detail of "Finance Income" in the accompanying income statement for 2014 and 2013 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2014 | 2013 |
| Interest from preference shares – Banca Cívica | - | 17,137 |
| Bank interest (Note 5) | 50,914 | 24,616 |
| Loan interest | | |
| - Interest from credit facilities NCG' sale (Note 6) | 5,372 | - |
| - Interest on DGF loan (Note 7.5) | 873 | 6,232(1) |
| Interest on public debt (Notes 7.3 and 7.4) | 82,669 | 182,772(2) |
| Interest on convertible bonds (Note 7.3) | 98,290 | 70,817 |
| **Total** | **238,118** | **301,574** |

(1) Include EUR 3,140 thousand relating to interest on the loan granted to the FGD, amortised in March 2013, to compensate the losses FROB has incurred by selling Unnim Banc, S.A.
(2) Include EUR 625 thousand relating to interest earned on securities issued by the ESM that the FROB had not arranged between the recapitalized banks and maturing of which took place in February 2013.

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

Loans to companies balances classified as non-current "Loans and receivables" in 2014 and 2013, is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2014 | 2013 |
| NCG sale guarantees (Note 13.1) | - | 100,750 |
| CX sale guarantees (Note 13.1) | - | - |
| NCG sale deferred payment (Note 6) | 568,489 | - |
| Ceiss titles (Note 13.2) | 3,875 | - |
| **Total** | **572,364** | **100,750** |

## 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 2014 and 2013 is as follows:

**2014**

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

**2013**

| Classes / Categories | Thousands of Euros | | | | | |
|---|---|---|---|---|---|---|
| | Non-Current Financial Instruments | | Current Financial Instruments | | | Total |
| | Debt Instruments and Other Marketable Securities (Note 8.2) | Other Non-Current Payables (Note 8.3) | Debt Instruments and Other Marketable Securities (Note 8.4) | Bank Borrowings | Other Current Payables (Note 8.6) | |
| Accounts payable | 2,500,174 | 13,790,488 | 6,481,019 | 559,989 | 319,807 | 23,651,477 |
| | **2,500,174** | **13,790,488** | **6,481,019** | **559,989** | **319,807** | **23,651,477** |

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

"Non-Current Payables - Debt Instruments and Other Marketable Securities" in the accompanying balance sheet at 31 December 2014 and 2013 relates to payables arising from issues of non-convertible bonds guaranteed by the central government, agreed by the Governing Committee.

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

| | Issue Date | Maturity Date | Nominal Amount | | Interest Rate | Accrued interest (Note 8.7) | |
|---|---|---|---|---|---|---|---|
| | | | 31.12.14 | 31.12.13 | | 31.12.14 | 31.12.13 |
| Third issue | 12/07/2011 | 12/07/2016 | 1,750,000 | 1,750,000 | | | |
| First tap | 06/10/2011 | 12/07/2016 | 100,000 | 100,000 | | | |
| Second tap | 07/10/2011 | 12/07/2016 | 335,000 | 335,000 | 5.5% | 139,386 | 139,301 |
| Third tap | 21/11/2011 | 12/07/2016 | 200,000 | 200,000 | | | |
| Fourth tap | 23/11/2011 | 12/07/2016 | 120,000 | 120,000 | | | |
| **Total issues** | | | **2,505,000** | **2,505,000** | | **139,386** | **139,301** |

The finance costs accrued by these bonds for 2014 and 2013 are recognised under "Finance Costs - Interest and Commissions" in the accompanying income statement (see Note 8.7), of which at year-end 2014, are outstanding EUR 63,455 thousand (31 December 2013: EUR 63,674 thousand) (see Note 8.4).

At 31 December 2014 and 2013, the unmatured nominal amount of this issue is registered as the net amount of the adjustments made as a result of using the effective interest method in order to present the said issue at amortised cost. At 31 December 2014, the balance of these adjustments amounted to EUR 2,996 thousand (31 December 2012: EUR 4,826 thousand) which included, basically, the discount on the issuance and the amount of the transaction costs associated with the issue of the securities, unearned at that date. Accordingly, the amortised cost recognised by this issue is EUR 2,502,004 thousand (31 December 2013: EUR: 2,500,174 thousand).

At 31 December 2014, the FROB's issue of non-convertible bonds described above had a credit rating of Baa2 from Moody's, BBB from Standard & Poor's and BBB+ from Fitch.

**8.3 Non-current payables - Other non-current payables**

This section includes the loan granted on 3 December 2012 by the Spanish State to the FROB for the implementation of the program of European financial assistance and as well as the debt owed to the Deposits Guarantee Fund corresponding to the sale of its equity in NCG (see Note 6).

*Spanish State Loan - FROB*

In connection with the loan granted by the Spanish State to the FROB, the loan allowed to channel funds disbursed by the European Financial Stability Facility, (EFSF) of the European Financial Stabilisation Mechanism (EFSM) to the Kingdom of Spain and to the Spanish credit institutions. The financial terms of this loan are the same as those established by the EFSF and EFSM.

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

The first payment of the remaining of the loan corresponding to Section 1 will occur on 11 December 2022 and from that date every year until maturity in 2027. The maturity of the amount corresponding to Section 2 will occur in two equal parts, on 11 December 2024 and 2025, respectively.

In the said contract it is established, 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 to it, written authorisation has been obtained from the EFSM (see Note 9). Accordingly on 9 December 2013, prior approval of the ESM, the partial conversion of the Spanish State loan was agreed, amounting to EUR 27,170 million in equity contribution to the endowment of the FROB (see Notes 1 and 9.1).

In 2014 there has been the following: i) it has been carried out the return of unused funds in SAREB for EUR 307,540 thousand (see Note 8.6); and ii) it has been conducted a voluntary partial loan amortisation of the loan amounting to EUR 1,304 million, of which EUR 399,284 thousand were incurred by the FROB.

Accordingly, after these two operations and taking into account the conversion into equity contribution of part of the aforementioned loan, at 31 December 2014 the remaining loan's detail is as follows:

| ISIN | Issue Date | Initial Maturity Date(*) | Nominal Amount (Thousands of Euros) | | Issue Price |
|---|---|---|---|---|---|
| | | | 2014 | 2013 | |
| **Section 1** | | | | | |
| EU000A1U97C2 | 11/12/2012 | 11/02/2013 | 272,059 | 671,284 | 100.00% |
| EU000A1U97D0 | 11/12/2012 | 11/10/2013 | 1,980,417 | 1,980,417 | 99.90% |
| EU000A1U98U2 | 11/12/2012 | 11/06/2014 | 1,990,215 | 1,990,215 | 100.00% |
| EU000A1U98V0 | 11/12/2012 | 11/12/2014 | 3,674,242 | 3,674,242 | 100.00% |
| EU000A1U98W8 | 11/12/2012 | 11/12/2015 | 3,674,242 | 3,674,242 | 100.00% |
| | | | **11,591,175** | **11,990,400** | |
| **Section 2** | | | | | |
| EU000A1U98X6 | 5/02/2013 | 5/08/2015 | 1,865,000 | 1,865,000 | 100.00% |
| | | | **13,456,175** | **13,855,400** | |

(*) This maturity date refers to the financial instruments in which the loan has been materialized.

The amount recognised under "Non-Current Payables - Other Non-Current Payables" in the accompanying balance sheet relates to the actual value minus arrangement costs, whose net amounts to EUR 13,399,954 thousand. The interest accrued by this loan in 2014 amounted to EUR 125,346 thousand (31 December 2013: EUR 214,583 thousand) and is recognised under "Finance Costs - Interest and Commissions" in the accompanying income statement (see Note 8.7) of which at 31 December 2014, were outstanding EUR 12,086 thousand (see Note 8.6). At 31 December 2013, were outstanding EUR 12,207 thousand (see Note 8.6).

Additionally, this loan has generated finance costs relating to origination and issuance fees, which in 2014 amounted to EUR 18,579 thousand (31 December 2013: EUR 142,001 thousand) and are recognised under "Finance Costs - Interest and Commissions" in the mentioned year-end in the accompanying income statement (see Note 8.7).

*Debt to the Deposit Guarantee Fund*

This is a liability in the amount of EUR 54,887 thousand owed to the DGF for the sale of its equity in NCG, offset by the corresponding share on the assumption of guarantees given to the buyer, in non-current liabilities in the balance sheet under "Other non-current liabilities"(see Note 6).

### 8.4 Current payables – Debt instruments and other marketable securities

At 31 December 2014, the balance recognised under "Current Payables - Debt Instruments and Other Marketable Securities" in the accompanying balance sheet relates mainly to payables arising from the issues of non-convertible bonds guaranteed by the central government, agreed by its Governing Committee.

The characteristics of this issue and its subsequent retaps at 31 December 2014 and 2013 are as follows (in thousands of Euros):

<table>
<tr><th rowspan="2"></th><th rowspan="2">Issue Date</th><th rowspan="2">Maturity Date</th><th colspan="2">Nominal</th><th rowspan="2">Interest Rate</th><th colspan="2">Accrued Interest (Note 8.7)</th></tr>
<tr><th>12.31.14</th><th>12.31.13</th><th>12.31.14</th><th>12.31.13</th></tr>
<tr><td>First issue</td><td>19/11/2009</td><td>19/11/2014</td><td>-</td><td>3,000,000</td><td rowspan="2">3.0%</td><td rowspan="2">93,340</td><td rowspan="2">104,768</td></tr>
<tr><td>First Tap</td><td>22/12/2011</td><td>19/11/2014</td><td>-</td><td>290,000</td></tr>
<tr><td>Second issue</td><td>03/02/2011</td><td>03/02/2014</td><td>-</td><td>3,000,000</td><td>4.5%</td><td>13,015</td><td>136,921</td></tr>
<tr><td>Fourth issue</td><td>21/10/2011</td><td>21/10/2013</td><td>-</td><td>-</td><td rowspan="3">4.40%</td><td rowspan="3">-</td><td rowspan="3">77,286</td></tr>
<tr><td>First Tap</td><td>22/12/2011</td><td>21/10/2013</td><td>-</td><td>-</td></tr>
<tr><td>Second Tap</td><td>23/12/2011</td><td>21/10/2013</td><td>-</td><td>-</td></tr>
<tr><td></td><td></td><td></td><td></td><td>6,290,000</td><td></td><td>106,355</td><td>318,975</td></tr>
</table>

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

The nominal amount outstanding at December 31, 2014 and 2013 of this issue is recorded net of adjustments resulting from the application of the method of effective interest rate for these emissions to be presented at its amortised cost.

In 2014, there was the expiration of the two issues recorded under this section. Therefore, at 31 December 2014, the balance of these adjustments amounted to EUR - (31 December 2013: EUR 5,816 thousand) which included, basically, the discount in the issuance and the amount of transaction costs associated with the issue of securities pending profit to that date.

In addition, "Current Payables - Debt Instruments and Other Marketable Securities" on the liability side of the accompanying balance sheet at 31 December 2014 includes the accrued but unpaid interest on the bond issues indicated above in Note 8.2 amounting to EUR 63,455 thousand (31 December 2013: EUR 196,835 thousand).

**8.5 Current payables - Current bank borrowings**

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

"Current payables – Current bank borrowings" in the balance sheet at 31 December 2013 corresponded to a sales operation with repurchase agreement of Treasury bills amounting to EUR 559,440 thousand hired on 24 October 2013, maturing on 22 January 2014 and bearing an annual interest rate of 0.52%. Interest accrued by these liabilities in 2013 amounted to EUR 549 thousand (see Note 8.7) that were outstanding at 31 December 2013, and so were recognised under this same section.

**8.6 Current payables - Other current payables**

At 31 December 2014, the balance recognised under "Current Payables - Other Current Payables" in the accompanying balance sheet mainly relates to the accrued interests and commissions accrued and outstanding of non-current payables indicated in Note 8.3, which amounted to EUR 21,974 thousand (31 December 2013: EUR 12,207 thousand). At 31 December 2013 under this same section was recognised the amount of the aid received through the EFSM and not provided to the entities, amounting to EUR 307,600 thousand (see Note 8.3).

### 8.7 Finance costs

The detail of "Finance Costs" in the accompanying income statements for 2014 and 2013 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2014 | 2013 |
| Interest and commissions | | |
| - Interest on debt instruments and bonds (Notes 8.2 and 8.4) | 245,741 | 458,276 |
| - Interest on repurchases agreement (Note 8.5) | 4,964 | 549 |
| - Other finance costs | 1,556 | - |
| - Interest and commissions on other payables (Note 8.3) | 143,925 | 356,584 |
| Interest cost relating to updating of provisions (Note 13.1) | 5,735 | 36 |
| **Total** | **401,921** | **815,445** |

## 9. Equity

### 9.1 Equity Fund

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

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

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

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

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

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 2013 amounting to EUR 2,787,112 thousand was transferred to the FROB's Equity Fund in 2014 (in 2012: EUR 26,060,522 thousand.)

The FROB Equity at 31 December 2014 amounted to EUR 1,599,874 thousand, including the previously mentioned EUR 42,170,000 thousands and the results obtained by the FROB since its establishment until 31 December 2014.

### 9.2 Valuation adjustments

**Available-for-sale financial assets**

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

The statements of recognised income and expense for 2014 and 2013 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 are as follows.

Liquidity risk

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

The breakdown, by maturity, of the balances of certain items in the balance sheet at 31 December 2014 and 2013, based on a scenario of "normal market conditions", in accordance with their contractual terms, is as follows:

**2014**

| | Thousands of Euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | Within 1 Year | 1 to 2 Years | 2 to 3 Years | 3 to 4 Years | 4 to 5 Years | More Than 5 Years | Total |
| **Assets:** | | | | | | | |
| Cash and cash equivalents | 2,242,896 | - | - | - | - | - | 2,242,896 |
| Current financial assets | | | | | | | |
| *Loans to third parties* | - | 100,000 | 200,000 | 268,489 | - | - | 568,489 |
| *Debt instruments* | 969,122 | | - | - | - | - | 969,122 |
| Non-current financial assets | | | | | | | |
| *Debt instruments* | - | 1,330,694 | 219,663 | 27,393 | - | 2,663,400 | 4,241,115 |
| Total at 31 December 2014 | 3,212,018 | 1,430,694 | 419,663 | 295,882 | - | 2,663,400 | 8,021,657 |
| **Liabilities:** | | | | | | | |
| *Debt instruments and other marketable securities* | 63,455 | - | - | - | - | - | 63,455 |
| *Current bank borrowings* | 1,895,692 | - | - | - | - | - | 1,895,692 |
| *Other current liabilities* | 21.974 | | | | | | 21.974 |
| Non-current payables | | | | | | | |
| *Debt instruments and other marketable securities* | | - | - | - | - | - | - |
| *Other non-current payables* | - | 2,502,004 | - | - | - | 13,455,002 | 15,957,006 |
| Total at 31 December 2014 | 1,981,121 | 2,502,004 | - | - | - | 13,455,002 | 17,938,127 |
| **Assets minus liabilities at 31 December 2014** | **1,230,897** | **(1,071,310)** | **419,663** | **295,882** | **-** | **(10,791,602)** | **(9,916,470)** |
| **Assets minus liabilities at 31 December 2014 (accumulated)** | **1,230,897** | **159,587** | **579,250** | **875,132** | **875,132** | **(9,916,470)** | |

**2013**

| | 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 | 3,923,092 | - | - | - | - | - | 3,923,092 |
| Current financial assets | | | | | | | |
| *Loans to third parties* | 703,092 | - | - | - | - | - | 703,092 |
| *Debt instruments* | 3,380,458 | 1,618,864 | 617,908 | 410,553 | 51,879 | - | 6,079,661 |
| Non-current financial assets | | | | | | | |
| *Debt instruments* | - | - | - | - | - | 2,787,400 | 2,787,400 |
| Total at 31 December 2013 | 8,006,642 | 1,618,864 | 617,908 | 410,553 | 51,879 | 2,787,400 | 13,493,245 |
| **Liabilities:** | | | | | | | |
| Current payables | | | | | | | |
| *Debt instruments and other marketable securities* | 6,481,019 | - | - | - | - | - | 6,481,019 |
| *Current bank borrowings* | 559,989 | - | - | - | - | - | 559,989 |
| *Other current liabilities* | 319,807 | - | - | - | - | - | 319,807 |
| Non-current payables | | | | | | | |
| *Debt instruments and other marketable securities* | - | - | 2,500,174 | - | - | - | 2,500,174 |
| *Other non-current payables* | - | - | - | - | - | 13,790,488 | 13,790,488 |
| Total at 31 December 2013 | 7,360,815 | - | 2,500,174 | - | - | 13,790,488 | 23,651,477 |
| **Assets minus liabilities at 31 December 2013** | **645,827** | **1,618,864** | **(1,882,266)** | **410,553** | **51,879** | **(11,003,088)** | **(10,158,231)** |
| **Assets minus liabilities at 31 December 2013 (accumulated)** | **645,827** | **2,264,691** | **382,425** | **792,978** | **844,857** | **(10,158,231)** | |

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

- At 2014 year-end, the amount of liquid assets exceeds that of the bonds issued by the FROB maturing 2015.

  If a mismatch between the maturity of the assets and liabilities occurred from 2015 to 2019, it would be offset by the liquidity available to the FROB at 2014 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 2014, this risk basically consisted in the existence of a series of convertible contingent bonds that had been subscribed and paid by the FROB as part of the support provided for the various restructuration processes (see Note 7.3) as well as the subordinated debentures issued by SAREB and subscribed by the FROB.

Interest rate risk

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

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

At 31 December 2014, the financial assets exposed to interest rate risk are those held in cash (see Note 5).

Market risk

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

At 31 December 2014, the financial assets exposed to market risk were 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 already in these notes to the annual accounts.

## 11. Other accounts payable to public authorities and tax matters

### 11.1 Other accounts payable to public authorities

The detail of "Current Liabilities - Trade and Other Payables - Other Accounts Payable to Public Authorities" in the balance sheets at 31 December 2014 and 2013 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2014 | 2013 |
| Tax withholdings payable | 188 | 176 |
| VAT payable | 6 | 9 |
| Accrued social security taxes payable | 50 | 53 |
| **Total** | **244** | **238** |

### 11.2 Tax matters

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

## 12. Trade and other payables - Sundry accounts payable

"Trade and Other Payables - Sundry Accounts Payable" in the balance sheet at 31 December 2014 and 2013 include balances payable to several creditors for services.

The accrued expenses for these services in 2014 and 2013 are 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 2014 and 2013 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2014 | 2013 |
| Banco de Valencia asset protection scheme | 646,622 | 598,000 |
| Banco Gallego guarantees | 99,135 | 103,800 |
| CX guarantees | 171,173 | - |
| NCG Banco guarantees | 378,990 | 347,899 |
| NCG litigations | 20,889 | - |
| Deposit Guarantee Fund hybrids management | 36,738 | 25,094 |
| **Total** | **1,353,547** | **1,074,793** |

The changes in "Non-Current Provisions" in the accompanying balance sheet in 2014 and 2013 were as follows:

| | Thousands of Euros |
|---|---|
| **Balance at 1 January 2013** | **598,000** |
| Additions | 376,043 |
| Applications | (100,750) |
| **Balance at 31 December 2013** | **1,074,793** |
| Additions | 212,316 |
| Surplus provisions | (4,665) |
| Update financial costs (Note 8.7) | 5,735 |
| Other movements | 65,368 |
| **Balance at 31 December of 2014** | **1,353,547** |

*Banco de Valencia S.A. Asset Protection Scheme*

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

In 2013, there were two reductions of the hedged portfolio that have decreased the portfolio of assets subject to initial APS in an amount equal to EUR 1,043,236 thousand. After these reductions the hedged portfolio amounts to EUR 4,978,746 thousand.

At 31 December 2013, the FROB kept a provision in this regard amounting to EUR 598,000 thousand, equivalent to the percentage covered by the FROB of the expected loss of the portfolio affected to the APS at year end. This calculation was performed following the stress test methodology and experience of the entity.

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

*Banco Gallego guarantees*

In the Banco Gallego buying process (see Note 6) carried out by the FROB, the FROB granted the buyer "Banco Sabadell, S.A.," certain guarantees primarily related to the assets transferred to SAREB and the utilization of tax assets of the transferred entity.

At 31 December 2014, the FROB considered, based on the estimations made on the available information that the value of the obligation arisen under the above commitments includes an amount of EUR 99,135 thousand (31 December 2013: EUR 103,800 thousand), so that it proceeded to recognise under the profit and loss for the year 2014 under "Period provisions-Period provisions for APS and other responsibilities", a surplus provision amounting EUR 4,665 thousand.

*NCG Banco guarantees*

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

At 31 December 2014, the FROB considers, based on the available information, that the present value of the obligation arising from previous commitments amounts to EUR 378,990 thousand (31 December 2013: EUR 347,899 thousand).

As a result the FROB has increased the provision recorded in the amount of EUR 31,091 thousand, of which: EUR 16,897 thousand were charged to the income statement for 2014 (EUR 247.149 thousand with charge to the profit and loss account of the year 2013) under " Period provisions-Period provisions for APS and other liabilities" and EUR 9.021 thousand, corresponding to the amount that corresponds to attend to the Deposit Guarantee Fund under "Non-Current financial assets -Other financial assets" and credited to "Non-Current provisions" at 31 December 2014 in the accompanying balance sheet (see Note 7.7); and difference, EUR 5,172 thousand correspond to the financial expenses for updating provisions reflected in the income statement for the year 2014.

From the total amount of the provision, EUR 109,772 thousand (EUR 100,750 thousand euros in 2013) it has to be assumed by DGF. This amount is presented offsetting the amount payable by the FROB to DGF as the price for the sale of its participation in the entity (see Note 8.3).

*Deposit Guarantee Fund guarantee for hybrids management*

On 18 July 2013, the FROB and DGF signed an agreement under which the FROB is obligated to quarterly payments due to payment or provisions made by the FROB for any reason arising from judicial and other processes that have their reason on claims regarding the marketing of hybrids as source of retail customer owned shares acquired by the DGF, under the hybrid instruments management actions that FROB approved for NCG and CX on 7 June 2013 (see Note 13.2).

In addition, an addendum to these agreements was signed on 13 December 2013, in relation to payments that the FROB should make to the DGF if the latter sells its shares.

Based on the estimates of its legal counsellors, the FROB has proceeded to charge to the income statement for the year 2014 an additional provision amounting to EUR 11,088 thousand (31 December 2013: EUR 25,094 thousand), which is recognised under "Depreciation and loss provisions-allocation to provisions for APS and other responsibilities" and EUR 563 thousand, corresponding to financial expense for updating provisions reflected in the income statement for 2014.

*CX Guarantee*

In the process of buying CX and its loan portfolio (see Note 6), the FROB has granted certain guarantees to buyers, among which the main commitment is to sign the subordinated bond issued by the Fund Asset Securitization in the context of the sale of the portfolio amounting EUR 520,000 thousand, as well as the contingency arising from the divestment in an investee (see Note 13.2).

At 31 December 2014, the FROB considered, based on the opinion of its legal and tax advisers and independent experts, that the present value of the obligation arising from previous commitments amounts to EUR 171,173 thousand, of which the FROB recently registered EUR 114,827 thousand charged to the income statement of 2014 under " Period provisions-Period provisions for APS and other responsibilities" and the remaining amount, EUR 56.346 thousand (see Note 7.7), corresponding to the amount that would have to be attended by the Deposit Guarantee Fund in the selling of the shares of CX (see Note 7.1) under the section "Current financial assets - Other financial assets" and credit to "Non-current provisions" in the accompanying income statement at 31 December 2014.

*NCG Litigations*

As a result of different legal proceedings in relation to the sale of part of the FROB's share to minority shareholders in 2012, the FROB has proceeded to charge to the income statement of the 2014 a provision amounting to EUR 20,889 thousand which is recognized under "Period provisions-Period provisions for APS and other responsibilities".

**13.2 Current provisions**

The detail of "Current provisions" in the balance sheets liabilities at 31 December 2014 and 2013 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2014 | 2013 |
| Banco Ceiss review mechanism (Note 7.3) | 4 | 187,500 |
| Banco Ceiss compensation mechanism (Note 7.3) | 227,265 | - |
| Deposit Guarantee Fund hybrids management | 23,575 | 19,536 |
| Banco de Valencia guarantee | - | 170,500 |
| CX guarantee | 664,279 | - |
| Other provisions | 1,400 | 1,400 |
| **Total** | **916,523** | **378,936** |

The changes in 2014 and 2013 in this line item of the accompanying balance sheet were as follows:

| | Thousands of Euros |
|---|---|
| **Balance at 1 January 2013** | 97,133 |
| Allocations | 288,936 |
| Update finance cost | 36 |
| Applications | (7,169) |
| **Balance at 31 December 2013** | **378.936** |
| Allocations | 722,632 |
| Provision surplus | (5,651) |
| Other movements | 218,663 |
| Applications | (398,057) |
| **Balance at 31 December of 2014** | **916,523** |

*Banco Ceiss review mechanism*

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

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

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

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

*Banco Ceiss compensation mechanism*

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

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

Also, the FROB has made payments for this item amounting to EUR 17,609 thousand, which has resulted in the delivery of securities of Banco Ceiss to the FROB for a total amount of EUR 3,875 thousand, which is recorded in "Non-current financial assets - Other financial assets" (see Note 7.7). Therefore, the value of the liability recorded by the FROB, at 31 December 2014, amounted to EUR 227.265 thousand.

*Banco de Valencia guarantee*

In the process relating to the sale of Banco de Valencia to CaixaBank, the FROB 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. As a result of this commitment, the FROB at 31 December 2014 constituted a provision amounting to EUR 170,500 thousand.

On 5 December 2014, the FROB made the payment for this item for an amount of EUR 164,855 thousand, which meant an oversupply amounting to EUR 5,645 thousand, recognized under "Surplus provisions" in the income statement of 2014.

*Deposit Guarantee Fund guarantee for hybrids management*

In 2014, as indicated in Note 13.1, and based on estimations, the FROB has recognised a provision with charge to the income statement amounting to EUR 23,576 thousand (31 December 2013: EUR 19,536 thousand, payed in 2014) under "Period provisions-Period provisions for APS and other responsibilities", outstanding at 31 December 2014, and other EUR 6 thousand under "Surplus provisions".

In addition, the section "Period provisions-Period provisions for APS and other responsibilities" in the income statement of 2014 includes EUR 12,374 thousand (31 December 2013. EUR 3,685 thousand) in quarterly payments that has been paid to DGF by the FROB in 2014.

*CX guarantee*

As indicated in Note 13.1, and on the basis of the made estimations and from independent experts, at 31 December 2014, the FROB considers that the present value of the obligation arising from the commitments amounts to EUR 664,278 thousand, of which the FROB has registered EUR 445,613 thousand charged to income statement of 2014 under "Period provisions-Period provisions for APS and other responsibilities" and the remaining amount of EUR 218,663 thousand (see Note 7.5), corresponding to the amount to be addressed by the Deposit Guarantee Fund from the sale of its equity in CX (see Note 7.1) under "Current financial assets - Other financial assets" and credited to "Current provisions" in the income statement at 31 December 2014.

**13.3 Other guarantees and contingent liabilities**

In the sale processes carried out by the FROB of CAM, UnnimBanc, 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 2014, the FROB deemed it unlikely that any obligation would arise from these commitments and, accordingly, it did not recognise any provision in the 2014 annual accounts in this connection.

**13.4 Contingent assets**

At 31 December 2014 and 2013, 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 2014 and 2013 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2014 | 2013 |
| Wages and salaries | 3,477 | 3,304 |
| Employee benefit costs | 484 | 428 |
| Other social costs | 134 | 54 |
| **Total** | **4,095** | **3,786** |

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

2014

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

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

2013

The average number of employees at the FROB in 2013 by professional category and gender, is shown in the following table:

| | Average Number 2013 | | | Total Number 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | Men | Women | Total | Men | Women | Total |
| Group I | 4.81 | 0.80 | 5.61 | 5 | 1 | 6 |
| Group II | 13.46 | 5.70 | 19.16 | 15 | 6 | 21 |
| Group III | 4.71 | 3.54 | 8.25 | 6 | 5 | 11 |
| Group IV | 0.86 | 2.64 | 3.50 | 1 | 3 | 4 |
| Group V | - | 3.43 | 3.43 | - | 4 | 4 |
| **Total** | **23.84** | **16.11** | **39.95** | **27** | **19** | **46** |

### 14.2 Other operating expenses

The detail of "Other Operating Expenses" in the income statements for 2014 and 2013 is as follows:

| | Thousands of Euros | |
|---|---|---|
| | 2014 | 2013 |
| Leases | 634 | 525 |
| Deposit Guarantee Fund services | 47 | 56 |
| Outside professional services | 3,792 | 8,572 |
| Governing Committee (Note 15) | 114 | 123 |
| Representatives at entities | 1,649 | 1,931 |
| Banking and similar services | 205 | 428 |
| Taxes other than income tax | - | 425 |
| Other operating expenses | 295 | 3,785 |
| **Total** | **6,736** | **15,845** |

"External Services" in 2014 and 2013 includes, primarily, amounts invoiced by external advisers commissioned by the FROB in order to perform work in the credit institutions restructuring and resolution processes.

In 2014 the remuneration of all kinds of the FROB's representatives at the entities in restructuring and resolution processes amounted to EUR 1,649 thousand (31 December 2013: EUR 1,931 thousand).

### 14.3 Other disclosures

In 2014, the fees for the audit services and other services provided by the FROB's auditor, Grant Thornton, SLP., or any company related to the auditor for control, common ownership or management were as follows (in thousands of Euros):

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

| | |
|---|---|
| Tax counselling services<br>Other services | -<br>3 |
| **Total professional services** | **3** |

In 2013, the fees for the audit services and other professional services provided by the auditor of the FROB, Grant Thornton, S.L.P., or by a firm related to the auditor of control, common ownership or common management were as follows (in thousands of euros):

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

## 15. Related party transactions and balances

The detail of the balances recognised by the FROB with related parties in these annual accounts for 2014 and 2013 is as follows (figures in thousands of Euros):

**2014**

| | Bank of Spain | Investees | Governing Committee and Senior Management |
|---|---|---|---|
| **Assets:** | | | |
| Non-current investments in Group companies and associates – Equity instruments (Note 7.3) | - | 12,739,464 | - |
| Non-current assets classified as held for sale (Note 6) | - | 781,728 | - |
| Cash and cash equivalents - Cash (Note 5) | 660 | - | - |
| **Income statement:** | | | |
| Finance income (Note 5) | - | - | - |
| Other income - other income | - | 100 | - |
| Staff costs (senior management) | - | - | 718 |
| Other operating expenses (Note 14.2) | - | - | 114 |

**2013**

| | Bank of Spain | Investees | Governing Committee and Senior Management |
|---|---|---|---|
| **Assets:** | | | |
| Non-current investments in Group companies and associates – Equity instruments (Note 7.3) | - | 13,303,805 | - |
| Non-current assets classified as held for sale (Note 6) | - | 683,000 | - |
| Cash and cash equivalents - Cash (Note 5) | 115,908 | - | - |
| **Income statement:** | | | |
| Finance income | 10,778 | - | - |
| Other income - other income | - | 150 | - |
| Staff costs (senior management) | - | - | 162 |
| Other operating expenses (Note 14.2) | 356 | - | 123 |

In 2014 the FROB recognised an expense for EUR 114 thousand (31 December 2013: EUR 123 thousand) related to attendance fees relating to the Governing Committee (see Note 14.2).

At 31 December 2014 the FROB had granted no advances or loans and had acquired no pension, life insurance or guarantee obligations to any of the previous or current members of its Governing Committee.

## 16. Fair value of financial instruments

Given the composition of the FROB's assets and liabilities at 31 December 2014, the fair value of assets and liabilities not measured at fair value are not significantly different compared to that for which they were recognised in the financial statements for 2014.

## 17. Events after the reporting period

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

- On 27 February 2015, the FROB agreed to recognize to the BFA Board of Directors the authority to enter into a sharing agreement between BFA and Bankia regarding the contingencies arising from civil lawsuits related to the public offering of shares of Bankia, with the aim to ensure the most efficient use of public resources and maximize the return on the public support given to the restructuring of the Grupo BFA/Bankia. The requirement that the eventual agreement is limited to the distribution of the estimated maximum contingency estimated by Bankia, amounting to EUR 780 million in the most adverse scenario is included.

- On 18 March 2015, it was agreed to inform the judge the not opening of a process of a resolution plan to for Banco de Madrid, S.A.U. within the framework of Law 9/2012 of 14 November on restructuring and resolution of credit institutions.

- On 15 April 2015, the sale from Catalunya Banc of its portfolio of assets to Blackston on 17 July 2014 was formalized. The transaction was structured by transferring the portfolio to an assets securitization fund and other companies of the Blackstone Group, as part of the divestment of the FROB in Catalunya Banc. The FROB's support in relation to this transaction was instrumented through the subscription of a subordinated bond for EUR 525 million (see Note 13) and a guarantee for faulty loans whose fair value amounts to EUR 124 million (see Note 13) after assessment by an independent expert. It has also been granted a credit line for a maximum amount of EUR 400 million.

- On 24 April 2015 it was elevated to public the sale of the 98.4% of the share capital of Catalunya Banc, S.A. to BBVA (of which 66.01% belongs to the FROB and the 32.30% to the DGF) for a total price of EUR 1,165 million (see Note 6).

## 18. Explanation added for translation to English

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

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

# Fondo de Reestructuración Ordenada Bancaria

Directors' Report
for the year ended
31 December 2014

## 1. CONCLUSIONS

The year 2014 was marked by the continuation of the implementation of the various restructuring and resolution plans of entities which received public funds, which are moving at a satisfactory pace, and developed according to the resolution framework contained in the Act 9/2012, of 14 November 2012, on restructuring and resolution of credit institutions (hereinafter Law 9/2012), following the stress test of the main Spanish banking groups conducted to determine their capital needs under the Financial Assistance Programme for Spain for recapitalization of the financial sector reflected in the Memorandum of Understanding (MoU) signed in July 2012 by the Spanish and European authorities.

These plans included the following general scheme: (i) the transfer of troubled assets to the asset management company (SAREB), materialized in December 2012 (Group 1 entities) and in February 2013 (Group 2 entities); (ii) major business adjustment measures, as well as staff and branch network reductions by entities that received public funds under the rules and precedents on State aid; (iii) an exercise of sharing the financial burden (burden sharing) affecting shareholders and holders of hybrid instruments also completed for all entities; (iv) injection of public funds, subscribed and paid between December 2012 and April 2013.

Furthermore, entities in Group 1 were urged to start or complete their consumer arbitration processes to respond to those claims related to the commercialization of hybrid instruments. In this sense, the arbitration process of NCG has been completed and BFA-Bankia and Catalunya Banc are nearing completion, pending some specific operational issues.

In implementing the restructuring or resolving plans of entities, the FROB has also dealt with various proposals for divestiture of significant shareholdings for their transfer to the Ministry of Finance and Public Administration to issue a report with regard to their compliance with the principles of openness and competition as provided in Article 31.5 of Law 9/2012, also approving the transfer to the relevant entities of the reports received during the period.

Also, there has been made the amortisation of contingent convertible bonds issued by Liberbank (EUR 124 million) and signed by the FROB in 2013 under the program of financial assistance for Spain.

With regard to the different sales processes of credit entities, on 25 June 2014 the sale of NCG Banco, S.A. to Grupo Banesco was formalized. Also, on 21 July 2014 Catalunya Banc, S.A. was awarded to Banco Bilbao Vizcaya Argentaria, S.A. The mentioned process has been completed on 24 April 2015 with the the sale of the entity. In February 2014 the divestiture of the FROB stake in Bankia was initiated, which the FROB holds indirectly through BFA, with the sale of a 7.5% stake in Bankia at the price of EUR 1.51 per share for a total amount of EUR 1,304 million.

Moreover, based on the protocol of actions previous to exercise legal actions applicable to all those credit institutions which are in a process of restructuring or resolution approved in 2013, during that period multiple operations with significant impact on equity, indications of irregularities or without a logical economic purpose have been revised. As a result forensic reports received in relation to different operations of Catalunya Banc and NCG and a file related to certain actions on remuneration of senior management of Caja Madrid were sent to the Special Prosecutor Against Corruption and Organized Crime.

## 2. ORGANISATION AND OPERATION. RELEVANT MATTERS

With regard to organisational aspects of the FROB, the following agreements and measures were adopted in 2014:

- The annual accounts and management report of the FROB for 2013 have been formulated and approved, as well as its referral to the Ministry of Economy and Competitiveness and the General Audit Office of the State Administration for inclusion in the General State Account and transfer to the Spanish National Audit Office.

- FROB's budget for 2015 for inclusion in the State Budget was approved.

- The regulation procedure of the FROB was approved, as well as a Corporate Governance Framework and Control in the restructuring and resolution of credit institutions.

## 3. FINANCIAL TRANSACTIONS

Regarding the funds from the Financial Assistance Program for Spain[3], we have to remember that the channelling to the entities was instrumentalised through a loan agreement between the State, as a lender, and the FROB, as a borrower, signed in December 2012, to which the same current financial conditions between the loan signed between the Kingdom of Spain and the ESFM apply.

In 2014 the following events have occurred: i) the return of unused funds in SAREB amounting to EUR 307,54 million has been carried out; and ii) a voluntary partial loan repayment amounting to EUR 1,304 million has been conducted, of which EUR 399 million were supported by the FROB.

Accordingly, after these two operations and taking into account the conversion into equity contribution of part of the loan (EUR 27,170 million) that occurred in December 2013, after authorization of the ESFM[4], the outstanding balance of the loan from the state to FROB at 31 December 2014 amounted to EUR 13,455 million.

Also the payments in fees and interest accrued during the year generated by the first and second tranche of the Program were made.

Regarding the outstanding issues of the FROB, in 2014 there have been no new issues. On the other hand, there was the redemption of two issues of FROB's uncovered bonds: i) in February for a nominal amount of EUR 3,000 million, and ii) in November for a nominal amount of EUR 3,290 million. Consequently, at 31 December 2014 the outstanding par value of the outstanding issues is as follows:

| ISIN | COUPON | MATURITY | NOMINAL |
|---|---|---|---|
| ES0302761020 | 5,50% | 07/12/2016 | EUR 2,505 million |

[3]The first disbursement (EUR 39,468 million) was used for the recapitalization of Group 1 entities (BFA-Bankia, NCG Banco, Catalunya Banc and Banco de Valencia), as well as to fund the FROB contribution to SAREB, while the second disbursement (EUR 1,865 million) went to the recapitalization of Group 2 entities (Banco Mare Nostrum, Banco Ceiss, Caja 3 and Liberbank).
[4]Such partial conversion of the loan granted by the Spanish State to the FROB was made in order to facilitate the solvency of the Fund, whose net worth was diminished by impairments recorded in relation to the shares in the different entities in 2011 and 2012.

Moreover, the FROB's debt limit established by Law 22/2013 of 23 December on the General State Budget for 2014 is EUR 63,500 million. Also, the FROB has the capacity to issue with State guarantee amounting to EUR 13,055 million additional to those already issued.

In regard to the FROB's cash management there have been applied the Basic Principles adopted in 2013, through the following instruments: remunerated current accounts, deposits, government bonds and repos. In 2014, the repo operations have been enhanced with the launching of hiring short-term repos, which has improved the financial margin of the FROB taking advantage of the depo/repo spread.

## 4. RESTRUCTURING AND STRENGTHENING OF CREDIT INSTITUTIONS' OWN RESOURCES

The amount of aid subscribed by the FROB under the Financial Assistance Program in effect at 31 December 2014 is as follows:

| Contingent convertible bonds | FROB Approval | Status | Amount of Assistance (Millions of Euros) | Payment Date | |
|---|---|---|---|---|---|
| **CAJA 3**<br>Caja Círculo de Burgos, CAI, Caja Badajoz | 03/08/2013 | Subscribed and paid | 407 | 03/12/2013 | |
| **Ceiss**<br>Cajas de Ahorros Caja España y Caja Duero | 04/24/2013 | Subscribed and paid | 604 | 04/30/2013 | |
| **Shares** | **FROB Approval** | **Status** | **Amount of Assistance (Millions of Euros)** | **Payment Date** | **% Acquired** |
| **Catalunya Caixa**<br>Caixa's d'Estalvis de Catalunya, Tarragona y Manresa | 11/27/2012 | Subscribed and paid | 9,084 | 12/18/2012 | 66.0% |
| **BANCO FINANCIERO Y DE AHORROS**<br>Cajas de Ahorro de Madrid, Bancaja, Caja Ávila, Caja Segovia, Caja Insular de Canarias, Caixa Laietana y Caja Rioja | 09/03/2012 & 11/27/2012 | Subscribed and paid | 17,959 | 09/12/2012 & 12/26/2012 | 100.0% |
| **BMN**<br>Caja Murcia, Caixa Penedés, Sa Nostra, Caja Granada | 02/15/2013 & 03/08/2013 | Subscribed and paid | 1,645 (*) | 02/19/2013 y 03/12/2013 | 65.0% |
| **Total** | | | **29,699** | | |

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

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

### 4.1 Restructuring and resolution processes

#### Catalunya Banc, S.A.

The total aid received by Catalunya Banc amounts to EUR 12,052 million. The Resolution Plan approved in 2012 recognized a capital need of EUR 9,084 million, following the transfer of assets to the SAREB and exercise management of hybrid instruments. After injection of state aid and the hybrid management exercise in 2013 the final extent of the FROB in the capital of Catalunya Banc was 66.01%.

In July 2014, under the divestment of the FROB in Catalunya Banc, the entity allocated to Blackstone a loan portfolio (portfolio Hercules). The transaction involved the transfer of the portfolio to a securitization fund assets (FTA) and to other companies of the Blackstone Group, and includes support from the FROB.

Upon fulfilment of the conditions precedent, on 15 April 2015 the sale was formalized. The transaction is structured as follows: the securitization fund recognizes in its assets the loan portfolio transferred by Catalunya Banc and in its liabilities the issue of two types of bonds: Bonds Class A (Senior) signed by funds managed by Blackstone and class B bonds (EUR 524,9 million) subscribed by the FROB and subordinated to the former. Also, the FROB has granted the FTA a line of credit up to EUR 400 million.

Moreover, the Governing Committee of the FROB, at its meeting on 21 July 2014, after a competitive process, agreed the award of Catalunya Banc to Banco Bilbao Vizcaya Argentaria, SA, for an amount of EUR 1,165 million, corresponding to 98.4% of the capital of the entity, the FROB corresponding to 66.01% and the remaining 32.39% to the Deposit Guarantee Fund. This transaction was formalized on April 24, 2015, and with it culminates the process of disinvestment of public capital in the entity.

Additionally, as part of the sales process of both the portfolio of assets and the entity, the FROB has granted a number of guarantees, registering a provision at 31 December 2014 amounting to EUR 835 million (including EUR 524,9 million of the mentioned Bond B), of which EUR 560 million correspond to the part the FROB must assume and the remaining amount to the Deposit Guarantee Fund.

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

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

On 28 February 2014 took place the sale of a BFA stake in Bankia, S.A. representing 7.5% of the company's equity at a price of EUR 1.51 per share and a total value of EUR 1,304 million. After the transaction, the participation of BFA in Bankia decreased to 60.89%. It is worth to mention that the operation has not required any commitment or guarantee by the FROB. Subsequently, the share of BFA in Bankia has increased from 60.89% to 62.06% as a result of the execution of final judgments of the courts by poor marketing of hybrids.

The restructuring plan is still developing accordingly, having complied with the requirement in the plan to sell all of its non-strategic listed subsidiaries before 31 December 2014 and continues with the development of the important measures to adjust their activities, as well as in terms of staff and branch network reductions included in their restructuring plan.

On the other hand, based on the agreement reached last 19 December 2013 by the Board of Directors of BFA, commitment contained in the restructuring plan, on 31 October 2014 it formally requested the waiver to continue operating as a credit institution. The application was approved by the Bank of Spain with effect from 2 January 2015.

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

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

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

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

**Banco Ceiss, S.A.**

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

ON 28 March 2014 was published as a significant event, the acceptance by Unicaja of carrying out the swap operation on Banco Ceiss. Unicaja's offer was addressed to former holders of hybrid instruments of Banco Ceiss with the condition, inter alia, of the resignation of judicial actions claims by holders of hybrid instruments of Ceiss. Under this circumstance, and under the general framework of action adopted on 31 October 2013, the FROB, on 26 November 2013, approved a procedure that allowed retailer holders of hybrid instruments of BancoCeiss to accept the Unicaja's offer, and whenever it prospers, the possibility of undergoing a Review Mechanism of the marketing processes by which they acquired, at the time, preferred securities and subordinated debt.

This review was conducted by an independent expert hired by the FROB following criteria equivalent to those used in arbitrations conducted in other nationalized institutions and based on the criteria established by the Monitoring Committee of Hybrid Instruments of Capital and Subordinated Debt, created by Royal Decree-Law 6/2013.

In 2014, the FROB has made payments for this item amounting to EUR 187,6 million, and at the date of the elaboration of the financial statement was almost complete.

Also, the FROB has awarded in 2014, with the authorization of the European Commission, an additional guarantee for a maximum amount of EUR 241 million to cover the so-called "compensation mechanism" that covers 71% of expenses and costs of the potential litigation arising from holders not accepting the offer of Unicaja and that the FROB registered as a provision in the accompanying income statement. At 31 December 2014, payments made by the FROB for this item amounted to EUR 17,6 million from 639 judicial proceedings.

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

On 1 October 2014 was the acquisition of Banco Grupo Caja3 by Ibercaja Banco SA, with the dissolution without liquidation of the absorbed company and the transfer in bloc, by universal succession, of their assets to the acquiring company. The former shareholders of Caja3 have a combined share of 12.20% of Ibercaja. On 8 October 2014 Banco Grupo Caja3 was dropped from the register of companies of the Bank of Spain.

As for the restructuring plan of the company, they have fulfilled the major commitments established: (i) integration into Ibercaja; (ii) transfer of assets to SAREB; (iii) performance of the hybrids management exercise; (iv) reduction of entity structure by divesting non-core businesses, reducing branches and staff; (v) injection of public funds by the FROB as contingently convertible debentures (CoCos) amounting to EUR 407 million. To date, Caja3 has paid all interest accrued on these instruments.

**4.2 Finished processes**

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

**Liberbank, S.A.**

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

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

As for the CoCos, disbursed by the FROB on 12 March 2013, the company has proceeded to the return, prior authorization from the Bank of Spain, of the EUR 124 million last 22 December 2014.

**NCG Banco (NCG)**

The total aid received by NCG Banco amounted to EUR 9,057 million. The Resolution Plan, approved in November 2012, recognized capital needs of EUR 5,425 million, following the transfer of assets to SAREB and the management exercise of hybrid instruments. After the injection of state aid, the hybrid management exercise and the termination of the arbitration process the final extent of the FROB in the capital of NCG Banco was 62.7%.

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

Furthermore, in order to maximize the sale price and minimizing the use of public resources, certain guarantees were granted to NCG. The FROB endowed, to cover this set of contingencies, a provision at 31 December 2013, amounting to EUR 247 million

In this respect, until the date of execution of the annual accounts for 2014 two contingencies guaranteed in the contract of sale have materialized, for a total amount of EUR 160,7 million. This has meant that at 31 December 2014, the FROB has recognized in the income statement an additional to the provision recorded of EUR 17 million.

To date such guarantees have not been settled. The final payment of the guarantees will not be made until the amount of the deferred price for the sale of shares (EUR 600 million) is not fully satisfied, or until the amount of accrued and unpaid guarantees exceeds the amount pending payment, in which case the difference will be paid.

**Caja Rural de Mota del Cuervo**

The Executive Committee of the Bank of Spain, at its meeting on 14 January 2014 agreed the opening of the process of resolution of Caja Rural de Mota del Cuervo, Sociedad Cooperativa de Castilla – La Mancha and proceeded to replace its board of directors designating the FROB as provisional administrator. Also, the FROB approved that day, the economic and asset values of the entity and the start of the competitive sales process by way of urgency.

As a result of this process, on the same date, the Governing Committee of the FROB agreed the transfer of all of the contributions to the capital of Caja Rural de Mota del Cuervo, Cooperativa de Castilla – La Mancha to Caja Rural de Albacete, Ciudad Real y Cuenca, Cooperativa de Crédito (Globalcaja), for a total amount of EUR 1,275,800 plus selling expenses incurred by the FROB in the sale process, with no involved, therefore, of any financial support from the FROB.

The resolution process ended last 20 June with the registration of the merger by takeover of Caja Rural de Mota del Cuervo, taking the administration of the administrative entity of the acquiring company (Globalcaja) and, therefore, ceasing the FROB in its functions of provisional administrator.

**Banco Gallego, S.A.**

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

In October 2013, the FROB disbursed a capital contribution to Banco Gallego of EUR 245 million and the hybrid management exercise was conducted.

On 28 October 2013, upon satisfaction of the conditions precedent, was formalized in a public deed the sale of Banco Gallego to Banco Sabadell. The agreement provided for the transfer of all the shares comprising the share capital of Banco Gallego at a price of EUR 1.

As part of this transaction, the FROB has granted the usual guarantees on past sales (excluding asset protection schemes), highlighting the guarantees regarding the tax effects of the transaction and the economic losses resulting from the changes between the estimate of the assets to be transferred to SAREB and those finally transmitted, which are recognized in the FROB's financial statements based on the best estimate of fair value with the available information.

**Banco de Valencia, S.A.**

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

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

On 28 February 2013, having met the conditions precedent the sale to CaixaBank was raised to public deed, completing thus the implementation of the resolution plan of the entity with the FROB offering to the buyer an assets protection scheme (APS) on a portfolio of loans to SMEs and self-employed and contingent risks, by which it covers 72.5% of the losses that may arise from a closed portfolio of assets. At 31 December 2014 there is no payment expected to CaixaBank by APS for 2014 as the 1st threshold loss exceeds the losses materialized to date. At the year-end 2014, the FROB has made a provision amounting to EUR 647 million, equivalent to the expected loss of the portfolio affected to the APS.

In the sale of Banco de Valencia to CaixaBank, the FROB also committed itself to compensate the entity, in certain cases, for the economic losses resulting from the changes between the estimation of the assets to be transferred from that entity to SAREB and those finally transmitted. For this reason, the FROB constituted a provision of EUR 170,5 million. Finally, the final amount paid by the FROB amounted to EUR 165 million, paid on 5 December 2014.

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

On 15 July 2010, the FROB made the Caja Sur restructuring Plan which included the granting of an APS on a set of different types of assets, for a maximum amount of EUR 392 million over five years.

In February 2013 the last settlement of 2012 losses was made, consuming the pendant APS balance (EUR 7 million),so it was exhausted as the maximum possible loss was reached.

**4.3 SAREB**

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

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

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

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

In 2014, SAREB has reached a net amount of turnover of EUR 3,173 million, a gross margin of EUR 1,598 million and EBITDA stood at EUR 1,104 million.

Following the response from the Bank of Spain to an accounting inquiry by SAREB, in 2014 it has proceeded to record an important sanitation -EUR 719 million, of equity loans and bad debt personal loans whose owners are in bankruptcy situation- so the net result for the year 2014 stood at EUR 585 million of losses.

## 5. EVENTS AFTER THE REPORTING DATE AND OUTLOOK FOR 2015

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:

- By Royal Decree 91/2015, of 13 February, Jaime Ponce was appointed as a new FROB's CEO, replacing Antonio Carrascosa. Additionally, he has been appointed representative of the FROB in the "Single Board Resolution" and the Board of SAREB.

- The Board of Directors, at its meeting on 26 February 2015, agreed, as sole shareholder of BFA, recognize the BFA's Board of Directors the authority to enter into a sharing agreement between BFA and Bankia in relation to contingencies arising from civil lawsuits related to the public offering of shares of Bankia, with a limit sharing up to EUR 780 million (amount of contingency initially estimated by the group).

- Based on this agreement, on 27 February 2015, the Board of Directors of BFA signed a settlement agreement between BFA and Bankia for the distribution of those contingencies. Under this agreement, BFA and Bankia agreed to establish the percentage allocations, within the limit of EUR 780 million: Bankia assumes the first responsibility up to 40%, EUR 312 million; and BFA assumes the costs in excess of this amount to the maximum amount of EUR 780 million, that is 60% of the costs subject to allocation. These amounts, EUR 312 million in Bankia and EUR 468 million in BFA have been provisioned in their annual accounts at year-end 2014.

- In relation to Banco Madrid, S.A.U, the Governing Committee of the FROB agreed, in view of the agreement of the Executive Committee of the Bank of Spain on non-admissibility of the opening of a process of resolution of the institution, to send a communication to the Juzgado de lo Mercantil nº1 of Madrid, of not opening a process of resolution of the institution in the framework of Law 9/2012 of 14 November, on restructuring and resolution of credit institutions.

- On 15 April 2015 was formalized the sale of the Catalunya Banc S.A. asset portfolio to Blackstone awarded in July 2014, proceeding from the FROB to the subscription of the subordinated bond amounting to EUR 524,9 million issued by the FTA. The payment has been made through the issuance by the FROB of simple state guaranteed bonds amounting to EUR 520 million, fully subscribed and issued directly by CatalunyaBanc, and the rest in cash.

- With regard to the sale of Catalunya Banc. It was formalized on 24 April 2015, to Banco Bilbao Vizcaya Argentaria S.A., the sale of the FROB's participation (66.01%) and the Deposit Guarantee Fund (32.39%) in the capital of the company by EUR 1,165 million, by which compliance is given to the implementation of its resolution plan started in December 2012. Consequently, the FROB has carried out an assessment at 31 December 2014 of its stake in that company of EUR 781,7 million, which meant the recognition of an impairment loss in the income statement of EUR 1,076 million.

- With regard to the outstanding issues of the FROB, after issuing the single bond fully subscribed directly by CatalunyaBanc, S.A., the principal balance of the outstanding issues is as follows:

| ISINcode | Maturity | Nominal |
|---|---|---|
| ES0302761020 | 07/12/2016 | EUR 2,505 million |
| ES0302761046 | 04/30/2017 | EUR 520 million |
| TOTAL | | **EUR 3,025 million** |

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

- Lastly, the amounts for interest on the CoCo's signed by the FROB of Caja 3 and Ceiss have been collected.

In regard of the perspectives for 2015, the actions concerning banking resolution will be marked by two key regulatory factors -the entry into force of Bank Recovery and Resolution Directive and its transposition into Spanish law, and the implementation of the Single Resolution Mechanism (SRM).

First, in relation to the Directive on Recovery and Resolution Banking, it introduces new elements not yet covered under Spanish resolution framework. In particular, it provides for the generalization of the preventive phase of the resolution, namely that all banks must have resolution plans that provide for what to do if they come into difficulties. That plan is elaborated by the resolution authority and includes instruments and measures to be applied in the event of resolution together with an analysis of "resolubility" to analyze the obstacles to an eventual resolution of the institution, so that the removal of these obstacles by the entity can be required. The Directive extends the requirement for allocating losses to the private sector (domestic recapitalization or "bail-in) and extends it to senior liabilities of the entity. In this sense and for this internal recapitalization to be possible it states that banks must maintain a minimum of required senior liabilities (MREL) to make credible internal recapitalization of the company once it is in resolution.

With regard to the Unique Resolution Mechanism (URM), and more specifically, the European resolution authority (Single Resolution Board: SRB) has already begun to take its first steps. European resolution authority is directly responsible for the planning and execution of the resolution of the major banks and will work closely with national resolution authorities, so that the year 2015 is expected key in setting performances coordination between European resolution authority and national. This represents an operational challenge but has the great added value of ensuring that throughout its area of action the implementation of the resolution will be similar, thus ensuring not only a level playing field but also one application of them. In this regard it is expected that by the end of the year the first resolution plans for major European banks have been elaborated. The other major pillar of the unique mechanism of resolution (MUR) is the creation of a single European resolution fund, which is scheduled for 1 January 2016, with 2015 being for the FROB and other authorities involved an exercise to implement, collect and organize the contributions of the various entities to establish the fund on time and in accordance with the provisions of the said directive.

As for the transposition into Spanish law of that directive, at the date of preparation of this annual report the Act of recovery and resolution of credit institutions and investment services companies was approved, which will, from its entry in effect, the rule governing the performance of the FROB. The new law chooses to give the greatest possible continuity both the content and the structure of the Law 9/2012, currently in force, completing only what is essential to the correct transposition of the Directive. Also, it is raised a National Resolution Fund financed by contributions from the private sector, which will aim to finance resolution measures that will run the FROB as National Authority of Executive Order, which also will be responsible for its management. As of 1 January 2016, when the Single European Resolution Authority is fully operational and the National Resolution Fund merged with other National Funds from Member States of the Eurozone in a Single European Resolution Fund, Spanish credit institutions will make their contributions to this European Fund, and the National Resolution Fund will be for companies of investment services only.

Consequently, 2015 will be a busy year for the FROB, since all the European scheme is in its implementation phase, involving a very intense institutional cooperation, participation in international forums for implementation and development of the Directive and in technical and organizational tasks together with the European resolution authority. Additionally, in relation to the new regulatory framework, perhaps the most innovative challenge for 2015 and 2016 is the development of the first resolution plans with locking the MREL for different entities.

Finally, remember that in addition to the significant challenges posed by the new resolution framework to which the FROB will face in the coming months, there are still entities with public support. On the one hand, in relation to the investees, it is expected that in 2015, under the fundamental premise of maximizing efficiency in the use of public resources in its administration and divestment as established by Law 9/2012 on restructuring and resolution of credit institutions, these entities continue to comply with resolution plans and improving their position in the market thereby facilitating the divestiture by the FROB within the legally prescribed deadlines. On the other hand, the FROB will also continue managing and monitoring the various financial support and guarantees granted to the different entities within the framework of the resolution processes conducted in recent years.

## 6. OTHER DISCLOSURES

No research and development activities were performed in 2014.

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

## Fondo de Reestructuración Ordenada Bancaria (Fund for Orderly Bank Restructuring)

The undersigned, Director General of the Fondo de Reestructuración Ordenada Bancaria, authorises for issue on 15 June 2015 these Annual Accounts of the Fondo de Reestructuración Ordenada Bancaria for the year ended 31 December 2014 and the Directors' Report for 2014, which are printed on the accompanying 60 pages (Original Spanish version), duly countersigned by me for the purpose of their identification, and which will be submitted for approval by the Governing Committee.

Signed: Jaime Ponce

Director General of the Fondo de Reestructuración Ordenada Bancaria