
2018 Annual Accounts of FROB and the National Resolution Fund

- In 2018, FROB reduced its losses for the second consecutive year.

Madrid, 14/05/2019. FROB's Governing Committee has approved the annual accounts and the directors' report of FROB and the National Resolution Fund (NRF) for 2018.

Annual Accounts of FROB

The loss for the year amounted to 905 million euros, almost 5% down on 2017. This loss is mainly the result of the impairments recorded in the carrying amount of its investees.

The assets side of FROB's balance sheet mainly includes its interests in BFA Tenedora de Acciones, S.A.U. (BFA is the holding company for Bankia shares) and its investment in Sareb (Asset Management Company for Assets Arising from the Banking Sector Reorganisation), in addition to its cash position. On the liabilities side, FROB is basically financed through the loan received from the State, which had a balance of 10.46 billion euros at 31 December 2018. This means that FROB recurrently records a net finance expense as the assets do not generate enough finance income to offset said expense.

In 2018, assets amounted to 10.94 billion euros, while liabilities amounted to 11.4 billion euros. FROB's equity therefore stood at a negative figure of 469 million euros. Although there are no legal problems with FROB operating with this equity, Act 11/2015 also provides for mechanisms to increase it, such as full or partial transformation of the loan between the State and FROB into an equity contribution, as occurred in 2013 and 2017.

The main movements recorded in FROB's 2018 financial statements compared with the previous year are:

(i) **Valuation of investees:**

- FROB has estimated the recoverable value of its interest in the BFA Group. To do this, in accordance with accounting standards and in line with the calculation performed in previous years, the carrying amount of BFA recorded by FROB at the end of the previous year is compared with the consolidated equity of the BFA Group (adjusted for minority interests) and reflected in its consolidated annual accounts, plus the unrealised gains

from the fixed-income portfolio that are easy to realise. The result was a negative impact on the income statement of 297 million euros.

- In addition, an impairment was recorded in FROB's investment in Sareb for a total of 382 million euros corresponding to the subordinated debt subscribed. This impairment is the result of comparing the carrying amount recorded by FROB at the end of the previous year with the present value of forecast future cash flows to be received by FROB, considering the recovery projections obtained from the business plan approved by the company.

(ii) Legal contingencies and guarantees:

- In 2018, movements were recorded in the provisions for legal contingencies and guarantees granted by FROB in various bank sales processes. These had a total negative net impact on the income statement of 117 million euros. The two main components of this figure were, firstly, the provisions recorded for possible contingencies resulting from divestment processes in entities (€253m); ,and secondly, the surplus provisions relating to the guarantees granted in the divestment of Banco Gallego (€95m), as well as a reduction in the estimated cost for the asset protection scheme granted in the sale of Banco de Valencia (€62m) as a result of the favourable performance of the losses recorded and expected from said portfolio.

(iii) Cash

- FROB has a sufficient cash position to meet its planned commitments over the medium term. At 31 December 2018, the amount of FROB's non-committed cash totalled 1.1 billion euros, which is invested in Government Debt Securities and in the current account in the Bank of Spain.

(iv) Fee to fund FROB's activity:

- FROB finances its operating expenses without any charge to the General State Budget, but rather through a fee paid by the financial industry. This resulted in income of over 18 million euros in 2018.

Annual accounts of the National Resolution Fund

For its part, the National Resolution Fund (NRF) recorded a profit of 42,000 euros resulting from the collection of contributions to the NRF by investment firms not included under the scope of the consolidated supervision of the parent company by the European Central Bank.

The net assets of the fund amount to 4 million euros, comprising the contributions made by these firms between 2015 and 2018 (both inclusive).

Both FROB and the NRF (managed by FROB) prepare their annual accounts in accordance with general Spanish accounting standards (which use criteria that are not comparable with those used in national accounting) and are subject to an audit of accounts

The annual accounts and directors' reports of FROB and the FRN together with their audit reports are available at the website: www.frob.es