Independent Auditor's Report

FROB

Annual Accounts and Directors' Report
for the year ended at December 31, 2018

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

MAZARS

Independent Auditors' Report on the Annual Accounts

To the FROB's Governing Committee

Opinion

We have audited the annual accounts of the FROB (hereinafter, the Fund), which comprise the balance sheet as at December 31, 2018, the income statement, the statement of recognized income and expenses, the statement of total changes in equity, cash flows statement and the notes thereto for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Fund as at December 31, 2018, and its financial performance and cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Entity (identified in note 2 to the accompanying annual accounts) and, in particular, with accounting principles and criteria set forth therein.

Basis for opinion

We conducted our audit in accordance with audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's responsibilities for the audit of annual accounts* section of our report.

We are independent of the Fund in accordance with ethical requirements, including those regarding independence, that are relevant to our audit of annual accounts in Spain pursuant to audit regulations in force. In this regard, we have not provided any non-audit services, nor have any situations or circumstances arisen that, under the aforementioned audit regulations, might have affected the required independence in such a way as to compromise our independence.

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

Emphasis of matter paragraph

Note 9.1 to the accompanying financial statements shows that the Fund's negative equity at December 31, 2018 amounts to 469,485 thousand Euros. However, and although the FROB could operate with negative equity, Law 11/2015 establishes that the FROB's equity could be increased, where applicable, through the capitalization of loans, credits or any other indebtedness operation by the FROB with the National State Administration as creditor. In this sense, the loan agreement between the Spanish State and the FROB, prior authorization by the ESM, allows such loan's partial or full transformation into capital contribution to the FROB.

This matter does not modify our opinion.

Most relevant audit matters

Most relevant audit matters are those matters that, in our professional judgement, have been assessed as the most significant risks of material misstatement in our audit of the annual accounts of the current period. These risks were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these risks.

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Valuation of investments in group companies and associates

Notes 4.3.1, 4.5.1 and 7 to the accompanying financial statements describe estimates performed when elaborating the annual accounts to value investments in group companies and associates, as well as their possible value impairments which, together with the entities' evolution, could affect the investments' valuation reflected on the annual accounts.

When there are signs of impairment on said investments, the Fund performs an impairment test in order to estimate whether their recoverable value is below their carrying value.

These investments' valuation requires the application of judgements and significant estimates by the Fund's President and Management, since estimates have been based on the best information available at the date of formulation of the annual accounts, although the final recovery of said assets for the value at which they have been registered on the accompanying annual accounts will depend on the effective compliance with key assumptions considered on business plans, if this was the employed valuation method, with assumptions taken based on the best information available on the investees' integration processes, and finally on the price to be obtained from the sale of entities in which the Fund currently invests.

In turn, certain uncertainties subsist regarding the eventual joint effect, for the investee BFA, from the final outcome of litigations related to the Public Stock Offering performed on 2011 as a consequence of the flotation of Bankia, S.A.

We therefore consider that the valuation of investment in group companies and associates is one of the most significant estimates in the preparation of the annual accounts, and we have thus considered that this is a relevant aspect in our audit.

Our audit procedures have included the following, among others:

- Understanding of procedures and controls established in the Fund for the use of the appropriate valuation criterion and mitigation of errors in said valuations' estimate.
- Analysis of the reasonableness and comparability of assumptions considered in the valuation's calculation process, when based on the investee's Business Plan.
- Review of the correct application of financial information used to calculate the valuation, if performed on the investee's consolidated net equity.
- Review of arithmetic calculations and update of used flows.
- Review of the accuracy of accounting records with regards to calculations.

Finally, we have verified that the accompanying notes to the financial statements include disclosures required by the financial reporting framework applicable to the Fund.

Valuation of guarantees granted in Credit Entities' Resolution Processes

The FROB, as Executive Resolution Authority, has granted a series of guarantees within the frame of different credit entities' restructuring resolution processes, mainly for a successful conclusion of entities' sale processes, for which the amount of provisions has been estimated following methodologies indicated on Notes 4.10 and 13 to the accompanying financial statements.

Since the sufficiency of provisions registered for these concepts will depend on the effective compliance with key assumptions used for their determination, as well as on the future evolution of contingencies covered by said guarantees, economic resources to be used by the Fund to assume these commitments is one of the most significant estimates in the preparation of the annual accounts. Therefore, we have considered that this is a relevant aspect in our audit.

We have documented our understanding and review of the estimation process performed by the Fund's President and Management, as well as the internal control associated to said process, focusing our procedures in the following aspects:

- Analysis of the reasonableness of hypotheses considered by the Fund to value provisions associated to granted guarantees.
- Review of independent external experts' reports, taken as basis to estimate provisions for this purpose.
- Verification of arithmetic calculations based on hypotheses and data contributed by considered reports.
- Review of the accuracy of accounting records on captions "Non-current provisions" and "Current provisions", with regards to calculations performed.

We have finally verified whether the accompanying notes to the financial statements include disclosures required by the financial reporting framework applicable to the Fund.

Provisions and Contingencies for the existence of litigations and claims

For the purpose of managing entities' resolution processes on their execution stage, as well as of exercising powers allocated by Law 11/2015 and other Spanish Legal Order and European Union's Law, the Fund may be immersed in administrative, judicial or other legal proceedings, resulting from the normal course of activity.

These proceedings conclude, in general, after a long period of time, resulting in complex processes according to the legislation in force. The Fund's President and Management decide when to register a provision based on an estimate performed by applying prudential calculation procedures, consistent with uncertainty conditions inherent to these proceedings.

The analysis of these litigations therefore requires a high judgement and application of complex estimates, and therefore we have considered that this aspect is relevant to our audit.

We have documented our understanding and our review of the estimation process performed by the Fund's President and Management, as well as the internal control associated to such process, focusing our procedures, among others, in the following aspects:

- Prior understanding of the litigations' qualification policy and allocation to provisions, where applicable.
- Achievement of confirmation letters from the Fund's legal consultants with regards to these litigations' nature, status and assessment of the possibility or probability of an unfavourable conclusion.
- Holding the corresponding meetings with the Fund's internal consultant to obtain a correct understanding of litigations in progress reported to us and to contrast the made of the litigations' expected outcome, with the correct accounting registration of provisions and/or disclosures on the formulated annual accounts.
- Assessment of possible contingencies and reasonableness of registered accounting provisions.

We have finally verified whether the accompanying notes to the financial statements include disclosures required by the financial reporting framework applicable to the Fund.

Other information: Management report

Other information only comprises the management report for the 2018 financial year, the formulation of which is the responsibility of the Fund's President and is not an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the management report. Our responsibility regarding the management report, in conformity with the audit regulation in force in Spain, consists of assessing and reporting on the consistency of information included in the management report with the annual accounts based on the Fund's knowledge obtained by us during the audit of the aforementioned annual accounts, and does not include any information not obtained as evidence during such audit. In addition, our responsibility is to assess and report on whether the content and presentation of the management report are in accordance with applicable regulations. If, based on the work we have performed, we conclude that a material misstatement exists, we are required to report that fact.

Based on the work performed, as described in the previous paragraph, the information included in the management report is consistent with that disclosed in the annual accounts for the 2018 financial year, and its content and presentation are in accordance with applicable regulations.

President's responsibility for the annual accounts

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

In preparing the annual accounts, the President is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis unless the Fund's President either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with audit regulations in force in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and the related disclosures made by the President.

- Conclude on the appropriateness of the President's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Fund's President regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the significant risks communicated with the Fund's President, we determine those risks that were of most significance in the audit of the annual accounts of the current period and are therefore the most significant assessed risks.

We describe these risks in our auditor's report unless laws or regulation preclude public disclosure about the matter.

Madrid, 10 May 2019

MAZARS AUDITORES, S.L.P.
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AUDITORES
INSTITUTO DE CENSORES JURADOS DE CUENTAS DE ESPAÑA

MAZARS AUDITORES, S.L.P

2019 Núm. 01/19/07111

COPIA

Informe de auditoría de cuentas sujeto a la normativa de auditoría de cuentas española o internacional

FROB

Annual Accounts
corresponding to the year ended
at 31 December 2018
and Directors' Report

Translation of Annual Accounts and Directors' Report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

FROB

BALANCE SHEET CORRESPONDING TO 31 DECEMBER 2018 AND 2017

(Thousands of Euros)

ASSETS	Notes	2018	2017*
NON-CURRENT ASSETS			
Intangible assets		210	138
Property, plant and equipment		205	166
Non-current investments in group companies and associates	7	9.560.394	9.857.437
Equity instruments		9.560.394	9.857.437
Non-current financial investments	7	423.454	1.147.547
Debt securities		423.454	1.147.547
Total non-current assets		9.984.263	11.005.288
CURRENT ASSETS			
Trade and other receivables		388	420
Current financial investments	7	398.621	70.106
Credits to third parties		-	-
Debt securities		380.145	58.655
Other financial assets		18.476	11.451
Cash and cash equivalents	5	552.345	701.356
Cash		552.345	701.356
Total current assets		951.354	771.882
TOTAL ASSETS		10.935.617	11.777.170

EQUITY AND LIABILITIES	Notes	2018	2017*
EQUITY			
CAPITAL AND RESERVES WITHOUT VALUATION ADJUSTMENTS	9	(469.485)	435.274
Equity fund		435.274	1.385.046
Profit/(loss) for the period		(904.759)	(949.772)
VALUATION ADJUSTMENTS	9	656	382
Available-for-sale financial assets		656	382
		(468.829)	435.656
NON-CURRENT LIABILITIES			
Non-current provisions	13	678.910	778.006
Non-current payables	8	10.429.421	10.426.389
Other non-current debts		10.429.421	10.426.389
		11.108.331	11.204.395
CURRENT LIABILITIES			
Current provisions	13	273.794	110.955
Current payables	8	21.427	25.404
Bonds and other marketable securities		-	-
Current debts with financial institutions		-	-
Other current debts		21.427	25.404
Trade and other payables		894	760
Other payables	12	763	611
Other debts with public institutions	11	131	149
		296.115	137.119
TOTAL EQUITY AND LIABILITIES		10.935.617	11.777.170

(*) Figures from 2017 are solely and exclusively presented for comparison purposes.
Notes 1 to 16 to the Financial Statements are an integral part of the Balance Sheet at 31 December 2018.

FROB

PROFIT AND LOSS ACCOUNT CORRESPONDING TO THE YEAR

ENDED AT 31 DECEMBER 2018 AND 2017

(Thousands of Euros)

	Notes	Income / (Expenses)	
		Year 2018	Year 2017*
CONTINUING OPERATIONS			
1. Revenue	**14.1**	**18.395**	**16.939**
Fees for activities performed by the FROB as Resolution Authority		18.395	16.939
2. Other operating income		**451**	**528**
3. Personnel costs	**14.2**	**(4.372)**	**(4.201)**
Salaries and wages		(3.759)	(3.630)
Employee benefits expense		(613)	(571)
4. Other operating expenses	**14.3**	**(2.591)**	**(4.432)**
External services		(2.485)	(4.313)
Other operating expenses		(106)	(119)
5. Amortization and depreciation		**(121)**	**(130)**
6. Provision surpluses	**13**	**222.268**	**32.762**
7. Allocation of provisions	**13**	**(340.039)**	**(13.078)**
Allocation of provisions for EPA and other liabilities		(340.039)	(13.078)
8. Extraordinary income		**-**	**9.739**
9. Extraordinary expenses		**(348)**	**-**
RESULTS FROM OPERATING ACTIVITIES		**(106.357)**	**38.127**
10. Finance income	**5 & 7**	**625**	**51.489**
Banking interests		-	552
Interests for public debt		121	4.998
Interests for convertible bonds		-	45.218
Other interests		504	721
11. Finance expenses	**8**	**(120.017)**	**(152.051)**
Interests and commissions		(119.985)	(151.952)
Update of provisions	13	(32)	(99)
12. Impairment and gains/(losses) on disposal of financial instruments	**6 & 7**	**(679.010)**	**(887.337)**
Impairment and losses		(679.010)	(947.068)
Reversal impairment capital instruments			59.731
NET FINANCE INCOME/(EXPENSE)		**(798.402)**	**(987.899)**
PROFIT/(LOSS) FOR THE PERIOD		**(904.759)**	**(949.772)**

(*) Figures from 2017 are solely and exclusively presented for comparison purposes.

Notes 1 to 16 to the Financial Statements are an integral part of the Profit and Loss Account corresponding to the year ended at 31 December 2018.

FROB

STATEMENT OF CHANGES IN EQUITY CORRESPONDING TO THE YEAR ENDED AT 31 DECEMBER 2018 AND 2017

A) STATEMENT OF RECOGNIZED INCOME AND EXPENSES
(Thousands of Euros)

	Income / (Expenses)	
	Year 2018	Year 2017*
PROFIT/(LOSS) FOR THE PERIOD (I)	(904.759)	(949.772)
Income and expenses recognized directly in equity		
- Measurement of financial instruments	274	(5.498)
Available-for-sale financial assets	274	(5.498)
- Tax effect	-	-
TOTAL INCOME AND EXPENSES DIRECTLY RECOGNIZED IN EQUITY (II)	274	(5.498)
Amounts transferred to the income statement		
- Measurement of financial instruments	-	-
Available-for-sale financial instruments	-	-
- Tax effect	-	-
TOTAL AMOUNTS TRANSFERRED TO THE INCOME STATEMENT (III)	-	-
TOTAL RECOGNIZED INCOME AND EXPENSES (I+II+III)	(904.485)	(955.270)

(*) Figures from 2017 are solely and exclusively presented for comparison purposes.

Notes 1 to 16 to the Financial Statements are an integral part of the Statement of Recognized Income and Expenses corresponding to the year ended at 31 December 2018.

STATEMENT OF CHANGES IN EQUITY CORRESPONDING TO THE YEAR ENDED AT 31 DECEMBER 2018 AND 2017

B) STATEMENT OF TOTAL CHANGES IN EQUITY

(Thousands of Euros)

	Equity Fund	Profit/(Loss) for the period	Valuation Adjustments	TOTAL
Balance at 31 December 2016 (*)	77.653	(1.692.607)	5.880	(1.609.074)
Total recognized income and expenses	-	(949.772)	(5.498)	(955.270)
Operations with Fund promoters	1.307.393	1.692.607	-	3.000.000
- Distribution of previous year's profit/(loss) (Note 3)	(1.692.607)	1.692.607	-	-
- Conversion of financial liabilities into equity (Note 9.1)	3.000.000	-	-	3.000.000
Other variations in equity	-	-	-	-
Balance at 31 December 2017 (*)	1.385.046	(949.772)	382	435.656
Adjustments for changes in criteria	-	-	-	-
Adjustments for errors	-	-	-	-
ADJUSTED BALANCE AT 1 JANUARY 2018	1.385.046	(949.772)	382	435.656
Total recognized income and expenses	-	(904.759)	274	(904.485)
Operations with Fund promoters	(949.772)	949.772	-	-
- Distribution of previous year's profit/(loss) (Note 3)	(949.772)	949.772	-	-
- Conversion of financial liabilities into equity (Note 9.1)	-	-	-	-
Other variations in equity	-	-	-	-
Balance at 31 December 2018	435.274	(904.759)	656	(468.829)

(*) Figures from 2017 are solely and exclusively presented for comparison purposes.

Notes 1 to 16 to the Financial Statements are an integral part of the Statement of Total Changes in Equity corresponding to the year ended at 31 December 2018.

STATEMENT OF CASH FLOWS CORRESPONDING TO THE YEAR ENDED AT 31 DECEMBER 2018 AND 2017

(Thousands of Euros)

CORRECTED

	Notes	Collections / (Payments)	
		Year 2018	Year 2017*
CASH FLOWS FROM OPERATING ACTIVITIES (I)		(149.243)	(463.354)
Profit/(Loss) for the period before tax		(904.759)	(949.772)
Adjustments for:		916.294	968.345
- Amortization and depreciation		121	130
- Impairment corrections	7	679.010	887.337
- Changes in provisions	8 & 13	117.771	(19.684)
- Finance income	7	(625)	(51.489)
- Finance expenses	8	120.017	152.051
Changes in working capital		(67.779)	(430.335)
- Trade and other receivables	7	32	(11)
- Trade and other payables		134	(152)
- Other current liabilities	13	(67.945)	(430.172)
Other cash flows from operating activities		(92.999)	(51.592)
- Interests paid	8	(114.296)	(139.613)
- Interests received	7	21.297	88.021
CASH FLOWS FROM INVESTING ACTIVITIES (II)		232	1.227.564
Payments for investments		(51.905)	(603.473)
- Intangible assets		(152)	(66)
- Property, plant and equipment		(79)	(27)
- Other financial assets	7	(51.674)	(603.380)
Proceeds on divestments		52.137	1.831.037
- Other financial assets	7	52.137	1.831.037
CASH FLOWS FROM FINANCING ACTIVITIES (III)		-	(1.108.652)
Proceeds and payments from financial liabilities	8	-	(1.108.652)
- Debt issuance with credit entities		-	588.553
- Redemption and amortization of debt instruments and other marketable securities		-	(520.000)
- Redemption and amortization of debts with credit institutions		-	(1.177.205)
EFFECT IN VARIATIONS OF EXCHANGE RATES (IV)		-	-
NET INCREASE/DECREASE OF CASH AND CASH EQUIVALENTS (I+II+III+IV)		(149.011)	(344.442)
Cash and cash equivalents at beginning of the year		701.356	1.045.798
Cash and cash equivalents at year-end		552.345	701.356

(*) Figures from 2017 are solely and exclusively presented for comparison purposes.

Notes 1 to 16 to the Financial Statements are an integral part of the Statement of Cash Flows corresponding to the year ended at 31 December 2018.

Notes to the financial statements corresponding to the year ended at 31 December 2018

1. Activity

The FROB is a public entity with legal personality and full public and private capacity to fulfil its purpose, which was incorporated on July 14, 2009 in accordance with the provisions of Royal Decree-Law 9/2009, of 26 June, on bank restructuring and reinforcement of credit entities' equity[1]. Currently, the legal regime under which the FROB operates is Law 11/2015, of 18 June, of recovery and resolution of credit institutions and investment firms (hereinafter, Law 11/2015) which, together with Royal Decree 1012/2015, of 6 November, implementing it, transposes Directive 2014/59/EU of the European Parliament and Council, of 15 May, into Spanish law, establishing a framework for the recovery and resolution of credit institutions and investment firms.

The main features of the resolution framework established by Law 11/2015 originate from the incorporation in Spain of the harmonized resolution regulations established by Directive 2014/59/EU and Regulation (EU) 806/2014 on the Single Resolution Mechanism. Its most important characteristics are the following:

- The resolution's preventive phase is strengthened, all entities operating in the market are required to have recovery and resolution plans for the event that they may incur in difficulties or lack of viability.

- Shareholders and private creditors, or where applicable the industry, must bear an entity's resolution cost, especially protecting depositors and public resources. To this end, internal loss absorption mechanisms (internal recapitalization) are established, and a resolution fund was created, financed by entities themselves.

- The resolution's responsibility in its preventive phase is attributed to Bank of Spain for credit institutions and to the Comisión Nacional del Mercado de Valores for business investments services, both through their respective operationally independent bodies. The FROB is therefore appointed as Executive Resolution Authority.

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

In general, objectives pursued by the resolution processes are the following:

- To ensure the continuity of activities, services and operations whose interruption could disrupt the economy or the financial system and, in particular, financial services of systemic importance, and payment, compensation and settlement systems, taking into account the size, market share, internal or external connections, complexity or cross-border nature of the entity or its group.

- To avoid adverse effects on the financial system's stability, preventing contagion of one institution's difficulties to the system as a whole, and maintaining market discipline.

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

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

- To protect the repayable funds and other assets of credit institutions' customers.

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

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

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

- A National Resolution Fund without legal personality, managed by the FROB and established as separate asset, whose financial resources should reach at least 1 percent of all entities' guaranteed deposits. To achieve this level, the FROB will raise, at least annually, entities' regular contributions, as well as extraordinary contributions, if ordinary were insufficient.

- Contributions to be collected by the FROB for the National Resolution Fund are circumscribed to those entities that, being within the scope of application of Law 11/2015, are not required to contribute to the European Single Resolution Fund. Thus, entities that must contribute to the National Resolution Fund are investment services companies which minimum legally-required share capital is at least of 730,000 Euros, or which activity does not meet characteristics described on article 1.3.b) of Law 11/2015, which are not included on the scope of the European Central Bank's supervision under consolidation with the parent company and which are listed as authorized entities at January 1 of the corresponding year.

- The FROB may also, for the fulfilment of its purposes, seek alternative financing means, such as issue debt securities, receive loans, apply to open credit facilities and undertake other borrowing transactions, if regular contributions provided are not sufficient to cover resolution costs and extraordinary contributions are not immediately available or sufficient. In any case, the FROB borrowings, whatever the mode of its implementation, shall not exceed the limit established for that purpose in the annual laws of the State Budget.

- The FROB may borrow from the funding mechanisms of other European Union's Member States, in the event that regular contributions are not sufficient to cover the costs of resolution, extraordinary contributions are not immediately accessible, and mechanisms of alternative funding indicated in the previous section cannot be used on reasonable terms.

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

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

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

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

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

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

- General rules governing the economic and financial, accounting and control regulations of public bodies reporting or connected to the Central Government, except with regard to the audits of the Spanish National Audit Office, pursuant to Organic Law 2/1982, of 12 May, of the

Spanish National Audit Office and to the ongoing financial control of its internal economic and financial management regulations by the General Audit Office of the State Administration, pursuant to the provisions of Chapter of Title VI on General Budget Law 47/2003, of 26 November.

- Provisions of Law 33/2003, of 3 November, on public administration patrimony in the exercise of its resolution functions. In any case, the FROB will not be subject to the provisions contained in Title VII of the aforementioned Law 33/2003 referred to the business assets of the General State Administration. In this sense, they are not part of the Patrimony of the Public Administrations shares, securities and other instruments that the FROB may acquire in the exercise of its resolution powers.

The FROB is managed and administered by a Governing Committee, comprising eleven members at December 31, 2018: the Chairman, four members appointed by Bank of Spain, one of them, the Deputy Governor who acts as Vice-Chairman of the Governing Committee; three representatives of the Ministry of Economy and Business; the Vice-Chairman of the Comisión Nacional del Mercado de Valores; and two representatives of the Ministry of Finance. Meetings by the Governing Committee are also attended by a representative appointed by the General Comptroller of the State Administration and another appointed by the Attorney General-Director of the State Legal Service, both with voice but not vote.

The FROB's registered address is located at Avenida del General Perón 38 in Madrid.

Significant events in 2018 and 2017

Certain events that occurred in 2018 and 2017 that are significant for understanding these annual accounts are described below:

Year 2018

- In relation to the Bankia-BMN merger, the merger deed was inscribed on the House of Companies of Valencia on January 8, 2018 and new shares issued by Bankia in this regard were listed from January 12, 2018.

- On January 16, 2018, the FROB ratified the decision made by the FROB's Governing Committee on September 12, 2017, approving the capital increase in BFA through non-monetary contribution of the 134,013,851 Bankia shares received in the merger's execution, by virtue of the FROB's ownership of 1,049,311,038 shares in BMN after the application of the exchange equation (see Note 7.2).

- Both the effective take-over of BMN by Bankia, and the capital increase of BFA were considered when elaborating and formulating the FROB's annual accounts of 2017 (see Note 7.2).

- Additionally, as established in the Royal Decree 4/2016, of urgent financial measures, on December 21, 2018, through agreement by the Council of Ministers, as proposed by the Minister of Economy and Business, and following the report of the Ministry of Finance and the FROB, it was agreed to extend the FROB's divestment term in the BFA - Bankia Group for an additional two-year period, with a deadline at December 2021.

Year 2017

Merger Bankia – BMN

- The FROB's Governing Committee agreed, on March 14, 2017, that the reorganization of invested credit entities (Bankia and BMN) through merger was the best strategy to comply with the mandate to optimize the public aids' recovery capacity in view of a future divestment process, instead of through the entities' separate direct sales. Subsequently, on June 26, 2017, the Board of Directors of BMN and Bankia approved the Common Merger Project for both entities, which included the exchange equation determining the number of shares in Bankia to be received in exchange for shares in BMN after its dissolution, being 1 share in Bankia for each 7.82987 shares in BMN. Since, in agreement with the legislation in force, in merger operations, shares' exchange relation must be established on the basis of real equity value in participating entities, this exchange equation was considered when formulating the FROB's annual accounts, corresponding to 2016, and has implied valuing Equity in BMN at 825 million Euros (see Note 7.2).

- On September 14, 2017, the General Shareholders' Meetings of Bankia and BMN approved the merger by absorption of BMN by Bankia, with extinction, through dissolution without liquidation of BMN and transfer of the whole equity to Bankia, which acquires, through universal succession, the totality of equity, rights and obligations of the absorbed company, under the terms and conditions foreseen in the common merger project.

- As foreseen by the Common Merger Project, after obtaining all pertinent administrative authorizations, on December 28, 2017, Bankia took the effective control of BMN (See Note 7.2).

- Accounting registration in Bankia, derived from the merger process: the merger, for accounting purposes, was established on November 30, 2017 (retreated to the date of the previous last month closest to the date when the last required administrative authorization was received). For these purposes, Bankia has considered that the date of convenience from which BMN's operations are considered as performed on behalf of Bankia for accounting purposes is December 1, 2017. According to Bankia's annual accounts corresponding to 2018, the effect in equity and results from considering the date of convenience with regards to the effective acquisition of control is not material.

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

2.1 Regulatory financial reporting framework applicable to the FROB

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

a) The Spanish Commercial Code and all other Spanish corporate law applicable to the Entity.

b) The Spanish National Chart of Accounts approved by Royal Decree 1514/2007, of 16 November, and subsequent modifications.

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

d) All other applicable Spanish accounting legislation.

2.2 Fair presentation

The FROB's annual accounts, which were obtained from its accounting records, are presented in accordance with the financial reporting framework applicable to the Entity (see 2.1) and, in particular, with accounting principles and rules contained therein (see Note 4) and, accordingly, present fairly the Entity's equity and the financial position at December 31, 2018, and its results, the changes in its equity and its cash flows in the year then ended.

The FROB's annual accounts for 2017 were approved by the Governing Committee on May 21, 2018. Annual accounts for 2018, which were authorized for issue by the FROB's Chairman on May 10, 2019, will be submitted for approval by the Governing Committee, and it is considered that they will be approved without any changes.

2.3 Accounting principles

The FROB's annual accounts have been elaborated taking into account the totality of compulsory accounting principles and standards with a significant effect therein (see Note 4). All accounting principles, which effect on these annual accounts is compulsory and significant, have been applied. Non-compulsory accounting principles have not been applied when elaborating the annual accounts.

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

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

In preparing these annual accounts, estimates were made to measure certain items recognized therein. Specifically, estimates were made for the purpose of measuring investments in the capital of Sareb and of BFA Tenedora de Acciones, S.A.U, to the subordinated financing granted by Sareb and subscribed by the FROB, and to determine the possible existence of impairment losses on these investments.

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

a.- In the case of Sareb, from estimated cash flows included on business plan approved by its Board of Directors on March 6, 2019. Such valuation method matches the one applied to the subordinated debt issued by the entity and subscribed by the FROB.

b.- Regarding the interest in BFA, the FROB considered that the best evidence of its recoverable amount, as well as the corresponding impairment losses, as provided by the 9th accounting and measurement rule of Royal Decree 1514/2007, is the investee's consolidated equity as evidenced by their corresponding consolidated and audited for the year 2018 financial statements, excluding minority interests, adjusted, if it were the case, for capital gains that are more easily realizable on the date of valuation that apply to identifiable items in the investee's consolidated balance sheet.

Additionally, the extension of the FROB's divestment term in BFA-Bankia Group, indicated above, largely justifies this calculation method, counting with a lengthy term to perform the divestment in the best conditions possible, and to ensure a more efficient use of public resources.

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

Additionally, at the date of preparation of these annual accounts, there are some uncertainties on the whole effect that, for entities invested or financed by the FROB, could have certain facts or contingencies that, together with the entities' evolution, could affect the valuation of the FROB's investments reflected on these annual accounts, which would in any case be performed prospectively.

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

2.5 Information comparison

Information contained in these annual accounts relating to 2017 is presented with the figures relating to 2018 for comparison purposes only.

2.6 Environmental impact

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

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

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

	2018	2017
	Days	
Average payment period to suppliers	11.81	16.91
Ratio paid operations	11.80	16.79
Ratio of outstanding payment transactions	14.69	18.80
	Thousands of Euros	
Total payments	2,659	4,349
Total outstanding payments	4	247

2.8 Presentation of consolidated financial statements

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

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

In this context, the FROB has performed an analysis of the need to present consolidated annual accounts after having acquired, as described in Note 7 to these annual accounts, majority shareholdings in certain credit institutions, which led it to conclude, after consulting with Bank of Spain and the Spanish National Securities Market Commission (CNMV), over the lack of legal obligation to do so. Matters taken into consideration to reach this conclusion included the following:

- Extremely exceptional circumstances required by law, which require the FROB's intervention in processes in which it acquires majority shareholdings in entities or in which it gains control over managing bodies;

- The fact that the taking of these shareholdings occurs by legal mandate and is intended to complete and guarantee the fulfilment of the restructuring/resolution plan that must conclude with the cession of the business to third parties, and its actions cannot be treated as substantial rights with a mission to take an active part in the businesses' management, aiming their financial and operating policies to obtain economic benefits from their activities.

- The FROB's 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.

Additionally, it should be considered that the presentation of consolidated accounts would not provide the FROB's investors with relevant information, and thus it would not comply with the purpose of offering the true and fair view of the nature and purpose of its majority investments.

3. Application of results

Results generated by the FROB's assets will be integrated into its Equity Fund. The application of profit for 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Basis of allocation:		
Profit/loss per income statement	(904,759)	(949,772)
Allocation to:		
Equity Fund	(904,759)	(949,772)
	(904,759)	**(949,772)**

4. Accounting policies and measurement bases

The main accounting policies and measurement bases used by the FROB in preparing the annual accounts for 2014, in accordance with the Spanish National Chart of Accounts approved by Royal Decree 1514/2007, of 16 November ("the Spanish National Chart of Accounts"), are as follows:

4.1 Property, plant and equipment

4.1.1. Intangible assets

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

Applications' maintenance costs are expensed in the year they are incurred. At December 31, 2018, the FROB did not count with and did not impair any intangible asset.

4.1.2. Tangible fixed assets

Initial recognition -

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

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

Subsequent measurement -

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

Depreciation -

Property, plant and equipment are depreciated systematically on a straight-line basis over their estimated useful lives, taking into consideration their estimated residual value at the end of this period. Estimated useful lives of the Entity's various items of property, plant and equipment at December 31, 2018, calculated on the basis of the Entity's best estimate of the decline in value normally caused by their use and by wear and tear, in addition to the consideration of any technical and commercial obsolescence that might affect them, are the following:

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

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

In 2018, there have not been changes in the estimates of the useful lives of any items of property, plant and equipment owned by the Entity.

Impairment -

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

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

None of the FROB's items of property, plant and equipment were impaired at December 31, 2018 or in the year then ended.

4.2 Non-current assets held for sale

Definition -

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

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

b) Their sale must be highly likely, which is understood to be the case when the following circumstances occur:

    a. There is a plan in place to sell the asset and a project has begun to find a buyer and complete the plan.

    b. The asset's sale is negotiated actively at an adequate price in relation to its current fair value.

    c. The sale is expected to be completed within the year following the date of the asset's classification as held for sale unless, due to events or circumstances outside the Entity's control, the deadline for the sale has to be postponed and the Entity remains committed to the plan to dispose of the asset.

    d. Actions to complete the plan indicate that it is unlikely that there will be significant changes in it or that it will be withdrawn.

Measurement -

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

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

At December 31, 2018, there was no, and there has not been any during 2018, non-current asset held for sale.

4.3 Financial assets - Categories of financial assets

4.3.1. Investments – Group companies and associates

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

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

Dividends accrued on these investments, provided that they do not arise unequivocally from the gains generated prior to their acquisition date, are recognized in the income statement. In 2018 these investments did not accrue any dividends.

Note 7.2 contains significant information on these investments.

4.3.2. Loans and receivables

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

Loans and receivables are recognized in the balance sheet at December 31, 2018 under inter alia, "Non-Current Financial Assets", "Accounts Receivable" and "Current Financial Assets".

Initial recognition -

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

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

Subsequent measurement -

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

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

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

Notes 7.3 and 7.5 contain significant information on these investments.

4.3.3. Available-for-sale financial assets

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

Initial recognition -

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

Subsequent measurement -

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

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

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

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

4.4 Cash

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

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

Note 5 contains certain significant information on treasury.

4.5 Impairment of financial assets

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

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

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

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

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

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

4.5.1 Investments in entities

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

The causes that the FROB could regard as indicating the existence of objective evidence of possible impairment in its investments, notwithstanding the provisions of Resolution of September 18, 2013 of the Spanish Accounting and Audit Institute, include the entities' adverse economic and financial performance and, in particular, the existence of losses and, where appropriate, significant variances with respect to the financial projections envisaged in the corresponding restructuring/resolution plans on which the acquisition price calculations were based; the existence of significant qualifications in the audit of the entities' financial statements and situations that raise doubts as to their viability or solvency, or the existence of other circumstances of a similar nature that could place in doubt the recoverability of the investments' carrying amount.

The amount of the impairment losses is estimated as the difference between the investments' book value and their recoverable amount, understood as the highest between its fair value minus selling costs, and the present value of the future cash flows arising from the investment. If absence of better evidence for the recoverable amount, the FROB estimates the impairment loss taking into consideration equity on the investee's audited annual accounts, excluding minority interests, adjusted, where applicable, by the amount of easily-realizable tacit capital gains at measurement date, on the basis of information available.

The most significant aspects of the methodology used at 2018 year-end for estimating the recoverable amount of the various investments in capital and, therefore, the related impairment losses, are described in Note 2.4 to these annual accounts.

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

4.5.2 Debt instruments classified as "loans and receivables"

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

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

The circumstances that the FROB could consider likely to have impaired these investments and that are considered in the estimates of impairment, notwithstanding the provisions of Resolution of September 18, 2015 of the Spanish Accounting and Audit Institute, include: the non-payment of coupons of contingently convertible bonds and subordinated debt, the existence of significant qualifications in the auditors' reports that raise doubts as to the entities' viability or solvency or the existence of other circumstances of a similar nature that might place in doubt the payment capacity of securities' issuers.

The most significant aspects of the methodology used at year-end 2018 to estimate the subordinated debt's recoverable value and, therefore, the corresponding impairments are described in Note 2.4 of these annual accounts.

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

4.6 Financial liabilities - Accounts payable

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

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

4.7 Derecognition of financial instruments

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

1. The contractual rights on the cash flows they generate have been extinguished; or

2. The contractual rights on the financial asset's cash flows are granted and the asset's risks and rewards of ownership are substantially transferred or, although these are not substantially transferred or retained, control over the financial asset is transferred.

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

4.8 Tax regime

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

4.9 Revenue and expense recognition

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

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

Operating leases

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

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

Lease term	Penalties
31 January 2023	Early termination

On January 2018, the lease agreement was renewed, until January 31, 2023, with an annual rent for the first year of 559 thousand Euros (not including VAT), annually renewable, in agreement with section 6 of article 4 of Law 2/ 2015, of 30 March, on de-indexation of the Spanish economy.

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

4.10 Provisions and contingencies

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

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

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

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

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

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

4.11 Related party transactions

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

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

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

4.12 Definition of fair value and amortized cost

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

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

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

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

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

5. Cash and cash equivalents – Cash

At December 31, 2018 and 2017, "Cash and Cash Equivalents - Cash" in the accompanying balance sheet corresponds to the following details:

	Thousands of Euros	
	2018	2017
Accounts held in Bank of Spain	538,178	697,986
Current accounts in other entities	14,373	3,651
Outstanding accrued interests payable	(206)	(281)
	552,345	**701,356**

At December 31, 2018, accounts held by the FROB in Bank of Spain have earned, according to the European Central Bank's regulations on the remuneration of deposits of Public Administrations in a National Central Bank, negative interests by 2,704 thousand Euros (1,547 thousand Euros in 2017) (rate of -0.40%) recorded under the caption "Financial expenses – Interests and commissions" in the accompanying income statement (see Notes 8.6 and 15), out of which 204 thousand Euros remain payable at December 31, 2018.

During 2018, negative interests accrued for the FROB's current accounts held in other entities have amounted to 18 thousand Euros (292 thousand Euros in 2017), registered on caption "Financial expenses – Interests and fees" of the enclosed profit and loss account (see Note 8.6), out of which 2 thousand Euros remain payable at December 31, 2018.

Additionally, during 2017, interests earned on bank deposits and current accounts in other entities held by the FROB amounted to 552 thousand Euros and are registered on caption "Financial income – Banking interests" of the enclosed profit and loss account (see Note 7.6), which were fully collected during 2017.

6. Non-current assets classified as held for sale

At December 31, 2018 and December 31, 2017, there are no equity elements classified on this caption of the enclosed balance sheet.

7. Financial assets

7.1 Detail of financial assets

The detail, classified in accordance with applicable legislation, of financial assets owned by the FROB at December 31, 2018 and 2017 is as follows:

Year 2018

Classes / Categories	Thousands of Euros						
	Non-Current Financial Instruments			Current Financial Instruments			
	Equity Instruments (Note 7.2)	Debt Instruments (Note 7.3)	Loans and Other	Equity Instruments	Debt Instruments (Note 7.4)	Loans and Other (Note 7.5)	Total
Investments in Group companies, jointly controlled entities and associates (*)	9,560,394	-	-	-	-	-	**9,560,394**
Loans and receivables	-	168,537	-	-	-	18,476	**187,013**
Available-for-sale financial assets	-	254,917	-	-	380,145	-	**635,062**
Total	**9,560,394**	**423,454**	-	-	**380,145**	**18,476**	**10,382,469**

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

Year 2017

Classes / Categories	Thousands of Euros – Non-Current Financial Instruments – Equity Instruments (Note 7.2)	Non-Current – Debt Instruments (Note 7.3)	Non-Current – Loans and Other	Current Financial Instruments – Equity Instruments	Current – Debt Instruments (Note 7.4)	Current – Loans and Other (Note 7.5)	Total
Investments in Group companies, jointly controlled entities and associates (*)	9,857,437	-	-	-	-	-	**9,857,437**
Loans and receivables	-	550,504	-	-	-	11,451	**561,955**
Available-for-sale financial assets	-	597,043	-	-	58,655	-	**655,698**
Total	**9,857,437**	**1,147,547**	-	-	**58,655**	**11,451**	**11,075,090**

(*) Including the amount of 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 investments comprising "Non-Current Investments in Group Companies and Associates – Equity Instruments" in the enclosed balance sheet at December 31, 2018 and 2017 is as follows:

Year 2018

Company	%	Location	Thousands of Euros – Data on the Investees' Assets (*) – Share Capital	Reserves and Other Equity Items	Profit (Loss) Attributable to the Parent	Carrying Amount of the FROB's Investment – Cost	Impairment	Carrying Amount
BFA Tenedora de Acciones, S.A.U	100%	Madrid	1,918,367	7,255,779	250,248	19,604,000	(10,043,606)	9,560,394
Sareb	45.9%	Madrid	303,862	(4,561,404)	(878,348)	996,232	(996,232)	-
						20,600,232	**(11,039,838)**	**9,560,394**

(*) Data related to the equity position of these companies were obtained from the audited consolidated financial statements at December 31, 2018, excluding minority interests.

Year 2017

Company	%	Location	Thousands of Euros – Data on the Investees' Assets (*) – Share Capital	Reserves and Other Equity Items	Profit (Loss) Attributable to the Parent	Carrying Amount of the FROB's Investment – Cost	Impairment	Carrying Amount
BFA Tenedora de Acciones, S.A.U	100%	Madrid	1,918,367	7,657,060	282,010	19,604,000	(9,746,563)	9,857,437
Sareb	45.9%	Madrid	303,862	(3,446,516)	(564,576)	996,232	(996,232)	-
						20,600,232	**(10,742,795)**	**9,857,437**

(*) Data related to the equity position of these companies were obtained from the audited consolidated financial statements at December 31, 2018, excluding minority interests.

Changes in "Non-Current Investments in Group Companies and Associates - Equity Instruments" in the accompanying balance sheet in 2018 and 2017 were as follows:

	Miles de Euros
Balance at 1 January 2017	**10,639,110**
Net allocation for impairment charged to the profit and loss account	(781,673)
Balance at 31 December 2017	**9,857,437**
Net allocation for impairment charged to the profit and loss account	(297,043)
Balance at 31 December 2018	**9,560,394**

BFA Tenedora de Acciones, S.A.U. ("BFA")

BFA was initially incorporated as credit entity. Subsequently, on December 23, 2014, Bank of Spain communicated the approval to BFA, with effect from January 2, 2015, of the entity's prior waiver request to continue operating as credit entity. On January 28, 2015, the corresponding deed of Bylaws' modification was inscribed on the House of Companies of Madrid. Currently, BFA continues being Bankia's holding.

According to Law 9/2012, the FROB should complete the divestment of its interest on Bankia's capital before five years elapse from injection date. However, Royal Decree 4/2016, of 2 December, on urgent financial measures, extended the term to 7 years, locating the deadline on December 2019, with the possibility that, if necessary for a better compliance with the resolution's objectives, the term would be extended again by the Council of Ministers.

Accordingly, on December 21, 2018, through agreement by the Council of Ministers as proposed by the Ministry of Economy and Business and prior report by the Ministry of Finance and the FROB, it was approved to extend the FROB's divestment term in BFA-Bankia Group for an additional two-year period, placing a deadline at December 2021.

Within the divestment process, on December 11, 2018, the FROB sold, through BFA, 7% of Bankia's capital through execution of an accelerated placement operation, targeting exclusively institutional investors. For such purpose, BFA placed 201,553,250 million shares in Bankia on sale, representing 7% of the entity's share capital, for an amount of 818.3 million Euros.

Additionally, and as commented on Note 1, once conditions precedent were met, on December 28, 2017 Bankia acquired effective control of BMN. The merger deed was inscribed on the House of Companies of Valencia on January 8, 2018, and new shares issued by Bankia for this purpose were listed on January 12. As a consequence of the merger, BMN's shares are fully amortized.

Furthermore, on January 16, 2018, a capital increase in BFA was approved, through non-monetary contribution of Bankia's shares received by the FROB (134,013,851 shares), as a consequence of the merger, in exchange for BMN's shares owned by the FROB (1,049,311,038 shares), through the issuance and subscription by the FROB of 1,224,670,108 new shares in BFA. New shares are issued at nominal value of 0.10 Euros per share, plus a share premium of 0.340471723 Euros per share, resulting on a share capital increase of 122,467,010.80 Euros, with a share premium of 416,965,542.25 Euros. This increase was inscribed, on February 2, 2018, on the House of Companies of Madrid.

These operations were taken into account in the elaboration and formulation of the FROB's annual accounts of 2017.

At December 31, 2018, BFA's shareholding percentage in Bankia amounts to 61.39% (60.98% at December 31, 2017).

At 2018 closing, according to the criteria set out in Notes 2.4 and 4.5, the FROB has estimated the recoverable amount of its investment in BFA, considering BFA Group's equity, resulting on the recognition of an impairment for an amount of 297,043 thousand Euros, registered on caption "Impairment and results from disposals of financial instruments – Impairment and losses" of the enclosed income statement. As a consequence, at December 31, 2018, net book value of FROB's investment in BFA amounts to 9,560,394 thousand Euros.

FROB participation in Sareb is classified under "Non-current investments in Group companies and associates". The details of the FROB's investment in Sareb at year-end 2018 and 2017 (thousands of Euros) are the following:

Year	Number of shares	Equity	Percentage share	Share premium	Cost of investment	Impairment Loss	Net book value
31.12.2015	**135,015,000**	**135,015**	**45.0%**	**405,045**	**540,060**	**(540,060)**	**-**
Additions	996,231,960	139,472	45.9%	-	996,232	(154,827)	841,405
Write-offs	135,015,000	135,015	45.0%	405,045	(540,060)	540,060	-
31.12.2016	**996,231,960**	**139,472**	**45.9%**	**-**	**996,232**	**(154,827)**	**841,405**
Additions	-	-	-	-	-	(841,405)	-
31.12.2017	**996,231,960**	**139,472**	**45.9%**	**-**	**996,232**	**(996,232)**	**-**
31.12.2018	**996,231,960**	**139,472**	**45.9%**	**-**	**996,232**	**(996,232)**	**-**

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

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

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

Additionally, on December 2016, Royal Decree-Law 4/2016, of 2 December, of urgent financial measures was published, modifying the registration scheme for latent capital losses resulting from the application of said accounting Circular, establishing that the registration of said capital losses will be directly performed in the company's equity, instead of in the income statement as previously required. In so far as, by virtue of the Royal Decree-Law, the standard's application should be treated at accounting level as a change of criterion, its application had retroactive effects and accounting adjustments implied a credit to the reserves account for the cumulative amount of impairments, net of tax impact. Consequently, Sareb increased reserves, with equity at 2016 closing for an amount of 2,619,943 thousand Euros.

On December 31, 2017, an impairment of the totality of the investment in capital was registered on caption "Impairment and Gains on Disposals of Financial Instruments-Impairments and Losses" of the enclosed income statement, amounting to 841,405 thousand Euros.

In application of criteria exposed on Notes 2.4 and 4.5 above, the FROB has estimated this investment's recoverable value on the basis of Sareb's Business Plan, approved by its Board of Directors on the session held on March 6, 2019.

The Business Plan's update includes an adaptation of the company's strategy towards the preservation of its assets' economic value through time. Thus, it promotes the process of the financial assets' transformation into property assets. This process implies a reduction of income from financial assets during a transitory period, promoting debt property swap and executions for estates included as guarantee for loans and credits. This aims to protect the company's value at the long term, in so far as the collateral recovery seems predictably more profitable than through the sale of loans, which requires high discounts. Additionally, this Plan's new update contemplates a more moderated market growth–in comparison with previous years' forecasts– according to the review of the Spanish economy's growth perspectives indicated by international bodies. This implies that recoverability forecasts derived from the last update, even remaining positive, are reduced with regards to those estimated at 2017 accounting closing.

Accordingly, at December 31, 2018, there has not been any variation in the valuation of the FROB's investment in Sareb, which remains fully impaired.

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

Loans and receivables

In "Loans and receivables" at year-end 2018 and 2017 are included contingently convertible subordinated unsecured obligations issued by Sareb and subscribed by the FROB.

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

As part of said resolution process, CX carried out a selling process for a portfolio of assets, awarded to Blackstone, which sale was formalized on April 2015. The operation, structured through the transfer of said portfolio to an Assets' Securitization Fund (FTA2015) and other Blackstone Group companies, counted with the FROB's financial support through: i) the subscription of a subordinated bond for a value of 524,878 thousand Euros; ii) the awarding of a guarantee for faulty credits which fair value amounts to 124,000 thousand Euros (see Note 13.2) and, iii) the awarding of a liquidity line (see Note 7.5).

Tables in following pages show a detail of investments integrated on this caption of the enclosed balance sheet at December 31, 2018 and 2017.

Year 2018

Issuing Entity	Financial Instrument	Payment Date	Nominal	Impairment Loss	Carrying Amount	Accrued Coupon (Note 7.4)	Interest Rate	Interest Accrued (Note 7.6)	Maturity	Guarantees
SAREB (1)	Subordinated debt	26/02/2013	656,168	(487,631)	168,537	-	8.00%	-	27/11/2027	-
Total			**656,168**	**(487,631)**	**168,537**	-		-		

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

Year 2017

Issuing Entity	Financial Instrument	Payment Date	Nominal	Impairment Loss	Carrying Amount	Accrued Coupon (Note 7.4)	Interest Rate (1)	Interest Accrued (Note 7.6)	Maturity (2)	Guarantees
Banco Ceiss, S.A. (3)	CoCos	30/04/2013	604,000	-	-	-	10.25%	40.224	Perpetua	Issuer's universal equity liability
SAREB (4)	Subordinated debt	26/02/2013	656,168	(105,664)	550,504	-	8.00%	-	27/11/2027	-
Total			**1,260,168**	**(105,664)**	**550,504**	-		**40.224**		

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

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

(3) CoCos are placed in order of priority: (i) behind all creditors, subordinated or not; (ii) behind the holders of preference shares and/or preferred stock; (iii) in the same order of priority as other issues of convertible preference shares and other securities equivalent to these convertible securities; and (iv) ahead of ordinary shareholders. Such values were fully liquidated in 2017.

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

Variations in this caption on the enclosed balance sheet, during 2018 and 2017, have been the following:

	Thousands of Euros
Balance at 1 January 2017	**1,260,168**
Amortization	(604,000)
Net allocation for impairment charged to the profit and loss account	(105,664)
Balance at 31 December 2017	**550,504**
Net allocation for impairment charged to the profit and loss account	**(381,967)**
Balance at 31 December 2018	**168,537**

Sareb

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

These bonds are classified as non-guaranteed subordinated debt contingently convertible into newly-issued, ordinary shares of SAREB and partial redemption is possible at the discretion of SAREB as from the fifth year of the issue, according to its solvency and leverage ratios. The accrual of interest is subject to the obtainment by SAREB of sufficient distributable profit. If this condition is met, for the payment of such interest that there be adequate cash shall be required. Otherwise, the payment will be delayed as a non-subordinated credit payable to the FROB until SAREB has sufficient cash to meet the payment. The accrued payable amount will in turn accrue interest at 12-month Euribor. If the payment of interest is declared, the applicable interest rate will be a fixed annual rate of 8% on the unmatured bonds. Since in 2018 Sareb obtained no distributable profit, the FROB has not registered interests on such assets in 2018.

In case of insufficient Sareb equity the subordinated debt will be convertible into equity capital by: i) the existence of cumulative losses that result equal or above the share capital plus reserves or ii) in the case of dissolution by losses that reduce its net assets to an amount less than half of its share capital. Assuming the conversion occurs, the shares will be of the same par value, of the same class and series and with the same rights as the ordinary shares, and shall be made for an amount such that the share capital represents 2% of assets' value after conversion. Based on the above, in 2016, 996,232 thousand Euros was converted from subordinated debt to capital, without impact in the profit and loss account of 2016 (see Note 7.2.). As a consequence, at December 31, 2016, un-coverted outstanding nominal amounted to 656,168 thousand Euros. Additionally, considering that on the order of precedence of return of the company's contribution the subordinated debt is ahead capital, there was no impairment evidence on this investment.

At December 31, 2018, based on the business plan of Sareb whose assumptions are described in Note7.2, and in view of the objective evidence of impairment, an impairment loss has been registered, for an amount of 381,967 thousand Euros (105,664 thousand Euros in 2017), charged on caption "Impairment and profit/(loss) from disposals of financial instruments - Impairment and losses" on the enclosed income statement of such year.

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

On August 31, 2017, Unicaja Banco, S.A. performed an early amortization of the totality of subscription of bonds contingently convertible into ordinary shares (CoCos) of Banco Ceiss amounting to 604,000 thousand Euros, paid on April 30, 2013 through a non-monetary contribution consisting of European Stability Mechanism (ESM) securities.

Interests earned on the CoCos in 2017 amounted to 40,224 thousand Euros (see Note 7.6), which have been fully collected in year 2017.

Available-for-sale financial assets

In this category, at December 31, 2018, the FROB has registered in caption "Non-current financial investments– Debt securities" on the enclosed balance sheet certain State's debt securities with a market value of 254,917 thousand Euros (597,043 thousand Euros at December 31, 2017). Interests accrued from these securities during 2018 have implied 669 thousand Euros negative (22 thousand Euros in 2017), and are registered on caption

"Finance costs – Interests and fees" on the income statement. Valuation adjustments at December 31, 2018 amounted to 373 thousand Euros positive (230 thousand Euros positive at December 31, 2017) and were registered in caption "Valuation adjustments- Available-for-sale financial assets" of the enclosed balance sheet.

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

The detail of the balance of current debt securities at 2018 and 2017 closing is the following:

	Thousands of Euros	
	2018	2017
Spanish government debt securities	380,145	58,655
Total	**380,145**	**58,655**

Loans and receivables

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

On March 24, 2017, Ibercaja Banco, S.A. completed the amortization of contingently convertible bonds ("CoCos") which remained outstanding in a value of 223,600 thousand Euros, which were disbursed by the FROB on March12, 2013, through non-monetary contribution consisting in securities of the European Stability Mechanism (ESM).

Interest earned on these assets in 2018 amounted to 4,994 thousand Euros (see Note 7.6), which were fully collected in 2017.

Available-for-sale financial assets

At December 31, 2018 and 2017, the balance recognized under "Spanish Government Debt Securities" of the foregoing table is composed of state debt all of which was classified as available-for-sale financial assets with a market value of 273,130 thousand Euros (50,224 thousand Euros at December 31, 2017). Also 7,015 thousand Euros are included (8,431 thousand Euros at December 31, 2017) corresponding to accrued interest receivable for these government bonds and are recognized under "Non-Current Financial Assets - Debt Instruments" of the enclosed balance sheet (see Note 7.3).

Interests earned on these securities in 2018 amounted to 1,206 thousand Euros negative, recognized under "Finance Expenses – Interests and Commissions" in the accompanying income statement (see Note 8.6). At December 31, 2018, such securities have undergone positive valuation adjustments for an amount of 283 thousand Euros (152 thousand Euros at December 31, 2017), recognized under "Valuation Adjustments - Available-for-Sale Financial Assets" on the enclosed balance sheet.

Also, during 2018, securities have matured at a nominal value of 50,000 thousand Euros and have generated interest amounting to 121 thousand Euros, recognized under "Finance Income – Government Debt Interest" in the accompanying income statement (see Note 7.6). Securities matured during 2017 generated positive interests of 3,751 thousand Euros.

In 2018 and 2017, no government bonds were sold.

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

The detail of loans to companies classified as current "Loans and receivables" at 2018 and 2017 year-end is as follows:

	Thousands of Euros	
	2018	2017
CX liquidity line	8,150	10,292
Sale guarantees NCG (DGF) (Note 13)	-	1,159
Sale guarantee NCG (DGF) (Note 13)	10,326	-
Total	**18,476**	**11,451**

Liquidity line (CX)

As indicated in Note 7.3, the FROB rendered certain financial support in the sale operation of an asset portfolio carried out by Catalunya Banc within the FROB's divestment process in the entity. These supports include the awarding of a liquidity line to the FTA2015 for a maximum amount of 400 million Euros, which balance disposed of at December 31, 2018 amounts to 8,112 thousand Euros (10,249 thousand Euros in 2017). Also, the line has generated finance income (interests and associated commissions) for an amount of 462 thousand Euros (554 thousand Euros in 2017), of which 38 thousand Euros are receivable at December 31, 2018 (44 thousand Euros at December 31, 2017).

Sale guarantees NCG (DGF)

At December 31, 2017, this caption of the balance sheet included an amount of 1,159 thousand Euros, which was liquidated with the Deposit Guarantee Fund on October 19, 2018.

Sale guarantees CX (DGF)

The amount of 10,326 thousand Euros, included on this caption of the balance sheet at December 31, 2018, corresponds to the amount to be assumed by the Deposit Guarantee Fund, as a consequence of the modification of the estimated value of guarantees granted in the entity's sale process (see Notes 13.1 and 13.2).

7.6. Finance income

The detail of "Finance Income" in the accompanying income statement for 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Banking interests (Note 5)	-	552
Interests on public debt (Note 7.4)	121	4,998
Interests on convertible bonds (Notes 7.3 and 7.4)	-	45,218
Interests on repos (Note 8.4)	-	167
Other interests (Note 7.5 and 13.1)	504	554
Total	**625**	**51,489**

8. Financial liabilities

8.1 Detail of financial liabilities

The detail, as required by applicable legislation, of financial liabilities assumed by the FROB at December 31, 2018 and 2017 is as follows:

Year 2018

Classes / Categories	Thousands of Euros					
	Non-Current Financial Instruments		Current Financial Instruments			Total
	Debt instruments and other marketable securities	Other non-current payables (Note 8.2)	Debt instruments and other marketable securities (Note 8.3)	Debts with credit institutions (Note 8.4)	Other current payables (Note 8.5)	
Debts and Accounts payable	-	10.429.421	-	-	21.427	10.450.848
	-	**10.429.421**	**-**	**-**	**21.427**	**10.450.848**

Year 2017

Classes / Categories	Thousands of Euros					
	Non-Current Financial Instruments		Current Financial Instruments			Total
	Debt instruments and other marketable securities	Other non-current payables (Note 8.2)	Debt instruments and other marketable securities (Note 8.3)	Debts with credit institutions (Note 8.4)	Other current payables (Note 8.5)	
Debts and Accounts payable	-	10.426.389	-	-	25.404	10.451.793
	-	**10.426.389**	**-**	**-**	**25.404**	**10.451.793**

8.2 Non-current payables – Other non-current debts

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

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

ISIN	Issue Date	Initial Maturity Date (*)	Nominal (thousands of Euros)	Issue price
Tranche 1			**39.468.000**	
EU000A1U97C2	11/12/2012	11/02/2013	2,500,000	100.00%
EU000A1U97D0	11/12/2012	11/10/2013	6,468,000	99.90%
EU000A1U98U2	11/12/2012	11/06/2014	6,500,000	100.00%
EU000A1U98V0	11/12/2012	11/12/2014	12,000,000	100.00%
EU000A1U98W8	11/12/2012	11/12/2015	12,000,000	100.00%
Tranche 2			**1,865,000**	
EU000A1U98X6	5/02/2013	5/08/2015	1,865,000	100.00%
Total			**41,333,000**	

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

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

- On December 9, 2013, prior authorization of the ESM, the partial conversion of the Spanish State's loan into equity contribution to the FROB was agreed for an amount of 27,170 million Euros (see Note 9.1).
- In 2014 unused funds in Sareb amounting to 307,540 thousand Euros were returned, as well as a voluntary partial repayment of the loan amounting to 399,284 thousand Euros.
- On June 30, 2018, prior authorization by the EFSM, a new partial conversion of the Spanish State's loan was performed through capital contribution to the FROB, for an amount of 3,000 million Euros (see Note 9.1).

Accordingly, at December 31, 2018, the outstanding balance of the loan granted by the Spanish State to the FROB amounts to 10,456,175 thousand Euros (10,456,175 thousand Euros at December 31, 2017), out of which 8,591,175 thousand Euros correspond to the first disbursement and 1,865,000 Euros to the second disbursement, with the following breakdown:

ISIN	Nominal *(thousands of Euros)* 2018	2017
Tranche 1		
EU000A1U97C2	-	-
EU000A1U97D0	-	-
EU000A1U98U2	1,242,691	1,242,691
EU000A1U98V0	3,674,242	3,674,242
EU000A1U98W8	3,674,242	3,674,242
	8,591,175	**8,591,175**
Tranche 2		
EU000A1U98X6	1,865,000	1,865,000
	10,456,175	**10,456,175**

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

The amount recognized under "Current Payables - Other non-current liabilities" in the accompanying balance corresponds to the cash value minus those costs of its formalization whose net amounts to 10,429,421 thousand Euros (10,425,184 thousand Euros at December 31, 2017).

The loan has generated, in 2018, finance expenses for the accrual of opening fees and associated expenses for an amount of 4,237 thousand Euros and 8 thousand Euros respectively (14,341 thousand Euros in 2017), booked under the caption "Finance expenses – Interests and commissions" of the enclosed profit and loss account (see Note 8.6). At December 31, 2018, an amount of 8 thousand Euros remained payable (see Note 8.5). This amount has been liquidated on April 2019.

In turn, interests accrued by this loan during 2018 amount to 111,143 thousand Euros (135,378 thousand Euros in 2017), and are registered in caption "Finance expenses – Interests and commissions" of the enclosed profit and loss account (see Note 8.6), of which, at December 31, 2018, 6,110 thousand Euros remained payable (at December 31, 2017, 6,466 thousand Euros) (see Note 8.5).

8.3 Current payables – Debt instruments and other marketable securities

At December 31, 2018 and 2017, there are no balances registered on caption "Current debts – Debt instruments and other marketable securities".

On April 30, 2017, a simple bond with surety from the State's General Administration was matured, agreed by the Governing Committee in 2015, within the resolution of Catalunya Banc, for an amount of 520,000 thousand Euros.

Finance costs accrued by this bond during 2017 were recognized under "Finance Costs - Interest and Fees" in the accompanying income statement (see Note 8.6), for an amount of 373 thousand Euros, which were fully paid at 2017 closing.

8.4 Current payables - Debts with credit institutions

At December 31, 2018 and 2017, the caption "Current payables – Debts with credit institutions" does not include any balance.

On January 12, 2018, the seven sales operations with treasury bills' repurchase agreement of treasury bonds matured for an actual amount of 588,782 thousand Euros, contracted on December 2017 and which accrued an annual interest rate from -0.20% to -0.37%.

During 2017, interests accrued for this operation amounted to 167 thousand Euros and were recorded in the caption "Finance income – Other interests" of the enclosed profit and loss account (see Note 7.6).

In 2018, no operation has been performed corresponding to this caption.

8.5 Current payables - Other current payables

At December 31, 2018, the balance recognized under "Current Payables - Other Current Payables" in the accompanying balance sheet corresponds, on the one hand, to interests and commissions accrued and not paid, corresponding to the Spanish State's loan to the FROB indicated in Note 8.3 and which amount to 6,118 thousand Euros (6,466 thousand Euros at December 31, 2017).

Additionally, this caption includes an amount of 12,020 thousand Euros, corresponding to amounts to be liquidated with the Deposits Guarantee Fund as a consequence of the modification of the estimated value of guarantees granted in the selling process of NCG (see Note 13.1).

Moreover, this caption includes an amount of 2,083 thousand Euros, corresponding to the amount recognized and payable to the entity Abanca Corporación Bancaria S.A for guarantees granted by the FROB in the NCG sale process (see Note 13.2). At December 31, 2017, the balance sheet included an amount of 2,867 thousand Euros for this concept, which has been liquidated on May 31, 2018.

8.6 Finance costs

The detail of "Finance Costs" in the accompanying income statements for 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Interest and fees		
- Interests on debt instruments and bonds (Note 8.3)	-	373
- Banking interests (Note 5)	2,722	1,839
- Public debt's interests (Note 7.4)	1,875	22
- Interest and fees on other payables (Note 8.2)	115,388	149,718
Interest cost relating to updating of provisions (Note 13.1)	32	99
Total	**120,017**	**152,051**

9. Equity

9.1 Equity fund

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

	Thousands of Euros			
Contributing Entities	Capitalization of Loans	Cash Disburseme nts	Fixed-Income Securities	Total
State Budget				
- 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*
- Law 11/2015	*3,000,000*	-	-	*3,000,000*
Deposit Guarantee Fund for Credit Institutions (*)				
- Royal Decree Law 9/2009	-	*1,500,146*	*749,854*	*2,250,000*
	30,170,000	**14,250,146**	**749,854**	**45,170,000**

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

To complement the initial endowment made to the FROB established by Royal Decree-Law 9/2009 (9,000,000 thousand Euros), Royal Decree-Law 2/2012, of 3 February, on the clean-up of the financial sector, added an increase of 6,000,000 thousand Euros out of the State Budget. Additionally, on December 9, 2014, was agreed the partial conversion of the Spanish State's loan, amounting to 27,170,000 thousand Euros in an equity contribution to the FROB's endowment, prior approval of the EFSM. Furthermore, on June 30, 2017, there was a new partial conversion of said loan in contribution to the FROB's capital allocation for an amount of 3,000,000 thousand Euros, by virtue of article 53.4 of Law 11/2015 and, as established on the agreement, prior authorization by the EFSM (see Note 8.2).

At December 31, 2018, the FROB's equity amounts to 469,485 thousand Euros negative (435,274 thousand Euros positive at December 31, 2017), comprised by the abovementioned 45,170.000 thousand Euros and results obtained by the FROB since its establishment until December 31, 2018.

However, and although the FROB could operate with negative equity, Law 11/2015 establishes that the FROB's equity could be increased, where applicable, through the capitalization of loans, credits or other indebtedness operation in the FROB with the Public Administration as creditor. In this sense, the loan agreement between the Spanish State and the FROB, prior authorization by the ESM, allows the partial or total transformation of this loan into capital contribution to the FROB (See Note 8.2).

9.2 Valuation adjustments

Available-for-sale financial assets

This caption in the accompanying balance sheet includes the amount of changes in fair value of available-for-sale financial assets which, as stated in Note 4.3.4, must be recognized in equity, and the changes of which are recognized in the income statement when the assets which gave rise to them are sold or become impaired (See Note 7.3 and 7.4)

The statements of recognized income and expense for 2018 and 2017 include the changes in "Valuation Adjustments – Available-for-Sale Financial Assets" in the balance sheets of those years.

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

A detail of the FROB's main risk factors associated with financial instruments and the policies adopted to manage them are as follows.

Liquidity risk

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

The breakdown, by maturity, of balances of certain items in the balance sheet at December 31, 2018 and 2017, based on a scenario of "normal market conditions", in accordance with their contractual terms, is as follows:

Year 2018

	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	552,345	-	-	-	-	-	552,345
Current financial assets							
Loans to third parties	-	-	-	-	-	-	-
Debt securities	380,145						380,145
Other financial assets	18,476	-	-	-	-	-	18,476
Non-current financial investments							
Debt securities	-	254,917	-	-	-	168,537	423,454
Total at 31 December 2018	950,966	254,917	-	-	-	168,537	1,374,420
Liabilities:							
Current debts							
Debt instruments and other marketable securities	-	-	-	-	-	-	-
Current debts with credit institutions	-	-	-	-	-	-	-
Other current payables	21,427	-	-	-	-	-	21,427
Non-current debts							
Debt instruments and other marketable securities	-	-	-	-	-	-	-
Other non-current payables	-	-	-	1,431,863	1,431,862	7,592,450	10,456,175
Total at 31 December 2018	21,427	-	-	1,431,863	1,431,862	7,592,450	10,477,602
Difference assets-liabilities at 31 December 2018	**929,539**	**254,917**	-	**(1,431,863)**	**(1,431,862)**	**(7,423,913)**	**(9,103,182)**
Cumulative difference assets-liabilities at 31 December 2018	**929,539**	**1,184,456**	**1,184,456**	**(247,407)**	**(1,679,269)**	**(9,103,182)**	

Year 2017

	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	701,356	-	-	-	-	-	701,356
Current financial assets							
Loans to third parties	-	-	-	-	-	-	-
Debt securities	58,655						58,655
Other financial assets	11,451	-	-	-	-	-	11,451
Non-current financial assets							
Debt securities	-	597,043	-	-	-	550,504	1,147,547
Total at 31 December 2017	771,462	597,043	-	-	-	550,504	1,919,009
Liabilities:							
Current debts							
Debt instruments and other marketable securities	-	-	-	-	-	-	-
Current debts with credit institutions	-	-	-	-	-	-	-
Other current payables	25,404	-	-	-	-	-	25,404
Non-current debts							
Debt instruments and other marketable securities	-	-	-	-	-	-	-
Other non-current payables	-	-	-	-	-	10,426,389	10,426,389
Total at 31 December 2017	25,404	-	-	-	-	10,426,389	10,451,793
Difference assets-liabilities at 31 December 2017	**746,058**	**597,043**	-	-	-	**(9,875,885)**	**(8,532,784)**
Cumulative difference assets-liabilities at 31 December 2017	**746,058**	**1,343,101**	**1,343,101**	**1,343,101**	**1,343,101**	**(8,532,784)**	

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

- At 2018 year-end, the amount of liquid assets exceeds that of liabilities maturing in 2019.
- If a mismatch between the maturity of assets and liabilities occurred from 2019 to 2021, it would be offset by the liquidity available to the FROB at 2018 year-end.
- Law 11/2015 allows the capitalization of loans, credits or other debt operation of the FROB in which the General State Administration is a creditor.

Credit risk

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

At December 31, 2018, this risk basically consisted in the existence of subordinated debentures issued by Sareb and subscribed by the FROB (see Note 7.3).

Interest rate risk

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

At December 31, 2018, the financial assets exposed to interest rate risk are those held in cash (see Note 5).

Market risk

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

At December 31, 2018, the financial assets exposed to market risk were national debt held in the available-for-sale financial assets category (see Note 7.3 and 7.4).

Other risks

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

11. Public Administrations and tax position

11.1 Current balances with Public Administrations

The detail of "Current Liabilities - Trade and Other Payables - Other Accounts Payable to Public Authorities" in the balance sheets at December 31, 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Withholdings payable	83	90
VAT payable	1	7
Social Security payable	47	52
Total	**131**	**149**

11.2 Tax position

As indicated above (see Note 4.8), the FROB is exempt from income tax and any indirect taxes that might be payable as a result of its incorporation, operation and the actions or transactions that it may carry out in order to fulfil its objectives.

12. Trade and other payables – Other accounts payable

"Trade and Other Payables - Other Accounts Payable" in the balance sheet at December 31, 2018 and 2017 include balances payable to several creditors for services.

The accrued expenses for these services in 2018 and 2017 are recognized under "Other Operating Expenses" in the accompanying income statement (see Note 14.3).

13. Provisions and contingencies

13.1 Non-current provisions

The detail of "Non-Current Provisions" on the liability side of the enclosed balance sheet at December 31, 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Banco de Valencia asset protection scheme	345,921	464,325
Banco Gallego guarantees	-	94,808
CX guarantees	34,330	22,378
NCG Banco guarantees	37,921	195,227
Deposit Guarantee Fund hybrids management NCG	2,062	1,268
Deposit Guarantee Fund hybrids management CX	5,308	-
Other provisions	253,368	-
Total	**678,910**	**778,006**

The variation of the balance of this caption in 2018 and 2017 is the following:

	Thousands of Euros
Balance at 1 January 2017	**839,894**
Additions	13,041
Transfers to current liabilities	(76,158)
Updated financial costs (Note 8.6)	70
Other variations	1,159
Balance at 31 December 2017	**778,006**
Allocations	317,566
Transfers to current liabilities	(229,849)
Updated financial (income)/expenses (Note 7.6 and 8.6)	(39)
Surpluses	(197,322)
Other variations	10,548
Balance at 31 December 2018	**678,910**

Esquema de Protección de Activos Banco de Valencia, S.A.

As part of the restructuring process of Banco de Valencia, S.A., the FROB granted an Asset Protection Scheme (hereinafter APS) covering 72.5% of losses arising from a closed portfolio of assets of Banco de Valencia, S.A. amounting to 6,021,982 thousand Euros, with a ten-year term from September 30, 2012. After the reductions of the EPA perimeter in 2013 and 2016, the portfolio covered at such date of EPA bills amounts to 4,980,022 thousand Euros.

The estimated EPA cost at year-end closing is divided, on the one hand, in materialized registered losses to be covered by the FROB at the short term and, on the other, in forecasts of expected losses in the performing portfolio during the EPA's remaining period of validity.

At December 31, 2018, the estimate of the EPA's cost has implied a reduction of the provision for an amount of 62,379 thousand Euros, registered on caption "Provision surplus" of the enclosed profit and loss account (10,200 thousand Euros of increase charged to caption "Allocation to provisions" at December 31, 2017).

Also, based on estimates, an amount of 56,025 thousand Euros has been reclassified into the caption "Current provision" on liabilities of the enclosed balance sheet (see Note 13.2).

Banco Gallego guarantees

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

In view of the last information available, the FROB considers that the risk covered with provisions has disappeared, and therefore has registered the reversal of the totality of the provision, for an amount of 94,808 thousand Euros, charged on caption "Provision surplus" on the enclosed profit and loss account.

CX guarantees

In the process of selling CX and its loans portfolio, the FROB granted certain guarantees to buyers, in addition to the FROB's commitment to sign the subordinated bond issued by the Assets Securitization Fund in the context of the sale, as well as the contingency arising from the divestment in an investee (see Note 7.4 and 13.2).

At December 31, 2018, based on estimates made with available information, the current value of the obligation derived from assumed commitments implies an amount of 114,762 thousand Euros (83,219 thousand Euros at December 31, 2017), out of which 34,330 thousand Euros correspond to short term and 80,432 thousand Euros to long term (see Note 13.2).

Accordingly, on the one hand, the provision has been increased for an amount of 68,740 thousand Euros, with the following detail: i) allocation of the provision, for an amount of 46,172 thousand Euros charged to the profit and loss account of 2018 in caption "Allocation of provisions"; and ii) recognition of 22,568 thousand Euros corresponding to the portion to be assumed by the Deposit Guarantee Fund (see Note 7.5).

Additionally, in 2018, the FROB has recognized 39 thousand Euros corresponding to the financial income for the update of provisions reflected on the income statement of 2018 (70 thousand Euros of financial cost in 2017).

NCG Banco Guarantees

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

At December 31, 2018, based on estimates performed with information available, the current value of the obligation derived from assumed commitments implies an amount of 151,482 thousand Euros (205,361 thousand Euros at December 31, 2017), of which 37,921 thousand Euros correspond to the long term and the rest, 113,561 thousand Euros to the short term (see Note 13.2).

Consequently, the provision booked has been increased for an amount of 15,000 thousand Euros, with the following detail: i) allocation to provision for an amount of 10,655 thousand Euros charged to the profit and loss account of 2018 in caption "Allocation to provisions"; and ii) recognition of 4,345 thousand Euros corresponding to the portion to be faced by the Deposits' Guarantee Fund (see Notes 8.5 and 13.2).

Additionally, there has been a release of the provision booked for an amount of 56,500 thousand Euros, according to the following detail: i) reversal of the provision for an amount of 40,135 thousand Euros charged to the caption "Provision surplus" of the enclosed profit and loss account; and ii) recognition of a liability for an amount of 16,365 thousand Euros corresponding to the portion payable to the Deposit Guarantee Fund (see Notes 8.5 and 13.2).

Additionally, in 2018, the payment obligation has been recognized for an amount of 2,083 thousand Euros, and which has been reclassified to the caption "Current debts – Other current payables" of the enclosed balance sheet (see Note 8.5).

Deposit Guarantee Fund guarantee for hybrids' management

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

- *NCG Banco*

At December 31, 2018, based on estimates made with the available information, the FROB considers that the value of the obligation derived from assumed commitments implies an amount of 5,288 Euros (4,055 thousand Euros at December 31, 2017), out of which 2,062 thousand Euros correspond to long term and 3,226 thousand Euros to short term (see Note 13.2).

Accordingly, the provision has been increased for an amount of 4.020 thousand Euros, with the following detail: i) allocation to the non-current provision for an amount of 2,062 thousand Euros, and ii) allocation to the current provision for an amount of 1,958 thousand Euros charged, in both cases, to the profit and loss account of 2018 in caption "Allocation to provisions" (see Note 13.2).

- *CX*

At December 31, 2018, based on estimates performed with information available, the FROB considers that the value of the obligation derived from assumed commitments implies an amount of 25,823 thousand Euros, out of which 5,308 thousand Euros correspond to the long term and the rest, 20,515 thousand Euros to the short term (see Note 13.2).

Accordingly, the provision has been increased in an amount of 25,823 thousand Euros, with the following detail: i) allocation to the non-current provision for an amount of 5,308 thousand Euros, and ii) allocation to the current provision for an amount of 20,515 thousand Euros charged, in both cases, to the profit and loss account of 2018 in caption "Allocation to provisions" (see Note 13.2).

Other provisions

At December 31, 2018, based on the information available and on estimates, the FROB has registered a provision for an amount of 253,368 thousand Euros, charged on caption "Allocation to provisions" of the enclosed profit and loss account, to cover possible contingencies derived from legal proceedings related to divestment processes in entities. The materialization of such contingency will depend on the definitive interpretation of clauses on divestment agreements on legal proceedings in progress.

13.2 Current provisions

The detail of "Current provisions" on liabilities in the balance sheet at December 31, 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Asset Protection Scheme Banco de Valencia	56,047	37,180
Banco Ceiss review mechanism	13	13
Deposit Guarantee Fund hybrids management NCG	3,226	2,787
Deposit Guarantee Fund hybrids management CX	20,515	-
CX Guarantee	80,432	60,841
NCG Banco Guarantees	113,561	10,134
Total	**273,794**	**110,955**

Variations of this caption during 2018 and 2017 are the following:

	Thousands of Euros
Balance at 1 January 2017	**593,184**
Allocations	37
Transfers from non-current liabilities	76,158
Applications	(506,753)
Excesses	(32,762)
Financial expenses from update (Note 8.6)	29
Other variations	(18,938)
Balance at 31 December 2017	**110,955**
Allocations	22,473
Transfers from non-current liabilities	227,765
Applications	(39,944)
Excesses	(24,948)
Financial expenses from update (Note 8.6)	29
Other variations	(22,536)
Balance at 31 December 2018	**273,794**

Esquema de Protección de Activos Banco de Valencia, S.A.

On June 29, 2018, the first payment derived from the EPA was settled, for an amount of 37,158 thousand Euros, which were classified on caption "Current provisions" of liabilities of the enclosed balance sheet.

Additionally, as commented on Note 13.1, based on estimates, the second payment is expected by June 30, 2019 in an amount of 56,025 thousand Euros, and therefore this amount has been transferred to current liabilities from the caption "Non-current provisions" of liabilities on the enclosed balance sheet.

Banco Ceiss review mechanism

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

Consequently, the FROB maintained registered the corresponding provision, since 2013, for the cost estimated to face this commitment. The procedure is completed, leading to payments by the FROB for a total amount of 187,646 thousand Euros, in 2014 (187,559 thousand Euros), 2015 (2 thousand Euros) and 2017 (85 thousand Euros).

During 2018, there has not been any variation on this guarantee, and therefore the provision recognized at December 31, 2018 amounts to 13 thousand Euros, without variation with regards to the balance at December 31, 2017.

Compensation to the Deposit Guarantee Fund for hybrids' management

- *NCG Banco*

On October 19, 2018, a settlement has been performed with the DGF for this concept, for an amount of 2,787 thousand Euros.

Also, as indicated on Note 13.1, the provision has been increased for an amount of 4,020 thousand Euros, with the following detail: i) allocation of the non-current provision for an amount of 2,062 thousand Euros, and ii) allocation of the current provision for an amount of 1,958 thousand Euros charged to the profit and loss account of 2018 in caption "Allocation to provisions" (see Note 13.2).

Additionally, an amount of 1,268 thousand Euros has been transferred from non-current liabilities, based on the estimated settlement schedule, without impact in the profit and loss account of 2018.

- *CX*

As indicated on Note 13.1, the provision has been increased in an amount of 25,823 thousand Euros, with the following detail: i) allocation of the non-current provision for an amount of 5,308 thousand Euros, and ii) allocation of the current provision for an amount of 20,515 thousand Euros charged to the profit and loss account of 2018 in caption "Allocation to provisions" (see Note 13.1).

NCG Guarantees

As indicated on Note 13.1, during 2018, an amount of 113,723 thousand Euros has been transferred from non-current liabilities, based on the guarantees' estimated liquidation schedule.

Also, in 2018, payment obligations have been recognized for an amount of 10,295 thousand Euros, which, together with the amount of 2,867 thousand Euros included at December 31, 2017 on caption "Current payables – Other current debts" of the enclosed balance sheet (see Note 8.6), have been liquidated on May 31, 2018.

CX Guarantees

As indicated in Note 13.1, in 2018, an amount of 56,749 thousand Euros was transferred from non-current liabilities, based on the estimated timing of settlement of guarantees.

Additionally, during 2018, the following events have taken place: i) reversal of 37,188 thousand Euros, out of which 24,946 thousand Euros are charged on caption "Provision surplus" of the income statement and 12,242 thousand Euros correspond to the Deposits Guarantee Fund (see Note 7.5).

Furthermore, in 2018, the FROB has recognized 29 thousand Euros corresponding to the finance cost from the update of provisions reflected on the enclosed income statement (29 thousand Euros of financial expense in 2017).

13.3 Other guarantees and contingent liabilities

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

At December 31, 2018, the FROB deemed it unlikely that any obligation would arise from these commitments and, accordingly, it did not recognize any provision in the 2018 annual accounts in connection with this.

13.4 Contingent assets

At December 31, 2018 and 2017, the FROB did not hold any contingent assets.

14. Income and Expenses

14.1 Turnover

This caption in the income statement includes, according to the fifth transitory provision of Law 11/2018, the amount accrued in 2018 for the activities performed by the FROB as Resolution Authority, amounting to18,395 thousand Euros.

Within the established term for collection, which ended on June 5, 2018, all required entities have performed the corresponding payment; therefore, at December 31, 2018, the caption "trade receivables and other accounts receivable" of the enclosed balance sheet does not include any balance. However, this caption includes a fully-impaired amount of 11 thousand Euros, corresponding to the fee corresponding to 2015 from an entity under bankruptcy proceedings, which have not been solved yet.

	Thousands of Euros	
	2018	2017
Fee for activities conducted by the FROB as Resolution Authority	18,395	16,939
Total	**18,395**	**16,939**

14.2 Personnel costs and average headcount

The detail of "Personnel costs" in the accompanying income statements for 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Salaries and wages	3,759	3,630
Social Security	496	476
Other employee benefits expense	117	95
Total	**4,372**	**4,201**

The average number of employees at the FROB in 2018 by professional category and gender is shown in the following table:

Year 2018

	Average Number 2018			Total Number 31 December 2018		
	Male	Female	Total	Male	Female	Total
Senior Management*	4.94	1.00	5.94	5	1	6
Group II	9.06	8.00	17.06	9	8	17
Group III	7.00	6.00	13.00	7	6	13
Group IV	1.00	5.00	6.00	1	5	6
Group V	-	4.00	4.00	-	4	4
Total	**22.00**	**24.00**	**46.00**	**22**	**24**	**46**

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

The average number of employees at the FROB in 2017 by professional category and gender is shown in the following table:

Year 2017

	Average Number 2017			Total Number 31 December 2017		
	Male	Female	Total	Male	Female	Total
Senior Management*	3.93	2.00	5.93	4	2	6
Group II	13.00	7.46	20.46	13	8	21
Group III	4.62	6.00	10.62	5	6	11
Group IV	1.00	3.45	4.45	1	5	6
Group V	-	3.14	3.14	-	4	4
Total	**22.55**	**22.05**	**44.60**	**23**	**25**	**48**

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

14.3 Other operating expenses

The detail of "Other Operating Expenses" in the income statements for 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Leases	677	701
External professional services	1,318	2,673
Representatives in entities	27	245
Banking and similar services	41	164
Other operating expenses	422	530
Governing Committee (Note 15)	106	119
Total	**2,591**	**4,432**

"External Professional Services" in 2018 and 2017 includes, among others, amounts invoiced by different external advisers commissioned by the FROB to carry out works within the framework of functions entrusted to the FROB as authority in charge of managing credit entities' restructuring and resolution processes.

14.4 Other disclosures

In 2018, fees for audit services and other services provided by the FROB's auditor, Mazars Auditores, SLP., or company related to the auditor for control, common ownership or management were (in thousands of Euros):

	Services rendered by the Auditor and Related Companies
Audit services	42
Other assurance services	-
Total audit and related services	**42**
Tax advisory services	-
Other services	2
Total professional services	**44**

During 2017, fees for audit services and other services provided by the FROB's auditor, Mazars Auditores, SLP., or company related to the auditor for control, common ownership or management were (in thousands of Euros):

	Services rendered by the Auditor and Related Companies
Audit services	42
Other assurance services	-
Total audit and related services	**42**
Tax advisory services	-
Other services	4
Total professional services	**46**

15. Transactions and balances with related parties

The detail of balances recognized by the FROB with related parties in these annual accounts for 2018 and 2017 is as follows (figures in thousands of Euros):

Year 2018

	Bank of Spain	Investees	Governing Committee and Senior Management
Assets:			
Non-current investments in Group companies and associates – Equity instruments (Note 7.3)	-	9,560,394	-
Cash and cash equivalents - Cash (Note 5)	538,178	-	-
Income statement:			
Other operating income	-	85	-
Personnel costs (Senior Management)	-	-	891
Other operating expenses (Note 14.3)	-	-	106
Financial expenses	(2,704)	-	-

Year 2017

	Bank of Spain	Investees	Governing Committee and Senior Management
Assets:			
Non-current investments in Group companies and associates – Equity instruments (Note 7.3)	-	9,857,437	-
Cash and cash equivalents - Cash (Note 5)	697,986	-	-
Income statement:			
Other operating income	-	132	-
Personnel costs (Senior Management)	-	-	883
Other operating expenses (Note 14.3)	-	-	119
Financial expenses	(1,547)	-	-

In 2018 the FROB recognized an expense for 106 thousand Euros (119 thousand Euros at December 31, 2017) related to attendance fees relating to the Governing Committee. Of such amount, allowances corresponding to members considered as Senior Officials are deposited in the Treasury (see Note 14.3).

At December 31, 2018 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. Subsequent events

From year-end closing to the formulation of the annual accounts, there have not been significant subsequent events in addition to those commented on these notes to the financial statements.

17. Explanation added for translation to English

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

FROB

Directors' Report for the year ended at 31 December 2018

1.- INTRODUCTION

Following the same line of action as in previous years, during 2018, the FROB's performance has mainly covered two strands: i) on the one hand, the FROB has developed its activity within the framework of the Single Resolution Mechanism, as National Resolution Authority, and ii) on the other, the FROB has continued managing and monitoring measures related to restructuring and resolution processes of entities receiving public funds, performed during last years.

With regards to the first aspect, within the context of the European Resolution Mechanism, the FROB develops its functions as National Executive Resolution Authority within a wide institutional frame, implying the need to count with the close collaboration and coordination by the different National Resolution Authorities and the Single Resolution Board (SRB), as well as with supervisors, both national and from the Union. The FROB, through its Chairman, is the Spanish representative in the SRB.

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

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

With regards to resolution and restructuring plans, which were elaborated under the Financial Assistance Programme for Spain for the recapitalization of the financial industry, reflected in the Memorandum of Understanding (MoU) signed in July 2012 by the Spanish and European Authorities, it should be noted that, during the first months of 2018, reports have been obtained from the Monitoring Trustees in charge of verifying the compliance with commitments assumed by entities receiving aids from the FROB and which resolution/restructuring plans ended at the end of 2017 (BFA-Bankia, BMN, Liberbank and Caja3) and beginning of 2018 (CX and CEISS). It should be borne in mind that, in 2015 and 2016, plans of Banco Gallego, Banco de Valencia and NCG were also completed, elaborating the corresponding reports. In all cases, reports concluded that plans were satisfactorily complied with.

As a consequence of these actions, the FROB still maintains a significant position in the share capital of the BFA-Bankia Group. This investment incorporates the investment in BMN, integrated in Bankia through a merger by absorption. Investments held by the FROB in the past in the remaining entities receiving aids have been subject to successive divestment processes. Sale agreements for the different entities or portfolios of assets in these entities include the granting of certain guarantees, some of which remain active.

Moreover, the entities' different resolution and restructuring processes have been, and continue being, subject to different legal claims. Therefore, part of the FROB's activity focuses on managing these litigations.

2.- CASH FINANCING AND MANAGEMENT

In connection with the loan agreement between the State, as lender, and FROB, as borrower, entered into on December 2012, aimed to execute the European financial assistance programme, which allowed channelling funds settled by the Financial Stability Facility (FSF) of the European Stability Mechanism (ESM) to the Kingdom of Spain to Spanish credit entities[2], it should be noted that the applied financial conditions correspond to those in force on the loan entered into by the Kingdom of Spain and the EFSM.

During 2018, the FROB has been making the payments in fees and interest generated by the Program's first and second disbursement.

Therefore, after returns carried out in 2014[3], and the transformation into equity contribution of part of the loan (27,170 million Euros and 3,000 million Euros) on December 2013 and June 2017, respectively, the outstanding balance of the loan from the State to FROB at December 31, 2018 amounted to 10,429 million Euros.

Moreover, the FROB's debt limit established on article 49 of Law 6/2018 of 3 July, on the General State Budget for 2018 was of 15,439 million Euros, being at 2018 closing of 10,452 million Euros. Also, the FROB has the capacity to issue, with State guarantee, an amount of 5,200 million Euros in addition to those already issued.

Cash, at December 31, 2018, presents the following detail:

PRODUCT	NOMINAL (Million €)
Public Debt Portfolio	610
Current accounts	552
Total	**1,162**

At December closing, realizable liquidity was sufficient to maintain the FROB's current operations and face estimated future payments.

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

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

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

3.1 Entities with assistance

__Banco Financiero y de Ahorros, S.A. (BFA)__

Total aids received by the BFA-Bankia group, including those granted to BMN, amount to 24,069 million Euros (5,380 million Euros as preference shares, in 2010, and 18,689 million Euros as shares, in 2012). Currently, the FROB holds 100% of BFA, and indirectly, through BFA, 61.39% of Bankia at December 31, 2018.

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[2] The first disbursement (39,468 million Euros) served as recapitalization of entities from Group 1 (BFA-Bankia, NCG Banco, Catalunya Banc and Banco de Valencia), as well as to finance the FROB's contribution to Sareb, whereas the second disbursement (1,865 million Euros) was applied in the recapitalization of entities from Group 2 (Banco Mare Nostrum, Banco Ceiss, Caja 3 and Liberbank).

[3] On the one hand, the return of funds not applied to Sareb (307.54 million Euros) and, on the other hand, a partial voluntary amortization of 399 million Euros.

After the extension of the term, introduced by the Royal Decree-Law 4/2016 of 2 December, the current divestment deadline was on December 2019, which could be newly extended through agreement by the Council of Ministers. In this sense, and in order to favour a more efficient use of public resources, maximizing the recovery of aids, the Council of Ministers, on December 21, 2018, as proposed by the Ministry of Economy and Business, and prior report by the Ministry of Finance and the FROB, approved the extension of the divestment term in Bankia, for an additional two-year period, with a deadline established at December 2021.

On March 14, 2017, the FROB's Governing Committee agreed that the reorganization of its invested credit entities, through merger of Bankia and BMN, was the best strategy to comply with its mandate. This agreement was communicated to both entities for them to start the corresponding actions and works, within the frame of their governing bodies' management and competences. As a result of works performed in this sense by both entities, Boards of Directors of Bankia and BMN approved the Common Merger Project, on June 26, 2018. Therefore, on September 14, 2018, the General Shareholders' Meetings of Bankia and BMN approved such project, with the favourable vote from 99% and 95% of the present and represented capital, respectively.

On December 28, 2017, after obtaining all pertinent administrative authorizations that conditioned the merger's effectiveness, Bankia acquired the effective control of BMN. The merger deed was inscribed on the House of Companies of Valencia on January 8, 2018, and new shares issued by Bankia for such purpose were listed on January 12. As a consequence of the merger, BMN's shares are fully amortized.

On January 16, 2018, a capital increase was approved in BFA through non-monetary contribution of Bankia's shares received by the FROB, as a consequence of the merger, in exchange for BMN's shares.

Therefore, according to criteria established on the applicable Registration and Measurement standard, the FROB has estimated the recoverable value of its interest in BFA after the absorption of BMN and the corresponding capital increase, taking into consideration BFA Group's equity, resulting on the recognition of a reversal of 297,043 thousand Euros, registered on caption "Impairment and results from disposals of financial instruments – Impairment and losses" of the income statement, and therefore, at December 31, 2018, the net book value of the FROB's investment in BFA amounts to 9,560,394 thousand Euros.

3.2 Entities with expired plans

Certain entities were subject to restructuring processes that have expired at December 31, 2018. The following chart offers a list of these entities, indicating the date of beginning and completion of each restructuring plan:

	Plan's beginning date	Plan's completion date	Plan's compliance
Banco de Valencia	28/11/2012	31/12/2015	Yes
Banco Gallego	25/07/2013	31/12/2015	Yes
CajaSur	08/11/2010	31/05/2015	Yes
CAM	30/05/2012	31/12/2015	Yes
UNNIM	26/03/2012	31/12/2015	Yes
NCG Banco	28/11/2012	31/12/2016	Yes
Liberbank	20/12/2012	31/12/2017	Yes
Caja 3	20/12/2012	31/12/2017	Yes
Banco CEISS	13/03/2014	24/04/2018	Yes
Catalunya Banc	17/12/2014	24/04/2018	Yes

<u>**Banco Ceiss, S.A.**</u>

Ceiss Bank received a total aid amounting to 1,129 million Euros: i) 525 million Euros in 2010 in the form of preference shares subsequently converted into equity and amortized in 2013; and ii) 604 million Euros in contingently convertible bonds (CoCos) subscribed by the FROB in April 2013 and which, on August 31, 2017, were returned to the FROB, being acquired early by Unicaja Banco after receiving the corresponding authorization from the European Central Bank.

Additionally, within the entity's resolution plan, which involved its integration into the Unicaja group, the FROB granted certain guarantees, so-called Review Mechanism (completed in 2016) and Clearing Mechanism, which was liquidated in 2017 with a new disbursement by the FROB for an amount of 64 million Euros, after which the totality of payments settled by the FROB reached the maximum amount of 241 million Euros. Therefore, CEISS and Unicaja performed a proportional repurchase of the totality of shares held by the FROB, thus terminating this guarantee. As a consequence, currently, the FROB does not hold any interest in the entity.

Catalunya Banc, S.A. (CX)

On July 21, 2014, after a competitive process, the FROB and the Deposits' Guarantee Fund (DGF) awarded the sale of their respective interests in the share capital of Catalunya Banc (98.4% of the entity's capital) to Banco Bilbao Vizcaya Argentaria, for an amount of 1,165 million Euros[4], which sale was formalized on April 24, 2015.

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

Furthermore, within both selling processes, both for the asset portfolio and for the entity, the FROB awarded a series of guarantees that, at December 31, 2018, are recorded as provision for an amount of 114 million Euros.

During 2018, on the one hand, the provision has been increased in an amount of 69 million Euros and, on the other, a reversal of the provision has been registered for an amount of 37 million Euros, with the following detail: i) allocation of the provision for an amount of 46 million Euros charged to the profit and loss account of 2018 in caption "Allocation to provisions"; and ii) reversal of the provision for an amount of 37 million Euros, out of which 25 million Euros are charged on caption "Provision surplus" of the profit and loss account; iii) the portion of these variations to be faced by the Deposit Guarantee Fund is included at its net amount in current assets of the enclosed balance sheet for an amount of 10 million Euros.

In turn, the balance disposed of from the credit line, at December 31, 2018, is of 10.2 million Euros, generating finance income during the year by 0.5 million Euros.

Banco Grupo Caja 3, S.A. (integrated in Ibercaja Banco, S.A.)

On March 2013, Banco Grupo Caja3 (currently integrated in Ibercaja Banco) received aids for an amount of 407 million Euros as CoCos. After having amortized, in 2016, 45% of said aids, on March 2017, the entity performed an early amortization of the remaining 224 million Euros (55% of the total amount), and thus all aids have been fully reimbursed.

Liberbank, S.A.

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

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

NCG Banco, S.A. (NCG)

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

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

the purchaser reserved the right to an early payment. Thus, on May 6, 2016, the purchaser made an early payment of 300 million Euros and, on February 3, 2017, of the remaining 300 million Euros. Therefore, there is no outstanding amount to be satisfied by the purchaser for the entity's acquisition.

Additionally, in order to maximize the selling price and, therefore, minimize the use of public resources, certain guarantees were granted to NCG, for which coverage the FROB maintains a provision, at December 31, 2018, for an amount of 151 million Euros.

During 2018, on the one hand, the provision has been increased in an amount of 15 million Euros and, on the other, a reversal of the provision has been registered for an amount of 37 million Euros, with the following detail: i) allocation of the provision for an amount of 11 million Euros charged to the profit and loss account of 2018 in caption "Allocation to provisions"; and ii) reversal of the provision for an amount of 57 million Euros, out of which 40 million Euros are charged on caption "Provision surplus" of the profit and loss account; iii) the portion of these variations to be faced by the Deposit Guarantee Fund is included at its net amount in current assets of the enclosed balance sheet for an amount of 12 million Euros.

Also, during 2018, a payment has been made to the purchaser, for guarantees, for an amount of 13 million Euros.

Banco de Valencia, S.A.

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

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

Additionally, the FROB granted to the buyer certain guarantees, including an asset protection scheme (APS) on a portfolio of loans to SMEs and self-employed and contingent risks, by which it covers 72.5% of losses that may arise from a closed portfolio of assets. Due to the fact that, at December 31, 2018, realized losses are above the First Loss threshold, a new payment is expected for 2019; therefore, 56 million Euros have been transferred to current liabilities.

The first payment for this concept was settled on June 29, 2018. for an amount of 37 million Euros.

During 2018, the FROB has reversed a provision amounting to 62 million Euros, resulting a provision at year end for an amount of 402 million Euros, equivalent to the portfolio's expected loss affected to the APS, after deducting the first loss threshold and applied the percentage of the portfolio's coverage (72.5%).

Also, the FROB undertook compensating Caixabank, in certain cases, for the economic losses resulting from the changes between the estimation of assets to be transferred from that entity to Sareb and those finally transferred. Finally, the total amount paid by the FROB to Caixabank was of 165 million Euros, paid on December 5, 2014.

Banco Gallego, S.A.

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

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

Additionally, as part of this transaction, the FROB granted the usual guarantees on past sales (excluding assets protection schemes), highlighting the guarantees regarding the transaction's tax effects. At December 31, 2018, the reversal of the totality of the provision has been registered, for an amount of 95 million Euros, charged to caption "Provision surplus" of the enclosed profit and loss account.

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

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

Other processes

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

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

4.- SAREB

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

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

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

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

As a result of losses arising from the valuation of assets pursuant to the accounting circular applying to the entity (Circular 5/2018 of 30 September, of Bank of Spain, by which the Sareb' accounting specificities are developed), it had at the end of 2018 a negative equity capital of 1,218 million Euros. Consequently, the Shareholders' Meeting of May 5, 2016 approved the corresponding measures to re-establish the entity's equity situation, including the conversion of subordinated debt by 2,170 million into capital. In the case of the FROB, these measures implied the conversion into capital of 996 million Euros of subordinated debt. After said conversion, the FROB's investment in the company's capital is of 45.9%.

At 2018 closing, the FROB's interest in capital is fully impaired. With regards to subordinated debt (656 million Euros), the FROB, based on estimates and available information, has registered an impairment loss on the income statement of 382 million Euros, reaching at December 31, 2018 a net book value of 169 million Euros.

5.- OTHER MANAGEMENT EVENTS DURING 2018

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

- The FROB's Annual Accounts and Directors' Report corresponding to 2017 were formulated and approved, as well as its referral to the Ministry of Economy and Competitiveness and the General Audit Office of the State Administration for inclusion in the General State Account and transfer to the Spanish National Audit Office.

- In relation to the allocation of Resolution Funds, during the second quarter of 2018, the FROB has collected ex-ante contributions corresponding to 2018, from entities subject to contribution both to the Single Resolution Fund (SRF) and to the National Resolution Fund (FRN), for a total amount of 736 million Euros.

- Moreover, the fee for the FROB's activities as Resolution Authority of 2018 was collected, for an amount of 18 million Euros, to cover the FROB's operating expenses.

6.- SUBSEQUENT EVENTS AND PERSPECTIVES FOR 2019

From the year-end closing to the formulation of the annual accounts, there have not been significant subsequent events.

In relation to perspectives for 2019, it presents itself as a year focused on continuing with tasks performed during 2018, in order to maintain the appropriate capacity to expeditiously and efficiently execute any resolution process considered within the Single Resolution Mechanism or exclusively at national scale. Likewise, during next year, it will be essential to achieve a high level of coordination and collaboration among the different institutions with resolution and supervision competencies, both at national (Bank of Spain and CNMV) and international level (particularly, with the Single Resolution Board, European Banking Authority, and FSB Resolution Committee).

Simultaneously, the FROB will continue managing actions related to prior restructuring and resolution processes, carrying out, on the one hand, a thorough follow-up of the activity of entities and companies where the FROB holds an investment and, on the other, performing a follow-up and control of the evolution of commitments acquired by the FROB as support to credit entities' resolution processes which remain in force.

Additionally, during 2019, a high workload is also expected to arise from legal claims associated with the actions taken by the FROB within the restructuring/resolution process of the banking sector.

As indicated on Note 9.1 to the enclosed financial statements, at December 31, 2018 the FROB's equity amounts to 469,485 thousand Euros negative. However, and although the FROB could operate with negative equity, Law 11/2015 establishes that the FROB's equity could be increased, where applicable, through the capitalization of loans, credits or other indebtedness operation in the FROB with the Public Administration as creditor. In this sense, the loan agreement between the Spanish State and the FROB, prior authorization by the ESM, allows the partial or total transformation of this loan into capital contribution to the FROB.

7.- OTHER DISCLOSURES

During 2018, the FROB has not carried out any R&D activity.

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

FROB

The undersigned, Chairman of the FROB, authorizes for issue on May 10, 2019 these Annual Accounts of the FROB for the year ended December 31, 2018 and the Directors' Report for 2018, which are printed on the accompanying 53 pages (original Spanish version), duly countersigned by me for the purpose of their identification, and which will be submitted for approval by the Governing Committee.

Signed: Jaime Ponce
Chairman of the FROB