

FROB.

Annual accounts for the
fiscal year ended on
December 31, 2023, and
Director's report

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

FROB
BALANCE SHEET CORRESPONDING TO 31 DECEMBER 2023 AND 2022
(Thousands of Euros)

ASSETS	Notes	2023	2022	EQUITY AND LIABILITIES	Notes	2023	2022
NON-CURRENT ASSETS				EQUITY			
Intangible assets		16	45	CAPITAL AND RESERVES WITHOUT VALUATION ADJUSTMENTS	8	5.520.847	5.065.247
Property, plant and equipment		179	160	Equity fund		5.065.247	2.848.739
Non-current investments in group companies and associates	6	6.748.554	6.343.586	Profit/(loss) for the period		455.600	2.216.508
Equity instruments		6.748.554	6.343.586				
Non-current financial investments	6	-	215.226	VALUATION ADJUSTMENTS	8	-	-
Debt securities		-	200.711	Financial assets at fair value with changes in net equity		-	-
Other financial assets		-	14.515				
Total non-current assets		6.748.749	6.559.017	NON-CURRENT LIABILITIES		5.520.847	5.065.247
				Non-current provisions	11	4.595	42.808
				Non-current payables	7	931.647	1.867.188
				Other non-current debts		931.647	1.867.188
						936.242	1.909.996
				CURRENT LIABILITIES			
CURRENT ASSETS				Current provisions	11	18.193	71.688
Trade and other receivables	6	11	278	Current payables	7	948.295	4.362
Current financial investments	6	553.290	351.800	Other current debts		948.295	4.362
Credits to third parties		-	-				
Debt securities		518.901	350.443				
Other financial assets		34.389	1.357				
Cash and cash equivalents	5	122.081	141.240	Trade and other payables		554	1.042
Cash		122.081	141.240	Other payables	7	405	896
				Other debts with public institutions	10	149	146
Total current assets		675.382	493.318			967.042	77.092
TOTAL ASSETS		7.424.131	7.052.335	TOTAL EQUITY AND LIABILITIES		7.424.131	7.052.335

Notes 1 to 14 to the Financial Statements are an integral part of the Balance Sheet at 31 December 2023.

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

FROB
PROFIT AND LOSS ACCOUNT CORRESPONDING TO THE YEAR
ENDED AT 31 DECEMBER 2023 AND 2022

(Thousands of Euros)

	Notes	Income / (Expenses)	
		Year 2023	Year 2022
CONTINUING OPERATIONS			
1. Revenue	12.1	25.123	28.321
Fees for activities performed by the FROB as Resolution Authority		25.123	28.321
2. Other operating income		8	320
3. Personnel costs	12.2	(4.452)	(4.345)
Salaries and wages		(3.816)	(3.772)
Employee benefits expense		(636)	(573)
4. Other operating expenses	12.3	(2.993)	(3.208)
External services		(2.877)	(3.067)
Other operating expenses		(116)	(141)
5. Amortization and depreciation		(54)	(88)
6. Provision surpluses	11	22.498	331.218
7. Allocation of provisions	11	(6.254)	(7.084)
Allocation of provisions for EPA and other liabilities		(6.254)	(7.084)
8. Extraordinary income		13.253	30.512
9. Extraordinary expenses		(2)	(10)
10. Other results	11	15.187	7.780
RESULTS FROM OPERATING ACTIVITIES		62.314	383.416
11. Finance income	6	10.778	767
Banking interests		5.042	508
Government debt interest		5.453	-
Other interests		283	259
12. Finance expenses	7	(22.460)	(19.659)
Interests and commissions		(22.460)	(19.659)
Update of provisions		-	-
13. Impairment and gains/(losses) on disposal of financial instruments	6	404.968	1.851.984
Impairment and losses		404.968	1.851.984
NET FINANCE INCOME/(EXPENSE)		393.286	1.833.092
PROFIT/(LOSS) FOR THE PERIOD		455.600	2.216.508

Notes 1 to 14 to the Financial Statements are an integral part of the Profit and Loss Account corresponding to the year ended at 31 December 2023.

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

FROB

STATEMENT OF CHANGES IN EQUITY CORRESPONDING TO THE YEAR ENDED AT 31 DECEMBER 2023 AND 2022

A) STATEMENT OF RECOGNIZED INCOME AND EXPENSES

(Thousands of Euros)

	Income / (Expenses)	
	Year 2023	Year 2022
PROFIT/(LOSS) FOR THE PERIOD (I)	455.600	2.216.508
Income and expenses recognized directly in equity		
- Measurement of financial instruments	-	(276)
Financial assets at fair value with changes in net equity	-	(276)
- Tax effect	-	-
TOTAL INCOME AND EXPENSES DIRECTLY RECOGNIZED IN EQUITY (II)	-	(276)
Amounts transferred to the income statement		
- Measurement of financial instruments	-	-
Financial assets at fair value with changes in net equity	-	-
- Tax effect	-	-
TOTAL AMOUNTS TRANSFERRED TO THE INCOME STATEMENT (III)	-	-
TOTAL RECOGNIZED INCOME AND EXPENSES (I+II+III)	455.600	2.216.232

Notes 1 to 14 to the Financial Statements are an integral part of the Statement of Recognized Income and Expenses corresponding to the year ended at 31 December 2023.

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

STATEMENT OF CHANGES IN EQUITY CORRESPONDING TO THE YEAR ENDED AT 31 DECEMBER 2023 AND 2022

B) STATEMENT OF TOTAL CHANGES IN EQUITY

(Thousands of Euros)

	Equity Fund	Profit/(Loss) for the period	Valuation Adjustments	TOTAL
Balance at 31 December 2021	4.201.105	(1.352.366)	276	2.849.015
Total recognized income and expenses	-	2.216.508	(276)	2.216.232
Operations with Fund promoters	(1.352.366)	1.352.366	-	-
- Distribution of previous year's profit/(loss) (Note 3)	(1.352.366)	1.352.366	-	-
Other variations in equity	-	-	-	-
Balance at 31 December 2022	2.848.739	2.216.508		5.065.247
Adjustments for changes in criteria	-	-	-	-
Adjustments for errors	-	-	-	-
ADJUSTED BALANCE AT 1 JANUARY 2023	2.848.739	2.216.508		5.065.247
Total recognized income and expenses	-	455.600		455.600
Operations with Fund promoters	2.216.508	(2.216.508)	-	-
- Distribution of previous year's profit/(loss) (Note 3)	2.216.508	(2.216.508)	-	-
Other variations in equity	-	-	-	-
Balance at 31 December 2023	5.065.247	455.600		5.520.847

Notes 1 to 14 to the Financial Statements are an integral part of the Statement of Total Changes in Equity corresponding to the year ended at 31 December 2023.

FROB

STATEMENT OF CASH FLOWS CORRESPONDING TO THE YEAR ENDED

AT 31 DECEMBER 2023 AND 2022

(Thousands of Euros)

	Notes	Collections / (Payments)	
		Year 2023	Year 2022
CASH FLOWS FROM OPERATING ACTIVITIES (I)		(52.017)	6.883
Profit/(Loss) for the period before tax		455.600	2.216.508
Adjustments for:		(424.663)	(2.164.918)
- Amortization and depreciation		54	88
- Impairment corrections	6	(404.968)	(1.851.984)
- Changes in provisions	6 y 11	(16.244)	(324.134)
- Finance income	6	(10.778)	(767)
- Finance expenses	7	22.460	19.659
- Other income and expenses		(15.187)	(7.780)
Changes in working capital		(71.514)	(28.356)
- Trade and other receivables	6	267	89
- Trade and other payables		(488)	1.042
- Other current liabilities	11	(71.293)	(29.487)
Other cash flows from operating activities		(11.440)	(16.351)
- Interests paid	7	(20.744)	(16.920)
- Interests received	6	9.304	569
CASH FLOWS FROM INVESTING ACTIVITIES (II)		32.858	(400.960)
Payments for investments		(417.350)	(401.739)
- Intangible assets		-	(6)
- Property, plant and equipment		(45)	(22)
- Other financial assets	6	(417.305)	(401.711)
Proceeds on divestments		450.208	779
- Other financial assets	6	450.208	779
CASH FLOWS FROM FINANCING ACTIVITIES (III)		-	-
EFFECT IN VARIATIONS OF EXCHANGE RATES (IV)		-	-
NET INCREASE/DECREASE OF CASH AND CASH EQUIVALENTS (I+II+III+IV)		(19.159)	(394.077)
Cash and cash equivalents at beginning of the year		141.240	537.212
Cash and cash equivalents at year-end		122.081	141.240

Notes 1 to 14 to the Financial Statements are an integral part of the Statement of Cash Flows corresponding to the year ended at 31 December 2023.

Notes to the financial statements corresponding to the year ended December 31, 2023

1. **Activity**

FROB is a public entity with legal personality and full public and private capacity to fulfil its purpose, which was incorporated on 14 July 2009 in accordance with the provisions of Royal Decree-Law 9/2009, of 26 June, on bank restructuring and the strengthening of the equity of credit institutions¹. The current legal regime under which FROB operates is Act 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms (hereinafter, Act 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 2014, 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 Act 11/2015 stem from the incorporation in Spain of the harmonised 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:

- In the preventive phase of resolution, all entities operating in the market are required to have recovery and resolution plans in the event they may incur difficulties or a lack of viability.
- Shareholders and private creditors, or where applicable, the industry itself, must bear the resolution cost of the entity, particularly protecting depositors and public resources. To this end, internal loss absorption mechanisms (internal recapitalisation) are established, and resolution funds are created, financed by the entities themselves.
- The responsibility for resolution, affecting entities under the jurisdiction of national authorities as a result of the distribution of powers between the Single Resolution Board and the National Resolution Authorities established in Article 7 of Regulation (EU) 806/2014, in its preventive phase, is attributed to the Bank of Spain for credit institutions and to the Spanish Securities Market Regulator for investment firms. FROB is appointed as the Executive Resolution Authority of such entities.

Within this framework, FROB therefore aims to manage entities' resolution processes in the executive phase and to exercise other powers attributed thereto under Act 11/2015 and other national and European Union Law.

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

- To ensure the continuity of those activities, services and operations whose interruption could disrupt the provision of essential services for the real economy and financial stability and, in particular, financial services of systemic importance, and payment, compensation and settlement systems, taking into account the size, market share, internal and external relations, and or cross-border nature of the entity and its group.
- To avoid adverse effects on the stability of the financial system, preventing the 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, minimising the extraordinary public financial support which it may be necessary to grant.
- To protect depositors whose funds are guaranteed by the Deposit Guarantee Fund for Credit Institutions and investors covered by the Deposit Guarantee Fund.

¹ Repealed by Royal Decree-Law 24/2012, of 31 August, on the restructuring and resolution of credit institutions, in turn repealed by Act 9/2012, of 14 November, on the restructuring and resolution of credit institutions, converting its provisions to the rank of Act. This Act was also repealed by Act 11/2015, of 18 June, currently in force, on the restructuring and resolution of credit institutions and investment firms, except for the First Transitory Provision.

- To protect repayable funds and other assets of clients of credit institutions.

The achievement of these aims will endeavour, at any event, to minimise the cost of resolution and avoid any loss of value, except when necessary to achieve the resolution's aims.

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

- A National Resolution Fund (NRF) without legal personality, managed by FROB and established as a separate asset, whose financial resources should amount to at least 1 per cent of all entities' covered deposits. To achieve this level, FROB will collect, at least annually, ordinary contributions from entities, as well as extraordinary contributions, if ordinary contributions are insufficient.
- Contributions to be collected by FROB for the National Resolution Fund are limited to those entities that, within the scope of application of Act 11/2015, are not subject to make contributions to the Single Resolution Fund (SRF). Accordingly, the entities that must contribute to the Fund are investment firms whose minimum legally required share capital is at least 730,000 Euros, or whose activity does not meet the characteristics described in Article 1.3.b) of Act 11/2015, provided that they are not included in the parent company's scope of consolidated supervision by the European Central Bank (ECB). Furthermore, by virtue of the Eighth Final Provision of Royal Decree-Law 19/2018, of 23 November, on payment services and other urgent financial measures, which amends, inter alia, Articles 1.2.e) and 53.1.a) of Act 11/2015, aside from the collection cycle of contributions corresponding to 2019, branches in Spain of credit institutions and investment firms established outside the European Union are included among the obligated entities..
- FROB may also, for the fulfilment of its purposes, seek alternative means of financing, such as issuing fixed income securities, receiving loans, applying to open credit facilities and undertaking other borrowing transactions in the event that the ordinary contributions are insufficient to cover resolution costs and extraordinary contributions are not immediately evadable or sufficient. At any event, FROB's borrowings, however they are materialised, shall not exceed the limit established for that purpose in the annual laws of the General State Budget (GSB).
- FROB may borrow from the funding mechanisms of other European Union Member States in the event that ordinary contributions are insufficient to cover the costs of resolution, extraordinary contributions are not immediately accessible and the alternative funding mechanisms indicated in the previous point cannot be used on reasonable terms.

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

- Granting of guarantees.
- Granting of loans or credit.
- Acquisition of assets or liabilities, maintaining their management or entrusting this to a third party.
- Contributions to a bridge institution or to an asset management company.
- Payment of compensations to shareholders and creditors.
- Contributions to the entity when deciding to exclude certain liabilities from internal recapitalisation.
- Granting of loans to other funding mechanisms.
- Recapitalisation of an entity under the terms and limitations provided in Act 11/2015.

To cover its operating costs, FROB collects a "fee for the activities undertaken by FROB as resolution authority" from obligated entities, governed by the provisions of Act 11/2015 and, failing that, of Act 8/1989 of 13 April, on Public Fees and Prices, and the General Tax Act 58/2003, of 17 December. Its basic characteristics, according to the Sixteenth Additional Provision of Act 11/2015, are as follows:

- Taxable event. The exercise of functions of monitoring, reporting and application of resolution instruments during the preventive and executive phases of resolution undertaken by FROB.
- Taxpayers. Credit institutions and investment firms established in Spain.
- Taxable base. Amount that each entity must provide by way of its annual ordinary contribution to the National Resolution Fund or, as the case may be, to the Single Resolution Fund.

- Tax fee. Result of applying a tax rate of 2.5 per cent on the taxable base.
- Jurisdiction for management, settlement and collection lies with FROB.
- Revenue from this fee has the nature of budget revenue of FROB.

In addition, FROB's own funds may increase through the capitalisation of loans, credit or any other form of borrowing by FROB in which the Central Government appears as creditor.

As regards the applicable legal regime, FROB, for the purposes of its budget, shall apply, in matters not covered by Act 11/2015, the provisions of Articles 64 to 68 of the General Budget Act 47/2003 of 26 November. However, it is not subject to them and therefore they are not applicable thereto:

- General rules governing the economic and financial, accounting and oversight regulations of public bodies reporting or related to the Central Government, except with regard to external audits of the Spanish Court of Auditors, pursuant to Organic Law 2/1982, of 12 May, on the Spanish Court of Auditors and to the ongoing financial oversight of its internal economic and financial management regulations by the Auditor General of the Spanish Central Government, pursuant to the provisions of Chapter III of Title VI of the General Budget Act 47/2003, of 26 November.
- The provisions of Act 33/2003, of 3 November, on General Government equity in the exercise of its resolution functions. At any event, FROB will not be subject to the provisions contained in Title VII of the aforesaid Act 33/2003, related to the business assets of Central Government. In this regard, the stakes, shares, securities and other instruments that FROB may acquire in the exercise of its resolution powers are not part of General Government equity.

FROB is governed and administered by a Governing Committee, comprised at 31 December 2022, of 11 members: the Chair; four members appointed by the Bank of Spain, one of which, the Deputy Governor, acts as Vice-Chair; three representatives of the Ministry of Economic Affairs and Digital Transformation; the Vice-Chair of the Spanish Securities Market Regulator; and two representatives of the Ministry of Finance and Public Administration. Also, the Auditor General of the Spanish Central Government and a representative appointed by the Attorney General's Office attend the Governing Committee's sessions, with speaking but not voting rights.

However, decisions of the Governing Committee that affect the General State Budget or the management by FROB of its portfolio of holdings, shares, securities, and other instruments, will be made by a reduced composition, consisting of the Chair of FROB, three representatives from the Ministry of Economic Affairs, Trade, and Enterprise, and two representatives from the Ministry of Finance. Additionally, representatives appointed by the Auditor General of the Central Government and the Attorney General's Office will attend the sessions of this reduced composition, with speaking but not voting rights.

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

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

2.1 Regulatory financial reporting framework applicable to FROB

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

- a) The Spanish Commercial Code and other applicable Spanish corporate legislation.
- b) The Spanish General 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 General Chart of Accounts and its implementing legislation.
- d) All other applicable Spanish accounting legislation.

2.2 True and fair view

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 Note 2.1) and, in particular, with the accounting principles and rules contained therein (see Note 4) and, accordingly, fairly present the Entity's equity and the financial position at 31 December 2023, and its results, the changes in its equity and its cash flows in the year then ended.

FROB's annual accounts for 2022 were approved by the Governing Committee on 19 June 2023. The annual accounts for 2023, which were authorised for issue by FROB's Chair on 10 June 2024, 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 applied

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

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

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

In preparing these annual accounts, estimates were made to measure certain items recognised therein. Specifically, estimates were made for the purpose of measuring investments in the capital of Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (hereinafter, "Sareb") and BFA Tenedora Acciones, S.A.U. (hereinafter, "BFA"), to determine the possible existence of impairment losses on these investments.

Recoverable amounts of investments in share capital, and related impairment losses compared with their carrying value, if any, were calculated as follows:

- a.- In the case of Sareb, based on its value in use as obtained from the estimated cash flows contained in its current financial projections (approved by its Board of Directors on 28 February 2024), comparing it with the fair value resulting from the calculation made for Sareb share transactions performed on 5 April 2022 (see Note 6.2). Both values – the value in use and the fair value – result in a zero value of the investment in Sareb. As a result, the investment in Sareb remains fully impaired on the accompanying balance sheet and has not had any impact on assets and liabilities during 2023. The value thus calculated is aligned with the company's negative equity.
- b. - As regards its stake in BFA, and in a uniform manner with the estimates made in previous financial years, FROB has considered the individual net equity of the investee as the best estimate of the recoverable value, adjusted by the unrealised gains existing at the measurement date, as established in Recognition and Measurement Standard 9 of Royal Decree 1514/2007.

Consequently, at 31 December 2023, the net carrying amount of FROB's stake in BFA, coinciding with its recoverable value, amounts to 6,748,554 thousand euros (see Note 6.2), which matches the value of BFA's net individual equity, 5,293,687 thousand euros, corrected by the unrealised gains existing on the measurement date in the amount of 1,454,867 thousand euros, corresponding to the BFA stake in CaixaBank, as shown in the audited annual accounts of BFA for 2023. This has resulted in the recognition of a reversal of impairment in the amount of 404,968 thousand euros.

Furthermore, at year-end 2022, FROB estimated the recoverable value of its stake in BFA, taking into account the individual equity of BFA, corrected by the unrealised gains existing at that date, as shown in its audited annual accounts for 2022. This resulted in the recognition of a reversal of impairment in the amount of 1,851,984 thousand Euros. Consequently, at 31 December 2022, the net carrying amount of FROB's stake in BFA amounted to 6,343,586 thousand Euros.

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 at the value they are recorded at will depend on the evolution of these investees themselves and, in the case of BFA, fundamentally on the amount obtained from the sale of CaixaBank shares.

Moreover, FROB has granted a series of guarantees within the framework of the different credit institutions' restructuring and resolution processes, chiefly in order to maximise efficiency in the use of public funds in the sale process or integration of certain institutions, and is, in addition, the subject of certain legal claims arising from these divestment processes, which are duly analysed in order to determine the viability of such claims (see Note 11). FROB has estimated the amount of provisions made in accordance with the methodology set out in Note 4.9. 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 their determination, as well as the future development of contingencies covered by these guarantees.

As at 31 December 2023, FROB presents a negative working capital of 272,924 thousand euros. However, FROB's ability to meet its debts as they fall due is guaranteed by various factors (see Note 9).

In the preparation of the 2023 annual accounts, the going concern principle was applied, which assumes that the Fund will enjoy continuity and will, accordingly, recover its assets and liquidate its liabilities in the normal course of operations. Hence, the application of the accounting principles will not be aimed at determining the equity value for the purposes of global or partial disposal, nor the resulting amount in the event of liquidation.

2.5 Comparison of information

Information contained in these annual accounts relating to 2022 is presented with the figures relating to 2023 for comparison purposes only.

2.6 Changes to accounting criteria

In 2023, there have been no significant changes in accounting criteria compared with those applied in the 2022 financial year.

2.7 Correction of errors

In the preparation of the attached annual accounts, no significant error has been detected leading to the restatement of the amounts included in the annual accounts for 2022.

2.8 Relative importance

When determining the information to be broken down and set out in this report regarding the different items of the financial statements or any other aspects, the Fund, in accordance with the Conceptual Framework of the General Chart of Accounts, has taken into account the relative importance in relation to the consolidated annual accounts for financial year 2023.

2.9 Environmental impact

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

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

In compliance with the provisions of Act 15/2010 of 5 July, amending Act 3/2004 of 29 December, establishing measures to combat late payment in commercial transactions, and the Spanish Accounting and Audit Institute Resolution of 29 January 2016 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 breakdown of the information required is included below:

	2023	2022
	Days	
Average payment period to suppliers	5.75	3.96
Ratio of transactions paid	5.73	3.96
Ratio of outstanding payment transactions	14.35	0.00
	Thousands of euros	
Total payments	3,026	4,461
Total outstanding payments	3	0

2.11 Presentation of consolidated financial statements

Spanish corporate and commercial legislation requires, with certain exceptions, that 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 profits from its activities; the existence of control, and therefore, of the group, is presumed to exist when, among other factors, the majority of voting rights are held and the power exists to appoint or remove the majority of the members of the Board of Directors.

In this context, FROB performed an analysis of the need to present consolidated annual accounts after having acquired, as described in Note 6 to these annual accounts, majority shareholdings in certain credit institutions, which led it to conclude, after consulting with the Bank of Spain and the Spanish Securities Market Regulator (CNMV), that it was under no legal obligation to do so. Matters taken into consideration to reach this conclusion included the following:

- Extremely exceptional circumstances included in the law that require FROB's intervention in processes in which it acquires majority stakes in entities or in which it gains control over governing bodies.
- The fact that these stakes are only held by legal mandate and are intended to complete and guarantee the fulfilment of the restructuring/resolution plan that must conclude with the transfer of the business to third parties, whereby its actions cannot be treated as substantive rights with a vocation to take an active part in the management of the businesses, designing their financial and operating policies to obtain profits from their activities.
- FROB's decisions to allocate 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 FROB as public debt.

In addition, it should be considered that the presentation of consolidated accounts, integrating Sareb and BFA, would not provide FROB's investors with relevant information, and thus it would not comply with the purpose of offering a true and fair view of the nature and purpose of its majority stakes.

3. Application of profit

Profit generated by FROB's assets will be integrated into its Equity Fund. The application of profit for 2023 and 2022 is as follows:

	Thousands of euros	
	2023	2022
Basis of allocation: Profit/loss on income statement	455,600	2,216,508
Allocation Equity Fund	455,600	2,216,508

4. Accounting policies and measurement

The main accounting policies and measurements used by FROB in preparing the annual accounts for 2023, in accordance with the Spanish General Chart of Accounts approved by Royal Decree 1514/2007, of 16 November ("the Spanish General Chart of Accounts"), are as follows:

4.1 Fixed assets

4.1.1 Intangible assets

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

The maintenance costs of applications are recorded in the year they are incurred. At 31 December 2023, FROB had no impaired intangible assets and none existed during the course of 2023.

4.1.2 Tangible fixed assets

Initial measurement –

Assets included in property, plant and equipment are initially measured 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 invoiced by the supplier after deducting any discounts or price reductions, all directly related additional expenses that occur until the assets are ready for their intended use, including those relating to transporting them to their location and any other condition in order for them to operate as planned.

Subsequent measurement –

Subsequent to their acquisition, the elements of tangible fixed assets are measured at their acquisition price or production cost, minus their cumulative appreciation and, as the case may be, the cumulative amount of the value adjustments for impairment that may need to be recognised.

Depreciation –

Property, plant and equipment are depreciated systematically on a straight-line basis over their estimated useful life, 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 31 December 2023, calculated on the basis of the Entity's best estimate of the depreciation 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 as follows:

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

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

In 2023, no changes have been made in the estimates of the useful life 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 the fair value less costs to sell and value in use, as defined in the Spanish General 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 recognised which, if necessary, are recorded with a charge to the income statement. The reversal, if any, of previously recognised impairment losses due to increases in the recoverable amount of items of property, plant and equipment is recognised with a credit to the income statement. These recoveries are limited to the asset's carrying amount if no impairment loss has been recognised.

None of FROB's items of property, plant and equipment were impaired at 31 December 2023 or during the year then ended.

4.2 Financial assets - Categories of financial assets

4.2.1 Financial assets at cost - Group companies and associates

In accordance with accounting legislation, "Group companies" are those controlled by an entity. Control is the power to govern the financial and operating policies of a business so as to obtain profits from its activities. Control exists, in general but not exclusively, when the entity directly or indirectly owns half or more of the investee's voting rights 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 stakes owned by FROB within the framework of its corporate purpose do not meet the definition of subsidiaries, and taking into consideration the specific nature of its management, as indicated in Note 2.11 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 recorded in the annual accounts under "Non-Current Investments in Group companies and Associates - Equity Instruments" on the accompanying balance sheet and are measured at acquisition cost, net of any impairment losses on said stakes (see Note 4.4.1).

Dividends accrued on these stakes, provided that they do not arise unequivocally from the profit generated prior to their acquisition date, are recorded on the income statement. In 2023, these stakes did not accrue any dividends.

Note 6.2 contains significant information on these stakes.

4.2.2. Financial assets at amortised cost

A financial asset shall be included in this category, even when admitted to trading on an organised market if the entity maintains the investment with the aim of receiving cash flows from the execution of the contract, and the contractual conditions of the financial asset give rise, on specific dates, to cash flows that are solely collections of principal and interest on the amount of the principal pending.

Contractual cash flows that are solely collections of principal and interest on the amount of the principal pending are inherent to an agreement with the nature of an ordinary or common loan, without prejudice to the operation being agreed at a zero-interest rate or below the market rate.

The management of a group of financial assets to obtain their contractual flows does not imply that the company

must hold all instruments until their maturity; it could be considered that the financial assets are managed with this purpose in mind even when future sales have occurred or are expected to occur. To this end, the entity must consider the frequency, the amount and the schedule of sales in previous financial years, the reasons for these sales and the expectations of future sales in relation to the activity.

The entity's management of these investments is a question of fact and does not depend on its intentions for an individual instrument. A company may have more than one policy to manage its financial instruments and it may be appropriate, in some circumstances, to divide a portfolio of financial assets into smaller portfolios to reflect the level at which the company manages its financial assets.

This category includes trade receivables and non-trade receivables:

- Trade receivables: financial assets stemming from the sale of goods and services in the ordinary course of business with deferred collection, and
- Non-trade receivables: financial assets other than equity and derivative instruments that are non-commercial in nature and have fixed or determinable payments, deriving from loans or credit extended by the entity.

Initial measurement –

Financial assets classified in this category are initially measured 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, loans for trade operations with a maturity date of no more than one year and that do not have an explicit contractual interest rate, along with loans to staff, dividends to be collected and capital calls on equity instruments that are expected to be received in the short term may be measured at their nominal value when the effect of not updating the cash flows is not significant.

Subsequent measurement –

Subsequently, the financial assets included in this category are measured at their amortised cost. Accrued interest is recorded on the income statement, applying the effective interest rate method.

However, loans that mature in less than a year which, according to the provisions of the previous paragraph, are initially measured at their nominal value, will continue to be measured at that amount, unless they have suffered impairment.

Any impairment losses on these assets are recognised as described in Note 4.4.2.

Notes 6.3, 6.4 and 6.5 contain significant information on these investments.

4.3 Cash

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

The interest accrued from the bank accounts and bank deposits held by FROB is calculated using the effective interest method on the basis of their contractual rates and is recognised under "Finance Income - Bank Interest" or, if applicable, under "Finance Expenses — Bank Interest" on the accompanying income statement.

Note 5 contains certain significant information on cash.

4.4 Impairment of financial assets

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 amount and the carrying amount of said asset) is recorded on

the income statement.

When the recovery of any recognised amount is considered unlikely, the amount is written off, without prejudice to any actions that FROB may initiate to seek collection until its contractual rights are extinguished due to expiry of the statute-of-limitations period, write-off 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 a negative impact on the future cash flows that were estimated at the transaction date.
- In the case of equity instruments, when their carrying amount may not be fully recovered.

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

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

4.4.1 Stakes in entities

FROB estimates and recognises impairment losses on stakes 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 will not be recoverable.

The amount of the impairment losses is estimated as the difference between the book value of the stakes and their recoverable amount, understood as the higher of its fair value minus sale costs and the present value of the future cash flows arising from the investment.

The most significant aspects of the methodology used at year-end 2023 to estimate the recoverable amount of the various investments in capital and, therefore, the related impairment losses, are described in Note 2.4 to these annual accounts.

Impairment losses and the reversal thereof are recognised as an expense and income, respectively, on the income statement (see Note 6.2). The limit of any reversal of impairment losses is the investment's carrying amount that would have been recognised at the date of reversal had no impairment loss been recognised.

4.4.2 Debt instruments classified as financial assets at amortised cost

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

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

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

Impairment losses and the reversal thereof are recognised as an expense and income, respectively, on the income statement (see Notes 6.3, 6.4 and 6.5). The limit of any reversal of impairment losses is the carrying amount of the investment that would have been recognised at the date of reversal had no impairment loss been

recognised.

4.5 Financial liabilities at amortised cost.

FROB classifies all financial liabilities in this category except when they must be measured at fair value on the income statement.

On a general basis, this category includes trade payables (financial liabilities arising from the purchase of goods and services in the ordinary course of business with deferred collection) and non-trade payables (financial liabilities that are not derivative instruments and do not have a commercial origin, but derive from loans or credit received by FROB).

The financial liabilities included in this category are initially measured at fair value, which, in the absence of evidence to the contrary, is the transaction price, equivalent to the fair value of the consideration received plus directly attributable transaction costs. They are then measured at amortised cost. Accrued interest is recorded on the income statement using the effective interest method.

However, trade payables falling due in less than one year which do not have a contractual interest rate, as well as the payments for equity called up by third parties, which are expected to be paid in the short term, are measured at their nominal value when the discounting effect is not significant.

4.6 Derecognition of financial instruments

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

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

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

4.7 Tax regime

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

4.8 Income and expenses

Income and expenses are recognised on 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.

Operating leases

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

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

Lease term	Penalties
31 January 2026	Early termination

The annual rent for 2023 amounted to 623 thousand euros (VAT exempt).

In January 2023, the lease agreement has been renewed until 31 January 2026, with an annual rent for the first year of 627 thousand euros (VAT exempt), annually renewable, in accordance with Article 4(6) of Act 2/2015, of 30 March, on the de-indexation of the Spanish economy.

The amount of the instalments of the operating lease is directly charged to the accompanying income statement (see Note 12.3).

4.9 Provisions and contingencies

In preparing its annual accounts, 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 exact amount and/or timing of which cannot be determined. These obligations may derive from a legal provision, a contractual requirement or an implicit or constructive obligation assumed by FROB.
- b) Contingent liabilities: possible obligations that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within 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 recorded in the annual accounts, but rather are disclosed in the notes to the financial statements (see Note 11).

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

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

4.10 Related-party transactions

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

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

Note 13 contains information on the balances recognised in these annual accounts corresponding to related parties.

4.11 Definition of fair value and amortised cost

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

Fair value is generally calculated by reference to a reliable market value, which is understood to be the price quoted on 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 proven that they provide the most realistic fair value estimates and maximising at all times the use of data obtained in the market.

In turn, the amount of the amortised cost of a financial instrument is understood as the amount at which it was initially measured, minus repayments of principal and interest, as applicable, plus or minus, as the case may be, the amount allocated to the income statement through the use of the effective interest rate method of its accrued interest and the difference between the initial amount and the value of the repayment of the instrument. In the case of financial assets, the amortised cost also includes the impairment losses recorded thereon, if applicable.

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, as the case may be, charged prior to granting the loan.

5. **Cash and cash equivalents - Cash**

At 31 December 31 2023 and 2022, "Cash and cash equivalents - Cash" on the accompanying balance sheet corresponds to the following breakdown:

	Thousands of euros	
	31.12.2023	31.12.2022
Accounts held at the Bank of Spain	120,726	138,648
Current accounts in other institutions	940	2.395
Outstanding accrued interest receivable	415	197
	122,081	141,240

As of 31 December 2023, the accounts held by FROB at the Bank of Spain accrued positive interest of 5,042 thousand euros (508 thousand euros as of 31 December 2022) (€STER -20bp), which is recorded under the heading "Finance income – Bank interest" on the accompanying income statement (see Note 13). At 31 December 2023, 415 thousand euros remained outstanding (197 thousand euros at 31 December 2022), which were collected on 5 January 2024.

From 1 January until 14 September 2022, the accounts held by FROB at the Bank of Spain accrued, according to the European Central Bank's regulations on the remuneration of public authority deposits in a National Central Bank, negative interest of 803 thousand euros (rate of -0.50%), which is recorded, together with other items, under the heading "Finance expenses – Interest and commissions" on the accompanying income statement (see Notes 7.5 and 13). Said interest was fully paid at 31 December 2022. As of 14 September, these accounts began to accrue positive interest at €STER minus 20 basis points.

Additionally, during 2022, the negative interest accrued on current accounts held by FROB at other institutions amounted to 14 thousand euros, which is recorded, together with other items, under the heading "Finance expenses – Interest and commissions" on the accompanying income statement (see Note 7.5).

6. **Financial assets**

6.1 Breakdown of financial assets

The breakdown, classified in accordance with applicable legislation, of financial assets owned by FROB at 31 December 2023 and 2022 is as follows:

31.12.2023:

Classes Categories	Thousands of euros						Total
	Non-Current Financial Instruments			Current Financial Instruments			
	Equity Instruments (Note 6.2)	Debt Instruments (Note 6.3)	Loans and Other (Note 6.4)	Debt Instruments (Note 6.5)	Loans and Other (Note 6.5)	Trade and Other Receivables	
Financial assets at cost (*)	6,748,554	-	-	-	-	-	6,748,554
Financial assets at amortised cost:	-	-	-	518,901	34,389	11	553,301
Total	6,748,554	-	-	518,901	34,389	11	7,301,855

(*) Including the amount of investments, net of their cumulative impairment (see Note 6.2).

31.12.2022:

Classes Categories	Thousands of euros						Total
	Non-Current Financial Instruments			Current Financial Instruments			
	Equity Instruments (Note 6.2)	Debt Instruments (Note 6.3)	Loans and Other (Note 6.4)	Debt Instruments (Note 6.5)	Loans and Other (Note 6.5)	Trade and Other Receivables	
Financial assets at cost (*)	6,343,586	-	-	-	-	-	6,343,586
Financial assets at amortised cost:	-	200,711	14,515	350,443	1,357	278	567,304
Total	6,343,586	200,711	14,515	350,443	1,357	278	6,910,890

(*) Including the amount of investments, net of the cumulative impairment (see Note 6.2).

6.2 Non-current investments in Group companies and Associates — Equity Instruments

The breakdown of investments comprising "Non-current investments in Group companies and Associates — Equity instruments" on the accompanying balance sheet at 31 December 2023 and 2022 is as follows:

31.12.2023:

Company	%	Location	Thousands of euros					
			Data on Investees' Assets (*)			Carrying Amount of FROB's Stake		
			Share Capital	Reserves and Other Equity Items	Profit (Loss)	Cost	Impairment	Carrying Amount
BFA	100%	Madrid	1,918,367	3,040,537	334,783	19,604,000	(12,855,446)	6,748,554
Sareb	50,14%	Madrid	171,547	(12,620,112)	(2,197,718)	656,168	(656,168)	-
Total						20,260,168	(13,511,614)	6,748,554

(*) Data related to the equity position of these companies were obtained from the audited financial statements at 31 December 2023, excluding minority interests.

31.12.2022:

Company	%	Location	Thousands of euros					
			Data on Investees' Assets (*)			Carrying Amount of FROB's Stake		
			Share Capital	Reserves and Other Equity Items	Profit (loss)	Cost	Impairment	Carrying Amount
BFA	100%	Madrid	1,918,367	2,573,235	467,303	19,604,000	(13,260,414)	6,343,586
Sareb	50,14%	Madrid	171,547	(12,837,253)	(1,506,238)	656,168	(656,168)	-
Total						20,260,168	(13,916,582)	6.343.586

(*) Data related to the equity position of these companies were obtained from the audited financial statements at 31 December 2022, excluding minority interests.

Changes in "Non-current investments in Group companies and Associates - Equity instruments" on the accompanying balance sheet in 2023 and 2022 were as follows:

	Thousands of euros
Balance at 1 January 2022	4,491,602
Net allocation for impairment charged to the income statement	1,851,984
Balance at 31 December 2022	6,343,586
Net reversal of impairment paid into the income statement	404,968
Balance as of 31 December 2023	6,748,554

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

BFA was initially incorporated as a credit institution. Subsequently, with effect from 2 January 2015, the Bank of Spain approved BFA's prior waiver request to continue operating as a credit institution. The corresponding deed of modification of its Articles of Association was registered in the Companies Registry of Madrid on 28 January 2015. Until 26 March 2021, the date of completion of the merger between Bankia and CaixaBank, whereby Bankia shareholders received CaixaBank shares (0.6845 newly issued ordinary CaixaBank shares for each ordinary Bankia share), BFA remained as a holding company for Bankia. As at 31 December 2023, BFA holds a 17.32% stake in CaixaBank's share capital.

Based on the divestment term, in accordance with Act 9/2012, FROB was initially required to complete the divestment of its stake in Bankia before five years had passed from the date of the financial injection. However, Royal Decree 4/2016, of 2 December, on urgent financial measures, extended the term to seven years, with a new deadline in December 2019. This included a provision that the term could be further extended by the Council of Ministers, if necessary, to ensure better compliance with the resolution's objectives. In order to maximise the recovery of support and promote a more flexible execution of FROB's divestment strategy, on 27 December 2022, the Council of Ministers approved a third extension of the deadline, extending the divestment period to December 2025.

At year-end 2023, according to the criteria provided for in Notes 2.4 and 4.4.1, FROB has estimated the recoverable amount of its investment in BFA, taking into account BFA's individual equity, which stood at 5,293,687 thousand euros, adjusted for unrealised gains of 1,454,867 thousand euros, corresponding to BFA's stake in CaixaBank, as reflected in BFA's audited annual accounts for 2023. This resulted in the recognition of an impairment reversal amounting to 404,968 thousand euros, recorded under the heading "Impairment and results from disposals of financial instruments – Impairment and losses" on the accompanying income statement. Consequently, as at 31 December 2023, the net book value of FROB's investment in BFA amounts to 6,748,554 thousand euros.

At year-end 2022, FROB had similarly estimated the recoverable value of its investment in BFA, taking into account BFA's individual equity, adjusted for unrealised gains as of that date, as reflected in BFA's audited annual accounts for 2022. This resulted in the recognition of an impairment reversal amounting to 1,851,984 thousand euros, which

was recorded under the heading "Impairment and results from disposals of financial instruments – Impairment and losses" on the accompanying income statement. Consequently, as at 31 December 2022, the net book value of FROB's investment in BFA amounted to 6,343,586 thousand euros.

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

At 31 December 2023 and 2022, FROB's stake in Sareb is classified, together with other items, under "Non-current investments in Group companies and associates – Equity instruments" on the accompanying balance sheet.

On 18 January 2022, Royal Decree-Law 1/2022, of 18 January, amending Act 9/2012, of 14 November, on the restructuring and resolution of credit institutions; Act 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms; and Royal Decree 1559/2012, of 15 November, establishing the legal regime of asset management companies, in relation to the legal regime of the Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (Sareb) (hereinafter, "RDL 1/2022"), was approved. The purpose of RDL 1/2022, as stated in the explanatory memorandum, was the urgent need to undertake a reform of Sareb's capital structure and governance with the aim of adapting it to Sareb's reclassification in the National Accounts as a unit belonging to the General Government sector, which took place in 2021.

Among other modifications, RDL 1/2022 removed the limits on the State's stake in Sareb, thus allowing FROB to achieve a majority position in the capital, with the aim of effectively taking control of the company, without Sareb acquiring the status of a State-owned company.

On the basis of the foregoing, FROB's Governing Committee, in its reduced composition, approved a procedure for the purchase of Sareb shares, aimed at private shareholders, in order to achieve a majority position in the capital of at least 50.01%. This purchase procedure was designed to comply with the requirements of transparency, competitiveness, and non-discrimination. To this end, the agreement of the Auditor General of the Spanish Central Government was sought, both for the reasonableness of the proposed purchase price and for the development of the purchase procedure, thus ensuring consistency with the general principles that must govern FROB's operations as a public entity.

FROB's technical services performed a valuation of Sareb using two approaches: i) an accounting valuation based on its equity according to the latest approved annual accounts (referring to the 2020 financial year); and ii) a valuation based on the forecast cash flows expected from the development of the company and its asset portfolio in line with the contents of its current Business Plan (in its version approved by the Board of Directors on 24 February 2021). Both approaches yielded negative valuations, resulting in a zero value for Sareb's shares.

This zero value led to the establishment of a symbolic share price, which would allow a proportional allocation based on shareholding. This was determined on the basis of an exchange ratio of 0.01 euros for every 39,710 shares (the highest figure by which the total number of Sareb shares can be divided, without leaving any remaining shares that are not the subject of an offer, ensuring equal treatment for all shareholders), resulting in a valuation of 360 euros for 100% of Sareb's share capital.

On the basis of this valuation, on 26 January 2022, FROB sent all Sareb shareholders a purchase offer for the entirety of their stakes, which was accepted by shareholders representing 4.24% of the capital.

Thus, on 5 April 2022, the sale and purchase agreements were formalised, and Sareb was notified of the purchase for the purpose of entering the agreement in its Shareholder Register. Consequently, the procedure allowed FROB's stake to exceed the minimum desired shareholding, reaching 50.14% at that date, without this implying any present or future capital disbursement commitments.

In light of the foregoing, in 2022, the shares acquired in the control process were recognised at their acquisition price of 15.25 euros.

In application of the criteria provided for in Notes 2.4 and 4.4.1 above, FROB has estimated the recoverable value of this investment based on the financial projections for the 2024-2027 period, which were approved by Sareb's Board of Directors at its meeting held on 28 February 2024, and compared it with the fair value resulting from Sareb share transactions performed on 5 April 2022.

In 2023, the recoverable amount of FROB's entire stake in Sareb was estimated, which, in light of the points mentioned above, remains zero and thus continues to be fully impaired at year-end 2023.

Culminating the process of FROB taking public control of Sareb following the approval of Royal Decree-Law 1/2022, and with the inclusion of the principle of sustainability, which allows Sareb to combine the socially responsible management of its portfolio with the company's divestment objectives, in March 2023, the Board of Directors approved the Business and Strategic Plan for the 2023-2027 period. This plan defines the three main strategic lines for the company: i) Acceleration of the liquidation of assets without social value to generate cash flows to repay senior debt; ii) Maximisation of the social value of the assets, primarily residential properties, protecting vulnerable individuals and promoting the sale of affordable housing to private individuals and public authorities for use as part of the public stock of social rentals; iii) Generation of value from those assets for which property development and urban management have been identified as ways to generate greater flows to repay secured debt. Additionally, financial projections for the same 2023-2027 period were approved, factoring in a significant impact from rising interest rates and assumptions on market trends and discounts on more prudent appraised values, in line with the new macroeconomic and market environment.

On 28 February 2024, Sareb's Board of Directors approved the update of the financial projections for the 2024-2027 period, which remain consistent with those approved in the previous year.

Thus, in application of the criteria set out in Notes 2.4 and 4.4.1 above, in 2023, FROB estimated the recoverable value of its entire stake based on these 2024-2027 financial projections, and compared it with the fair value resulting from Sareb share transactions performed on 5 April 2022. The stake continues to have a zero value, and therefore remains fully impaired as at 31 December 2023.

6.3 Non-current financial assets - Debt instruments

Financial assets at amortised cost:

ASF2015 subordinated B Bond

At year-end 2023 and 2022, this category includes the subordinated B Bond subscribed by 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 sale process for a portfolio of assets, awarded to Blackstone, which was formalised in April 2015. The operation, structured through the transfer of said portfolio to an Asset Securitisation Fund (FTA2015) and other Blackstone Group companies, included FROB's financial support through: i) the subscription of the subordinated bond mentioned in the previous paragraph; ii) the award of a guarantee for doubtful credits, initially estimated to amount to 124,000 thousand euros, which was settled in 2017 for an amount of 37,546 thousand euros; and iii) the award of a liquidity line (see Note 6.5).

Spanish Government debt securities

At 31 December 2022, this amount corresponded to the non-current public debt portfolio with the Kingdom of Spain, amounting to 200,711 thousand euros, recorded under the heading "Non-current financial investments – Debt securities" on the accompanying balance sheet. Considering the drafting of Recognition and Measurement Standard 9 on "Financial Instruments", Section 2.2 of which governs financial assets at amortised cost (see Note 4.2.2), FROB reclassified these amounts in 2022 from the category "Financial assets at fair value with changes in equity" to the category "Financial assets at amortised cost", understanding that this adjustment better aligns with its current management model.

During the 2023 financial year, amounts were reclassified, based on maturity, under the heading "Current financial investments – Debt instruments" on the accompanying balance sheet (see Note 6.5), and no new securities classified under this heading were purchased.

6.4 Non-current financial instruments – Other financial assets

At 31 December 2022, an amount of 11,597 thousand Euros was recognised as a result of the valuation of the guarantees granted in the sale process of CX (see Note 11.1).

The valuation of these guarantees for the 2023 financial year, following the completion of the review of the files included in them, has resulted in the reclassification of this amount under the heading “Financial investments – Other financial assets” on the accompanying balance sheet (see Notes 6.5 and 11.2).

2,918 thousand euros is also included from the amount liquidated with the DGF in previous years by way of the CX guarantees which, with the new estimates, should be repaid to FROB (see Note 11.1).

6.5 Current financial instruments

At 31 December 2023 and 2022, the disclosure of the balance of this heading on the attached balance sheets is as follows:

	Thousands of euros	
	2023	2022
ASF2015 liquidity line (CX sale)	1,150	1,357
Spanish Government debt securities	518,901	350,443
CX sale guarantees	33,239	-
Total	553,290	351,800

FTA2015 Liquidity Line (CX Sale)

As indicated in Note 6.3, FROB provided certain financial support in the sale operation of an asset portfolio carried out by Catalunya Banc within FROB's divestment process at the institution. This support includes the granting of a liquidity line to the FTA2015 for a maximum amount of 400 million euros, with a balance at 31 December 2023 of 1,126 thousand euros (1,334 thousand euros in 2022). Additionally, the line has generated finance income (interest and associated commissions) amounting to 283 thousand euros (259 thousand euros in 2022), of which 24 thousand euros were receivable at 31 December 2023 and recorded, together with other items, under the heading “Current financial investments – Other financial assets” on the accompanying balance sheet (23 thousand euros at 31 December 2022) and were settled on 15 January 2024.

On 13 November 2023, Beka Titulización (Management Company of FTA2015) informed FROB that “based on the portfolio information as of 30 October 2023, the net book value of the Fund's total assets was less than 10% of the net book value of the Fund's total assets on the Reference Date...” and, as a result, the liquidation process of the Fund, as provided for in the Incorporation Deed, was initiated. This will result in the repayment of the outstanding amounts of the liquidity line during 2024.

Spanish Government debt securities

At 31 December 2023, the balance recognised under “Spanish Government debt securities” in the foregoing table is composed of Government debt with the Kingdom of Spain, with a current maturity amounting to 518,901 thousand euros (350,443 thousand euros in 2022). The market value of these securities, according to the price at 31 December 2023, is 516,030 thousand euros.

Additionally, during the 2023 financial year, new securities classified under this heading were acquired with a nominal value of 425,000 thousand euros, and securities with a nominal value of 450,000 thousand euros matured, generating interest amounting to 1,844 thousand euros, recognised, together with other items, under the heading “Finance income – Government debt interest” on the accompanying income statement (see Note 7.5).

No Government debt securities were sold in either 2023 or 2022.

CX sale guarantees

The balance recognised at 31 December 2023 is composed of the amount corresponding to CX sale guarantees related to litigation, interest rate hedges, and Sareb VAT in favour of FROB, amounting to 33,239 thousand euros (see Notes 6.4 and 11.2).

7. Financial liabilities

7.1 Disclosure of financial liabilities

The disclosure, as required by applicable legislation, of financial liabilities assumed by FROB at 31 December 2023 and 2022 is as follows:

31.12.2023:

Classes Categories	Thousands of euros					Total
	Non-current financial instruments		Current financial instruments			
	Debt instruments and other marketable securities	Other noncurrent financial liabilities (Note 7.2)	Debt instruments and other marketable securities	Other current financial liabilities (Note 7.3)	Sundry payables (Note 7.4)	
Financial liabilities at amortised cost	-	931,647	-	948,295	405	1,880,347
Total	-	931,647	-	948,295	405	1,880,347

31.12.2022

Classes Categories	Thousands of euros					Total
	Non-current financial instruments		Current financial instruments			
	Debt instruments and other marketable securities	Other noncurrent financial liabilities (Note 7.2)	Debt instruments and other marketable securities	Other current financial liabilities (Note 7.3)	Sundry payables (Note 7.4)	
Financial liabilities at amortised cost	-	1,867,188	-	4,362	896	1,872,446
Total	-	1,867,188	-	4,362	896	1,872,446

7.2 Non-current payables – Other financial liabilities

This heading includes the loan granted on 3 December 2012 by the Kingdom of Spain to FROB for the implementation of the European financial assistance programme. The loan allowed funds disbursed by the European Financial Stability Facility, (hereinafter, EFSF) of the European Financial Stabilisation Mechanism (hereinafter, EFSM) to be channelled to the Kingdom of Spain and to 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 to 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	13	2,500,000	100.00%
EU000A1U97D0	11/12/2012	13	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	13	5/08/2015	1,865,000	100.00%
Total			41,333,000	

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

Since the formalisation of the loan, the following events have occurred:

- On 9 December 2013, following authorisation from the EFSM, the partial conversion of the loan from the Kingdom of Spain into an equity contribution to FROB was agreed for an amount of 27,170 million euros (see Note 8.1).
- 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 30 June 2017, 20 February 2020 and 20 December 2021, following authorisation from the EFSM, new partial conversions of the loan from the Kingdom of Spain were performed through a capital contribution to FROB, for an amount of ,000 million euros, 3,000 million euros, and 5,590 million euros, respectively (see Note 8.1).

At 31 December 2023 and 2022, the outstanding balance of the loan granted by the Kingdom of Spain to FROB amounts to 1,865,000 thousand Euros, corresponding in its entirety to the second disbursement, with the following breakdown:

ISIN	Nominal (thousands of euros)	
	2023	2022
Section 2		
EU000A1U98X6	1,865,000	1,865,000
Total	1,865,000	1,865,000

The maturity of the amount corresponding to Tranche 2 will take place in two equal parts, on 11 December 2024 and 2025, respectively.

At 31 December 2023, the amount corresponding to the first maturity (932,500 thousand euros) has been reclassified under the heading "Current payables – Other financial liabilities" on the accompanying balance sheet.

Therefore, at 31 December 2023, the amount recognised, together with other items, under the heading "Non-current payables – Other financial liabilities" corresponds to the cash value of the foregoing non-current debt minus those costs associated with its formalisation (arrangement fees), with a net amount of 931,647 thousand euros (1,863,370 thousand euros at 31 December 2022).

The loan generated finance expenses in 2023 from the accrual of arrangement fees and associated expenses amounting to 777 thousand euros (777 thousand euros in 2022), which are recorded, together with other items, under the heading "Finance expenses – Interest and commissions" on the accompanying income statement (see Note 7.5).

Interest accrued by this loan during 2023 amounted to 21,071 thousand euros (16,242 thousand euros in 2022), recorded, together with other items, under the heading "Finance expenses – Interest and commissions" on the accompanying income statement (see Note 7.5). At 31 December 2023, interest which remained payable was recorded under the heading "Current payables – Other financial liabilities" on the accompanying balance sheet for an amount of 1,137 thousand euros (809 thousand euros at 31 December 2022) (see Note 7.3).

7.3 Current payables – Other financial liabilities

At 31 December 2023, the amount corresponding to the first maturity of the loan granted by the Kingdom of Spain to FROB, amounting to 932,500 thousand euros, was reclassified from the heading "Non-current payables – Other financial liabilities" on the accompanying balance sheet. Additionally, the accrued but unpaid interest and associated expenses related to the loan from the Kingdom of Spain to FROB, as referred to in Note 7.2, are recorded in the amount of 1,137 thousand euros (809 thousand euros at 31 December 2022).

Furthermore, an amount of 14,659 thousand euros (101 thousand euros at 31 December 2022) is recorded, corresponding to amounts payable to the Deposit Guarantee Fund as a result of the modification of the estimated value of guarantees granted in the sale processes of CX and NCG (see Note 11.2).

At 31 December 2022, an amount of 3,452 thousand euros was recorded as a liability for the recognised but unpaid guarantees from CX, which were settled on 9 February 2023.

7.4 Trade and other payables – Sundry payables

The balance of this heading on the accompanying balance sheet at 31 December 2023 and 2022 includes various payables for services.

7.5 Finance expenses

The breakdown of "Finance expenses" on the accompanying income statements for 2023 and 2022 is as follows:

	Thousands of euros	
	2023	2022
Interests and commissions		
- Bank interest (Note 5)	-	817
- Interest on public debt (Note 6.5)	612	1,823
- Interest and commissions on other payables (Notes 7.2 and 7.3)	21,848	17,019
Total	22,460	19,659

8. Equity

8.1 Equity fund

The breakdown of contributions made to FROB since its incorporation in 2009 is as follows:

Contributing entities	Thousands of euros			
	Capitalisation of loans *	Cash Disbursement	Fixed-income securities	Total
General State Budget (GSB)				
- 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
- Act 11/2015	11,591,175	-	-	11,591,175
Deposit Guarantee Fund for Credit Institutions (**)				
- Royal Decree-Law 9/2009	-	1,500,146	749,854	2,250,000
Total	38,761,175	14,250,146	749,854	53,761,175

(*) Breakdown in Note 7.2.

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

To complement the initial provision made to FROB established by Royal Decree-Law 9/2009 (9,000,000 thousand euros, of which 6,750,000 thousand euros came from the General State Budget and 2,250,000 thousand euros from the Deposit Guarantee Fund for Credit Institutions), Royal Decree-Law 2/2012, of 3 February, on the reorganisation of the financial sector, added an increase of 6,000,000 thousand euros out of the General State Budget. In addition, on 9 December 2013, the partial conversion of the loan from the Kingdom of Spain was agreed, amounting to 27,170,000 thousand euros in an equity contribution to FROB's provision, following approval from the EFSM. Furthermore, on 30 June 2017 and 20 February 2020, there were new partial conversions of said loan as contributions to FROB's capital provision for an amount of 3,000,000 thousand euros each, by virtue of Article 53.4 of Act 11/2015 and, as established in the agreement, following authorisation from the EFSM (see Note 7.2).

On 20 December 2021, following authorisation from the ESM, a new partial conversion of the loan from the Kingdom of Spain into a contribution to FROB's capital provision for an amount of 5,591,175 thousand Euros took place (see Notes 7.2).

At 31 December 2023, FROB's equity amounted to 5,520,847 thousand euros (5,065,247 thousand euros at 31 December 2022), comprised of an equity fund of 5,065,247 thousand euros (the aforementioned 53,761,175 thousand euros and the results generated by FROB since its establishment until 31 December 2022) and a profit in 2023 of 455,600 thousand euros.

Although FROB can operate with negative equity, Article 53.4 of Act 11/2015 establishes that FROB's equity may be increased, where applicable, through the capitalisation of loans, credits, or any other debt operations in which the Spanish Central Government is the creditor. In this regard, the loan agreement between the Kingdom of Spain and FROB, following authorisation from the EFSM, allows the partial or total transformation of this loan into an equity contribution to FROB.

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

A breakdown of 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 FROB might not have sufficient funds to meet its debt repayments at their maturity dates.

The disclosure, by maturity, of balances of certain items on the balance sheet at 31 December 2022 and 2021, based on a scenario of "normal market conditions", in accordance with their contractual terms, is as follows:

31.12.2023:

	Thousands of euros						
	Up to 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years	Total
Assets:							
Cash and cash equivalents	122,081	-	-	-	-	-	122,081
Current financial investments-							
Debt securities	518,901	-	-	-	-	-	518,901
Other financial assets	34,389	-	-	-	-	-	34,389
Non-current financial investments-							
Debt securities	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-
Total at 31 December 2023	675,371	-	-	-	-	-	675,371
Liabilities:							
Current debts-							
Other financial liabilities	948,295	-	-	-	-	-	948,295
Non-current debts-							
Other financial liabilities	-	931,647	-	-	-	-	931,647
Total at 31 December 2023	948,295	931,647	-	-	-	-	1,879,942
Different asset-liabilities at 31 December 2023	272,924	931,647	-	-	-	-	1,204,571
Cumulative difference assets-liabilities at 31 December 2023	272,924	1,204,571	1,204,571	1,204,571	1,204,571	1,204,571	

31.12.2022:

	Thousands of euros						
	Up to 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years	Total
Assets:							
Cash and cash equivalents	141,240	-	-	-	-	-	141,240
Current financial investments-							
Debt securities	350,443	-	-	-	-	-	350,443
Other financial assets	1,357	-	-	-	-	-	1,357
Non-current financial investments-							
Debt securities	-	200,711	-	-	-	-	200,711
Other financial assets	-	14,515	-	-	-	-	14,515
Total at 31 December 2022	493,040	215,226	-	-	-	-	708,266
Liabilities:							
Current debts-							
Other financial liabilities	4,362	-	-	-	-	-	4,362
Non-current debts-							
Other financial liabilities	-	935,503	931,685	-	-	-	1,867,188
Total at 31 December 2022	4,362	935,503	931,685	-	-	-	1,871,550
Different asset-liabilities at 31 December 2022	488,678	720,277	931,685	-	-	-	1,163,284
Cumulative difference assets-liabilities at 31 December 2022	488,678	231,599	1,163,284	1,163,284	(1,163,284)	(1,163,284)	

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

- Act 11/2015 allows the capitalisation of loans, credits and other debt operations of FROB in which the Spanish Central Government is a creditor.
- Additionally, in the financial year ended 31 December 2023, BFA recorded a profit of 334,783 thousand euros, and through a sole shareholder resolution dated 23 April 2024, FROB approved the proposal to distribute the entirety of these profits via dividend. This marks the first dividend distributed by BFA to FROB, with the payment being made on 9 May 2024.

Credit risk

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

At 31 December 2023, there is no significant exposure to this risk.

Interest rate risk

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

Market risk

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

Other risks

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

10. Public authorities and tax position

10.1 Current balances with public authorities

The breakdown of "Current liabilities - Trade and other payables - Other accounts payable to public authorities" on the balance sheets at 31 December 2023 and 2022 is as follows:

	Thousands of euros	
	31.12.2023	31.12.2022
Withholdings payable	91	92
Social Security payable	58	54
Total	149	146

10.2 Tax position

As indicated above (see Note 4.7), FROB is exempt from Corporate 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.

11. Provisions and contingencies

11.1 Non-current provisions

The breakdown of "Non-current provisions" on the liability side on the accompanying balance sheet at 31 December 2023 and 2022 is as follows:

	Thousands of euros	
	31.12.2023	31.12.2022
CX guarantees	-	12,234
NCG Banco guarantees	-	26,415
Deposit Guarantee Fund CX hybrid management	-	3,267
Deposit Guarantee Fund NCG hybrid management	-	892
Other provisions	4,595	
Total	4,595	42,808

The change in the balance of this heading in 2023 and 2022 is as follows:

	Thousands of euros
Balance at 31 December 2021	434,574
Allocations	7,084
Surpluses	(331,218)
Transfers to current liabilities	(70,449)
Other changes	2,817
Balance at 31 December 2022	42,808
Allocations	4,595
Surpluses	-
Transfers to current liabilities	(42,808)
Other changes	-
Balance at 31 December 2023	4,595

CX Guarantees

In the sale process of CX to BBVA and the entity's credit portfolio, FROB granted the buyers certain guarantees related to legal contingencies and the transfer of assets to Sareb, in addition to FROB's commitment to subscribe to the subordinated bond issued by FTA2015 as part of the sale process (see Notes 6.3 and 11.2).

Based on the estimated schedule for the settlement of the guarantees, during the 2023 financial year, an amount of 12,234 thousand euros, which was recorded under "Non-current provisions" as of 31 December 2022, was transferred to the heading "Current provisions" on the accompanying balance sheet (see Note 11.2).

At 31 December 2023, the present value of the obligation arising from the hybrid guarantee is fully classified under the heading "Current provisions" on the accompanying balance sheet (see Note 11.2).

NCG Banco Guarantees

In the sale process of NCG carried out by FROB, certain guarantees were granted to the buyer, "Banesco Holding Financiero 2, S.L.U." (Abanca Holding Financiero), in favour of NCG Banco, related to, among other aspects, legal contingencies, certain contingencies arising from the transfer of assets to Sareb, and the utilisation of the tax assets of the transferred entity.

Based on the estimated schedule for the settlement of the guarantees, during the 2023 financial year, an amount of 26,415 thousand euros, which was recorded under "Non-current provisions" as of 31 December 2022, was reclassified to the heading "Current provisions" on the accompanying balance sheet (see Note 11.2).

At 31 December 2023, the present value of the obligation arising from the commitments assumed is fully classified under the heading "Current provisions" on the accompanying balance sheet (see Note 11.2).

Deposit Guarantee Fund compensation for management of hybrids

On 18 July 2013, FROB and the DGF entered into an agreement, by virtue of which FROB undertakes to pay the DGF, by way of compensation for the remaining contingencies for potential indemnities and expenses to be incurred for legal or out-of-court claims, derived from the trading of hybrid instruments originating in shares owned by retail clients acquired by the DGF, within the framework of management actions of hybrid instruments approved by FROB for NCG and CX on 7 June 2013. In addition, on 13 December 2013, an addendum was signed to these agreements in relation to payments to be effected, where applicable, by FROB to the DGF in the event of the latter's disposal of shares (See Note 11.2).

- CX

Based on the estimated schedule for the settlement of the guarantees, during the 2023 financial year, an amount of 3,267 thousand euros, which was recorded under "Non-current provisions" as of 31 December 2022, was reclassified to the heading "Current provisions" on the accompanying balance sheet (see Note 11.2).

- NCG

Based on the estimated schedule for the settlement of the guarantees, during the 2023 financial year, an amount of 892 thousand euros, which was recorded under "Non-current provisions" as of 31 December 2022, was reclassified to the heading "Current provisions" on the accompanying balance sheet (see Note 11.2).

Other provisions

During the 2021 financial year, FROB received a claim related to the asset portfolio covered by the Banco de Valencia EPA. In this regard, on 7 May 2024, a judgment was received ruling against FROB, requiring it to meet the claim. Consequently, at year-end, a provision amounting to 4,595 thousand euros has been recognised to cover the payment resulting from this judgment, should it be upheld following the submission of the relevant appeals.

11.2 Current provisions

The disclosure of "Current provisions" under liabilities on the balance sheet at 31 December 2023 and 2022 is as follows:

	Thousands of euros	
	31.12.2023	31.12.2022
Banco de Valencia Asset Protection Scheme	-	65,835
NCG Banco guarantees	6,770	3,599
Deposit Guarantee Fund CX hybrid management	11,423	354
Deposit Guarantee Fund NCG hybrid management	-	1,883
Other provisions	-	17
Total	18,193	71,688

Changes under this heading in 2023 and 2022 are as follows::

	Thousands of euros
Balance at 31 December 2021	30,734
Applications	(26,043)
Transfers from non-current liabilities	70,449
Other changes (Note 7.3)	(3,452)
Balance at 31 December 2022	71,688
Applications	(68,161)
Excess	(22,498)
Allocations	1,659
Transfers from non-current liabilities	42,808
Other changes (Note 7.3)	(7,303)
Balance at 31 December 2023	18,193

Banco de Valencia, S.A. Asset Protection Scheme

As part of the restructuring process of Banco de Valencia S.A., FROB granted an Asset Protection Scheme (hereinafter "APS"), covering 72.5% of the losses that could arise from a closed portfolio of Banco de Valencia, S.A. assets with an initial amount of 6,021,982 thousand euros, for a duration of 10 years starting from 30 September 2012. Following the perimeter reductions of the APS in 2013 and 2016, the initial portfolio covered at the effective date of the APS amounted to 4,980,022 thousand euros.

Upon reaching the maturity date, set for 30 September 2022, the cost of liquidating the APS was estimated in accordance with the criteria established in the guarantee agreement. In this manner, the ordinary losses materialised and recorded to be covered by FROB in 2022 up to the maturity of the APS were determined (8,696 thousand euros), along with the provision for the reasonable impairment of the portfolio as of the maturity date (49,768 thousand euros), and the estimated cost of the two-year follow-up period during which FROB would maintain limited coverage for a specific part of the portfolio (7,371 thousand euros).

Considering the above, in 2022, a provision release of 77,604 thousand euros was recorded under "Excess provisions" on the accompanying income statement, with the full amount registered under "Current provisions" on the liability side of the accompanying balance sheet, amounting to 65,835 thousand euros.

On 30 June 2023, CaixaBank and FROB agreed to the closure and full maturity of the guarantee granted under the APS, terminating all obligations assumed by the parties.

On the same date, a payment was made following the liquidation of the APS for an amount of 65,830 thousand euros, which was classified under "Current provisions" on the liability side of the accompanying balance sheet, resulting in a release of the provision amounting to 5 thousand euros, recorded under "Excess provisions" on the accompanying income statement.

This payment has therefore served to terminate the Banco de Valencia APS guarantee.

CX Guarantees

As indicated in Note 11.1, based on the estimated schedule for the settlement of guarantees, during the 2023 financial year, the full amount of 12,234 thousand euros, which was recorded under "Non-current provisions" as of 31 December 2022, was transferred to this heading.

In 2023, the entire provision for guarantees related to the sale of CX corresponds to the hybrid guarantee. For the other guarantees (Sareb VAT, litigation, and interest rate hedges), since the provision previously made by CX exceeded the estimated cost of these guarantees, the excess provision must be returned to FROB and recognised as current assets.

Taking the above into account, the hybrid guarantee has decreased by 9,063 thousand euros, with the following

breakdown: i) release of 6,080 thousand euros from the short-term provision, credited to the 2023 income statement under the heading "Excess provisions", ii) recognition of 2,983 thousand euros in favour of the Deposit Guarantee Fund for its share (see Note 7.3).

For the litigation and interest rate hedge guarantees, the valuation resulted in the recognition of an asset on FROB's balance sheet in 2022 amounting to 11,597 thousand euros, recorded under "Non-current financial investments – Other financial assets" on the accompanying balance sheet (see Note 6.4), with the following details: i) recognition of income under the heading "Other results" in the income statement amounting to 7,780 thousand euros, and ii) recognition of a long-term liability under the heading "Non-current payables – Other financial liabilities" on the accompanying balance sheet for 3,818 thousand euros as recognition to the Deposit Guarantee Fund for its share (see Note 7.2).

Following the completion of the review of the files included in these guarantees, the valuation has decreased by 933 thousand euros, bringing the total to 10,664 thousand euros, classified under "Current financial instruments" in the current assets section of the accompanying balance sheet (see Note 6.5). This resulted in the recognition of a loss recorded under the heading "Other results" in the income statement amounting to 626 thousand euros, reducing the receivable, and an adjustment of 307 thousand euros in the outstanding balances with the Deposit Guarantee Fund, bringing the total debt to 3,510 thousand euros for these two guarantees, which is classified under "Current payables – Other financial liabilities" on the accompanying balance sheet (see Note 7.3).

In the case of the Sareb VAT guarantee, given the difficulty in making a highly probable estimate, the valuation made in 2022 was considered a contingent asset, which resulted in: i) recognition in the heading "Provisions expense" in the income statement of 7,084 thousand euros, as a result of this amount being considered a contingent asset; ii) recording of 2,918 thousand euros under "Non-current financial investments – Other financial assets" on the accompanying balance sheet (see Note 6.4) for the portion settled in previous years with the Deposit Guarantee Fund in relation to this guarantee.

Finally, the valuation in 2023 amounts to 22,575 thousand euros in favour of FROB, the amount agreed upon by the parties for the final settlement of this guarantee. This resulted in the recognition of this amount under "Current financial instruments" in the current assets section of the accompanying balance sheet (see Note 6.5), with the following details: i) recognition of income under the heading "Other results" in the income statement amounting to 15,519 thousand euros; ii) recognition of 4,139 thousand euros in favour of the Deposit Guarantee Fund for its share (see Note 7.3); iii) crediting the advance account with the Deposit Guarantee Fund for the portion settled in previous years in relation to this guarantee, amounting to 2,918 thousand euros (see Note 6.4).

Thus, with respect to the Deposit Guarantee Fund for these guarantees (hybrids, litigation, interest rate hedges, and Sareb VAT), an outstanding payment of 10,632 thousand euros remains due from FROB as of 31 December 2023, to be settled in the 2024 financial year (see Note 7.3).

NCG Guarantees

As indicated in Note 11.1, based on the estimated schedule for the settlement of guarantees, during the 2023 financial year, the full amount of 26,415 thousand euros, which was recorded under "Non-current provisions" in the non-current liabilities section as of 31 December 2022, was transferred to this heading.

At 31 December 2023, based on the estimates made with the information available, FROB considers that the value of the obligation arising from the commitments undertaken amounts to 11,423 thousand euros (26,769 thousand euros at 31 December 2022).

Therefore, in the 2023 financial year, a release of the short-term provision amounting to 17,250 thousand euros has been made, corresponding to the provisions for Sareb VAT, hybrids, and land, with the following breakdown: i) release of the short-term provision amounting to 12,254 thousand euros, credited to the 2023 income statement under the heading "Excess provisions"; ii) recognition of 4,996 thousand euros in favour of the Deposit Guarantee Fund for its share (see Note 7.3).

Additionally, there has been an increase in the hedge guarantee by an amount of 2,335 thousand euros, with the following details: i) an allocation to provisions amounting to 1,659 thousand euros, recorded under the heading "Provision expense" in the accompanying income statement; ii) recognition of a debtor balance with the Deposit Guarantee Fund for its share, amounting to 676 thousand euros (see Note 7.3).

Thus, regarding these guarantees with the Deposit Guarantee Fund, FROB has an outstanding payment of 4,320 thousand euros as of 31 December 2023, to be settled in the 2024 financial year (see Note 7.3).

Additionally, in the 2023 financial year, guarantees amounting to 431 thousand euros were settled, which had been classified under the heading "Current provisions" in the liabilities section of the accompanying balance sheet.

Compensation to the Deposit Guarantee Fund for management of hybrids

- CX

As indicated in Note 11.1, based on the estimated schedule for the settlement of guarantees, during the 2023 financial year, an amount of 3,267 thousand euros, which was recorded under "Non-current provisions" of non-current liabilities as of 31 December 2022, was fully transferred to this heading.

At 31 December 2023, the value of the hybrid guarantee was reduced, resulting in an excess of 22 thousand euros in the payments FROB had made to the Deposit Guarantee Fund in previous years. Therefore, the following actions were taken: i) an excess provision was recorded in the income statement amounting to 3,267 thousand euros; ii) an additional income of 22 thousand euros was recorded under the heading "Other results" in the accompanying income statement as a counterparty to the receivable from the Deposit Guarantee Fund for this concept (see Note 7.3).

Additionally, in 2023, guarantees amounting to 1,883 thousand euros were settled, which had been classified under "Current provisions" in the liabilities section of the accompanying balance sheet.

- NCG Banco

As indicated in Note 11.1, based on the estimated schedule for the settlement of guarantees, during the 2023 financial year, an amount of 892 thousand euros, which was recorded under "Non-current provisions" of non-current liabilities as of 31 December 2022, was fully transferred to this heading.

At 31 December 2023, the value of the hybrid guarantee was reduced, resulting in an excess of 272 thousand euros in the payments FROB had made to the Deposit Guarantee Fund in previous years. Therefore, the following actions were taken: i) an excess provision was recorded in the income statement amounting to 892 thousand euros; ii) an additional income of 272 thousand euros was recorded under the heading "Other results" in the accompanying income statement as a counterparty to the receivable from the Deposit Guarantee Fund for this concept (see Note 7.3).

Additionally, in 2023, guarantees amounting to 17 thousand euros were settled, which had been classified under "Current provisions" in the liabilities section of the accompanying balance sheet.

11.3 Other guarantees and contingent liabilities

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

At 31 December 2023, FROB deemed it unlikely that any obligation would arise from these commitments and, accordingly, it has not recorded any provision in the 2023 annual accounts in relation to this.

In the sale process of an asset portfolio by Catalunya Banc to the FTA2015 (described in Note 6.3), FROB granted a series of guarantees in favour of the investor. Among them, FROB granted a guarantee on the potential liability for amounts prior to the date of the economic effects that a final court ruling could be declared against the FTA2015 for floor clauses. Under such a guarantee, BBVA (subrogated in the position of Catalunya Banc) filed a claim against the FTA2015 and FROB, claiming amounts to be reimbursed, which it has characterised as an indefinite, indeterminable amount. After several judicial milestones, this claim is pending a decision by the Supreme Court. Following a legal analysis of this contingency, it is considered unlikely that FROB will have to pay any liability.

Finally, in the last quarter of 2020, a claim was filed against FROB on the grounds that certain damages resulting from balance sheet adjustments in the sale of CX would be covered by the Letter of Guarantee granted by FROB in respect of the scope adjustments for the Hercules portfolio. In early 2021, FROB filed its response to the claim.

Ultimately, the Supreme Court has dismissed the appeal for judicial review filed by the counterparty.

11.4 Contingent assets

In the exercise of its activity, FROB has a series of proceedings underway, from which contingent assets may arise.

Additionally, pursuant to the indications contained in Note 11.1, the valuation of certain guarantees related to the CX purchase and sale process generated contingent assets in the amount of 21,718 thousand euros during the 2022 financial year, which have been recognised in 2023 (see Note 6.5).

12. Income and expenses

12.1 Turnover

This heading on the income statement includes, according to the Fifth Transitory Provision of Act 11/2015, the amount accrued during the 2023 financial year for the activities performed by FROB as Resolution Authority, amounting to 25,123 thousand euros (28,321 thousand euros in the 2022 financial year).

Within the established term for collection, all obligated entities have made the corresponding payment; therefore, at 31 December 2023, the heading "Trade receivables and other accounts receivable" on the accompanying balance sheet does not include any balance. Additionally, an amount of 11 thousand euros, corresponding to the fee for the 2015 financial year from an entity under bankruptcy proceedings, was fully impaired. This process was resolved in the 2022 financial year, leading to the reversal of this impairment in the amount of 11 thousand euros.

	Thousands of euros	
	2023	2022
Fee for activities conducted by FROB as Resolution Authority	25,123	28,321
Total	25,123	28,321

12.2 Personnel costs and average headcount

The breakdown of "Personnel costs" on the accompanying income statements for 2023 and 2022 is as follows:

	Thousands of euros	
	2023	2022
Salaries and wages	3,816	3,772
Social Security	553	488
Other employee expenses	83	85
Total	4,452	4,345

The average number of employees at FROB in 2023 by professional category and gender is disclosed in the following table:

2023

	Average Number 2023			Total number 31 December 2023		
	Men	Women	Total	Men	Women	Total
Senior Management*	2	4	6	2	4	6
Group II	13	9.16	22.16	13	9	22
Group III	1	4	5	1	4	5
Group IV	1	3	4	1	3	4
Group V	-	3	3	-	3	3
Total	17	23.16	40.16	17	24	40

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

2022

	Average Number 2022			Total number 31 December 2022		
	Men	Women	Total	Men	Women	Total
Senior Management*	1.95	3.97	5.92	2	4	6
Group II	12.83	10	22.83	13	10	23
Group III	1.16	4	5.16	1	4	5
Group IV	1	3	4	1	3	4
Group V	-	3	3	-	3	3
Total	16.94	23.97	40.91	17	24	41

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

12.3 Other operating expenses

The disclosure of "Other Operating Expenses" on the income statements for 2023 and 2022 is as follows:

	Thousands of euros	
	2023	2022
Leases	623	585
External professional services	1,863	2,059
Banking and similar services	25	40
Other operating expenses	366	394
Reversal of impairment for debtors in trade operations	-	(11)
Governing Committee (Note 13)	116	141
Total	2,993	3,208

12.4 Other disclosures

Fees related to audit and other services provided by FROB's auditor, PKF Attest Servicios Empresariales, S.L., or by any company related to the auditor through control, common ownership or management corresponding to 2023 are as follows (in thousands of euros):

	Services provided by the auditor and affiliated companies	
	2023	2022
Audit services	33	33
Other verification services	-	-
Total audit and related services	33	33
Tax advisory services	-	-
Other services	-	-
Total professional services	-	-
Total	33	33

13. Transactions and balances with related parties

The breakdown of balances recorded by FROB with related parties in these annual accounts for 2023 and 2022 is as follows (figures in thousands of euros):

2023:

	Bank of Spain	Investees	Governing Committee and Senior Management
Assets:			
Non-current investments in Group companies and Associates — Equity instruments (Note 6.2)	-	6,748,554	-
Cash and cash equivalents - Cash (Note 5)	120,726	-	-
Income statement:			
Other operating income	-	3	-
Personnel costs (Senior Management)	-	-	992
Other operating expenses (Note 12.3)	-	-	116
Finance expenses (Note 5)	-	-	-
Finance income (Note 5)	5,042	-	-

2022:

	Bank of Spain	Investees	Governing Committee and Senior Management
Assets:			
Non-current investments in Group companies and Associates — Equity instruments (Note 6.2)	-	6,343,586	-
Cash and cash equivalents - Cash (Note 5)	138,648	-	-
Income statement:			
Other operating income	-	50	-
Personnel costs (Senior Management)	-	-	959
Other operating expenses (Note 12.3)	-	-	141
Finance expenses (Note 5)	(803)	-	-
Finance income (Note 5)	508	-	-

In the 2023 financial year, FROB recognised an expense of 116 thousand euros (141 thousand euros at 31 December 2022) related to attendance fees corresponding to the Governing Committee. Of this amount, the fees corresponding to members considered Senior Officials are deposited in the Treasury (see Note 12.3).

At 31 December 2023, FROB had not granted any advances or loans, nor had it acquired any pension or guarantee obligations to any of the previous or current members of its Governing Committee.

14. Subsequent events

The most significant events from the year-end to the date of preparation of the present annual accounts are listed below:

- In accordance with the provisions of Article 55 of Act 11/2015, Álvaro López Barceló was appointed as Chair of FROB by Royal Decree 181/2024 of 13 February (Official State Gazette of 14 February).
- In the year ended 31 December 2023, BFA recorded a profit of 335 million euros, and through a sole shareholder resolution dated 23 April 2024, FROB approved the proposal to distribute the entirety of these profits via dividend. This is the first dividend distributed by BFA to FROB, with payment made on 9 May 2024.
- Except for the previous paragraphs, from the year-end date of the financial year to the date of preparation of the annual accounts, there has been no other significant subsequent event.

FROB.

Directors' Report for the year ended 31 December 2023

1. - INTRODUCTION

Following the same line of action as in recent years, FROB's activity in 2023 has mainly covered two strands: i) on the one hand, FROB has operated within the framework of the Single Resolution Mechanism, as the National Resolution Authority, and ii) on the other hand, it has continued to carry out actions related to the restructuring and resolution processes of entities receiving public funds that have been undertaken in recent years.

2. - ACTIVITY WITHIN THE FRAMEWORK OF THE SINGLE RESOLUTION MECHANISM

With regard to the first aspect, within the context of the European Resolution Mechanism, FROB develops its functions as National Executive Resolution Authority, working continuously to improve its preparation for potential resolution cases, within a broad institutional framework, implying the need to rely on close collaboration and coordination between the different National Resolution Authorities and the Single Resolution Board (SRB), as well as with supervisors, both national and from the European Union. FROB, through its Chair, is the Spanish representative on the SRB.

FROB, through its Chair, is the Spanish representative on the SRB. Thus, FROB, as a member of the Plenary Session of the SRB, has participated in the different sessions held, as well as on its committees and working groups, in order to develop the construction of a common outlook of the Banking Union as regards resolution planning and execution. In addition, FROB has actively participated, in close collaboration with Spanish preventive resolution authorities, advocating Spain's position at the different European and international forums which discuss matters related to resolution, among others: the Resolution Committee (ResCo) of the European Banking Authority (EBA) and the Resolution Group (ReSG) of the Financial Stability Board (FSB).

Furthermore, FROB takes part in the SRB work teams of each of the significant institutions with a presence in Spain and votes at the Extended Executive Sessions that take decisions about them, and is the authority responsible for the national implementation of the resolution decisions of the SRB. Within this framework, in June 2017, FROB implemented the resolution scheme for Banco Popular Español, approved by the Single Resolution Board. This action did not involve any public support or guarantees.

Finally, for the other banking institutions (less significant institutions) and investment firms, it is responsible for the approval and execution of the resolution measures and has certain advisory powers in the planning phase.

3. - FOLLOW-UP OF THE RESOLUTION

Simultaneously, FROB has continued to follow up measures derived from previous restructuring and resolution processes, as well as the management and monitoring of the various lines of financial support and guarantees provided in the context of these processes. In this regard, it should be noted that under the First Transitory Provision of Act 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 their conclusion by the rules of previous application.

FROB's activity in this area today mainly stems from its channelling, in December 2012 and March 2013, the financial assistance from the European Stability Mechanism (ESM) for the recapitalisation of eight credit institutions undergoing restructuring or resolution², as well as for the subscription of part of the capital of the *Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria* (Sareb) and the acquisition of part of its subordinated debt.

² At present, the restructuring or resolution plans of all institutions receiving financial assistance have been completed.

As a result of these actions, at 31 December 2023, FROB holds a 100% stake in BFA, which in turn holds a 17.88% of CaixaBank's capital. FROB is also Sareb's main shareholder, with a 50.14% stake following the purchase process undertaken on 5 April 2022.

Investments held by FROB in the past in the remaining credit institutions receiving support were subject to successive divestment processes. Sale agreements for the different institutions or portfolios of assets in these institutions included the granting of certain guarantees, some of which remain active.

Moreover, the various restructuring and resolution processes of entities have been, and continue to be, subject to different legal claims, which means that part of FROB's activity is focused on managing such litigation.

Additionally, in June 2017, FROB executed the resolution mechanism for Banco Popular Español, approved by the Single Resolution Board. This action did not involve the provision of public aid or guarantees.

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

BFA was initially incorporated as a credit institution, but from 2 January 2015, its waiver to continue operating as a credit institution became effective, and on 28 January 2015, the corresponding deed of amendment to its Articles of Association was registered in the Companies Registry of Madrid.

Until 26 March 2021, the date when the merger between Bankia and CaixaBank was completed, by which Bankia shareholders received CaixaBank shares (0.6845 newly issued CaixaBank ordinary shares for each Bankia ordinary share in circulation), BFA remained the holding company of the Bankia group. At 31 December 2023, BFA held a 17.32% stake in CaixaBank, S.A.'s share capital. This stake increased to 17.88% by the date of preparation of these annual accounts, as a result of the share capital reductions in CaixaBank related to the cancellation of treasury shares acquired under the two most recent share buyback programmes executed in 2023 and the first half of 2024.

Regarding the divestment deadline, in accordance with Act 9/2012, FROB was required to complete the divestment of its stake within five years from the time of the financial injection. However, Royal Decree 4/2016 of 2 December, on urgent financial measures, extended the deadline to seven years, setting a final date in December 2019, with the possibility of further extension by the Council of Ministers if deemed necessary for better achievement of the resolution's objectives. In this regard, on 27 December 2022, the Council of Ministers approved a third extension of this deadline with the aim of promoting a more efficient use of public resources by maximising aid recovery and executing FROB's divestment strategy with greater flexibility, thereby extending the deadline to December 2025.

In accordance with the applicable criteria and valuation standards, FROB has proceeded to estimate the recoverable value of its stake in BFA. Consequently, at 31 December 2023, the net carrying amount of FROB's stake in BFA, coinciding with its recoverable value, amounts to 6,748,554 thousand euros, which corresponds to the individual net equity of BFA, 5,293,687 thousand euros, adjusted by the unrealised gains amounting to 1,454,867 thousand euros, corresponding to BFA's stake in CaixaBank, as reflected in the audited annual accounts of BFA for the 2023 financial year.

3.2. - SAREB

The Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (Sareb) was incorporated in accordance with the Seventh Additional Provision of Act 9/2012, of 14 November, as a public limited company with a specific term until November 2027.

Sareb's capital, upon its incorporation, amounted to 4,800 million euros (8% of the total volume of assets), of which 1,200 million euros corresponded to share capital and 3,600 million euros to two issues of non-guaranteed contingently convertible subordinated debt subscribed by the shareholders. FROB held 45.00% of Sareb's share capital (540 million euros) and 45.9% of the subordinated debt (1,652 million euros).

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

The payment for the transfer was made through the issuance of six senior debt securities by Sareb, backed by an irrevocable State guarantee, with a nominal unit value of 100,000 euros, maturing in one, two, and three years, with an interest rate of 3-month Euribor plus a spread, and the possibility of full or partial redemption through the issuance of new bonds.

As a result of losses stemming from the valuation of assets pursuant to the application of Bank of Spain Circular 5/2015 of 30 September, developing the accounting specificities of Sareb, it had negative equity of 1,218 million euros at the end of 2015. Consequently, the General Shareholders' Meeting of 5 May 2016 approved the corresponding measures to restore the entity's equity, including the conversion of 2,170 million euros of subordinated debt into capital. In the case of FROB, these measures implied the conversion of 996 million euros of subordinated debt into capital. After said conversion, FROB's stake in the company's capital stood at 45.9%.

As a result of the accumulated losses arising from its ordinary activity, Sareb's equity was consumed at the end of financial year 2020, triggering one of the conversion scenarios for the subordinated debt issued. Therefore, Sareb's Board of Directors, following the approval of the General Shareholders' Meeting on 26 May 2021, adopted the necessary resolutions to restore the equity situation, which included the reduction to zero of the existing capital and the capitalisation of the remaining balance of subordinated debt (1,430 million euros, of which 656 million euros corresponded to FROB). These measures led FROB to derecognise its stake in the capital held at the end of 2020, recognising a new stake equivalent to the balance of converted subordinated debt, maintaining a 45.9% stake in the capital at 31 December 2021, and no longer holding subordinated debt in Sareb.

On 19 January 2022, Royal Decree-Law 1/2022, of 18 January, was published, amending Act 9/2012, of 14 November, on the restructuring and resolution of credit institutions; Act 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms; and Royal Decree 1559/2012, of 15 November, establishing the legal regime of asset management companies, in relation to the legal regime of the Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (hereinafter, "RDL 1/2022"). The purpose of RDL 1/2022, as stated in the explanatory memorandum, was the urgent need to undertake a reform of Sareb's capital structure and its governance, with the aim of adapting it to Sareb's reclassification in the National Accounts as a unit belonging to the General Government sector, which took place in 2021.

Among other modifications, RDL 1/2022 eliminated the limits on the State's stake in Sareb, thus allowing FROB to achieve a majority position in the capital, with the aim of effectively taking control of the company, without Sareb acquiring the status of a State-owned company.

On the basis of the above, FROB's Governing Committee, in its reduced composition, approved a procedure for the purchase of Sareb shares, aimed at private shareholders, in order to achieve a majority position in the capital of at least 50.01%. This purchase procedure was designed to comply with the requirements of transparency, competitiveness, and non-discrimination, obtaining the agreement of the Auditor General of the Spanish Central Government, both for the reasonableness of the proposed purchase price and for the development of the purchase procedure. It was therefore consistent with the general principles that must govern FROB's operations in its capacity as a public entity.

At the close of the 2023 financial year, FROB's 50.14% stake in the capital of Sareb is fully impaired.

3.3 Monitoring and management of guarantees granted in divestitures

Within the framework of the sale and resolution processes of financial institutions, FROB has granted a series of guarantees in the past. The purpose of these guarantees was to encourage the participation of the different buyers and maximise the result of the sales and minimise the use of public resources. Some of these guarantees are still active:

Catalunya Banc, S.A. (CX)

On 21 July 2014, following a competitive process, the sale by FROB and the Deposit Guarantee Fund (DGF) of their respective stakes in the capital of Catalunya Banc (98.4% of the entity's capital) to Banco Bilbao Vizcaya Argentaria was awarded for an amount of 1.165 million euros³. This sale was formalised on 24 April 2015.

In parallel to this divestment process, the entity itself sold a loan portfolio (Hercules portfolio) to Blackstone through

³ Of which 67.08% corresponds to FROB and 32.92% to the DGF.

an Asset Securitisation Fund (ASF). The sale was formalised on 15 April 2015.

Additionally, within the framework of both sale processes, of the asset portfolio and of the entity, FROB granted a series of guarantees which, as at 31 December 2023, are valued at 26 million euros payable to FROB. Moreover, as part of the sale of the asset portfolio, FROB granted a liquidity line.

As at 31 December 2023, the balance drawn on the credit line is 1.1 million euros and it has generated finance income during the financial year of 0.283 million euros.

NCG Banco, S.A. (NCG)

On 18 December 2013, FROB's Governing Committee decided to award 88.33% of the shares of NCG (owned by FROB and the Deposit Guarantee Fund) to Banco Etcheverría - Grupo Banesco (Abanca Holding) for an amount of 1.003 million euros, with the following payment schedule: 40% at the time of formalising the sale and the remaining 60% in successive instalments up to 2018. On 25 June 2014, all the suspensive clauses included in the sale agreement were effectively fulfilled, with the effective transfer of the shares taking place on that date. At that time, the buyer paid the first 403 million euros. A schedule was established for the payment of the remaining amount in different tranches, with the buyer reserving the right to make those payments in advance. On 6 May 2016, the buyer advanced payment of 300 million euros, and on 3 February 2017, that of the remaining 300 million euros, thus making the entire payment ahead of schedule.

Furthermore, in order to maximise the sale price and, therefore, minimise the use of public resources, certain guarantees were granted to NCG. To cover these guarantees, FROB has recorded a provision as at 31 December 2023 for an amount of 11 million euros.

Banco de Valencia, S.A.

On 21 November 2011, following the communication received from the entity, the Executive Committee of the Bank of Spain appointed FROB as the provisional administrator of Banco de Valencia. To stabilise the entity, it was agreed to subscribe and disburse a capital increase amounting to 998 million euros. As a result, FROB came to hold 90.89% of the capital of Banco de Valencia.

Subsequently, on 27 November 2012, within the framework of the entity's Resolution Plan, FROB agreed to sell its shares to CaixaBank for 1 euro, following FROB's injection of 4,500 million euros. This sale was formalised on 28 February 2013. The sale also included the transfer of problematic assets to Sareb and the management of hybrid instruments.

Additionally, FROB granted the buyer certain guarantees, including an asset protection scheme (APS) on a portfolio of loans to SMEs and the self-employed, as well as contingent risks, which covers 72.5% of the losses that may arise from this closed portfolio of assets.

By 31 December 2022, FROB had made five payments stemming from the APS for a cumulative amount of 140 million euros.

On 30 September 2022, the APS reached its maturity date, at which point the obligation to liquidate the guarantee arose. However, a two-year monitoring period was established, during which FROB will have to cover certain losses for a specific portion of the covered portfolio.

On 30 June 2023, CaixaBank and FROB agreed to the total and definitive closure and maturity of the guarantee granted by the APS, terminating all obligations assumed by the parties. Accordingly, on that same date, the payment arising from the final liquidation of the APS took place, amounting to 66 million euros, thus concluding the APS guarantee of Banco de Valencia.

4. - FINANCING AND CASH MANAGEMENT

Regarding the loan agreement between the State, as lender, and FROB, as borrower, signed in December 2012, intended for the execution of the European financial assistance programme, which enabled the channelling of funds

disbursed by the European Stability Mechanism (ESM) to the Kingdom of Spain for Spanish credit institutions⁴, it should be noted that the financial conditions applied are those in force in the loan signed between the Kingdom of Spain and the ESM.

In 2023, FROB made the corresponding payments in terms of fees and interest.

Following the repayments made in 2014⁵ and the successive transformations into capital contributions of parts of the loan (27,170 million euros, 3,000 million euros, 3,000 million euros, and 5,591 million euros), which took place in December 2013, June 2017, February 2020, and December 2021 respectively, the outstanding balance of the loan from the State to FROB at 31 December 2023 amounts to 1,865 million euros.

Furthermore, the borrowing limit established for FROB in Article 50 of Act 22/2021, of 28 December, on the General State Budget for 2023 was 6,869 million euros, and at the end of 2023, this borrowing amounted to 1,881 million euros. Additionally, FROB has the capacity to issue debt with a State guarantee for an amount of 5,200 million euros on top of the existing borrowing.

At 31 December 2023, the breakdown of cash and cash equivalents is as follows:

PRODUCT	NOMINAL (€ million)
Government bonds portfolio	525
Current accounts	122
Total	647

5. - OTHER MANAGEMENT EVENTS DURING 2023

In addition, with regard to aspects related to FROB's management and functioning, the following facts should be highlighted:

- FROB's Annual Accounts and Directors' Report corresponding to 2022 were prepared and approved, and submitted to the Ministry of Economic Affairs and Digital Transformation and the Auditor General of the Spanish Central Government for inclusion in the General State Account and transfer to the Spanish Court of Auditors.
- In relation to Resolution Funds, during the second quarter of 2023, FROB collected ex-ante contributions corresponding to 2023 from institutions subject to contribute to both the Single Resolution Fund (SRF) and the National Resolution Fund (NRF), for a total amount of 1,008 million euros.
- In addition, the fee for FROB's activities as Resolution Authority for 2023 was collected, for an amount of 25.1 million euros, to cover FROB's operating expenses.

6. - SUBSEQUENT EVENTS AND OUTLOOK FOR 2024

In accordance with Article 55 of Act 11/2015, on 13 February 2024, Royal Decree 181/2024 appointed Mr. Álvaro López Barceló as the Chair of FROB.

In the financial year ending 31 December 2023, BFA reported a profit of 335 million euros, and by means of a sole partner's meeting held on 23 April 2024, FROB approved the proposal to distribute the totality of these profits as

⁴ The first disbursement (39,468 million euros) was used to recapitalise Group 1 institutions (BFA-Bankia, NCG Banco, Catalunya Banc, and Banco de Valencia), as well as to finance FROB's contribution to Sareb, while the second disbursement (1,865 million euros) was used to recapitalise Group 2 institutions (Banco Mare Nostrum, Banco Ceiss, Caja 3, and Liberbank).

⁵ On the one hand, the return of funds not applied to Sareb (307.54 million Euros) and, on the other hand, a partial voluntary repayment of 399 million Euros.

dividends. This marks the first dividend that BFA has distributed to FROB, with payment made effective on 9 May 2024.

Regarding the prospects for FROB in 2024, the institution will continue its usual activities to maintain the capacity to execute any resolution process swiftly and efficiently, both within the framework of the Single Resolution Mechanism and at a purely national level, particularly by adapting internal manuals and procedures to the best international standards. Likewise, monitoring the evolution of the financial sector in a changing geopolitical and macroeconomic environment will be crucial throughout 2024. To this end, a high level of coordination and collaboration will be maintained with various institutions with competencies in resolution and supervision, both nationally (Bank of Spain and CNMV) and internationally (particularly with the Single Resolution Board, the European Banking Authority, and the Financial Stability Board's Resolution Committee). Additionally, in the context of the reform of the European Union's crisis management framework, technical support will continue to be provided to the General Secretariat of the Treasury and International Financing, leveraging the knowledge and practical experience acquired by FROB over the years.

Simultaneously, FROB will continue to monitor previous restructuring and resolution processes. This entails detailed oversight of the activities of the entities in which FROB holds a capital stake, as well as the management of those ongoing commitments made by FROB in support of prior resolution processes.

In relation to contributions to the FUR for the 2024 cycle, following the verification exercise in which the SRB confirmed that FUR resources exceeded the target amount, the SRB publicly announced on 15 February 2024 through its website that the target amount for the FUR had been reached and, therefore, no contributions would be collected in 2024.

Furthermore, it is anticipated that throughout 2024 there will be a significant workload arising from judicial litigation associated with actions taken by FROB.

Finally, regarding the financing of FROB through the collection of the fee regulated in the sixth additional provision of Act 11/2015, it will be necessary to amend its current legal regime to disassociate it from the ordinary contributions to the National Resolution Fund or, where applicable, the Single Resolution Fund.

7. - OTHER INFORMATION

During 2023, FROB has not carried out any R&D activity. Furthermore, FROB's Equity Fund does not comprise shares purchasable by FROB and, accordingly, there are no treasury shares.

FROB

The signatory, the Chair of FROB, prepared these Annual Accounts of FROB for the year ended 31 December 2023 and the Directors' Report for 2022 on 10 June 2024, which are printed on the accompanying 47 pages, duly countersigned by me for the purpose of their identification, and which will be submitted for approval by the Governing Committee.

(signed in the original in Spanish)

Signed: Álvaro López Barceló
Chair of FROB

INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL ACCOUNTS

To the Governing Committee of FROB:

Opinion

We have audited the annual accounts of FROB, which comprise the balance sheet at 31 December 2023, the income statement, the statement of changes in equity, the cash flow 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 the financial position of FROB at 31 December 2023, 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 2.1 to the accompanying annual accounts) and, in particular, with accounting principles and criteria provided for 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 *Responsibilities of the auditor in relation to the audit of the annual accounts* section of our report.

We are independent of FROB 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 that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Most relevant audit matters

The most relevant audit matters are those 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.

Valuation of Investments in group companies and associates

Description

Notes 2.4, 4.2.1, 4.4.1 and 6.2 to the accompanying financial accounts describe estimates made and accounting criteria used when preparing 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 valuation of investments reflected in the annual accounts.

The criteria used to value such investments require the application of judgements and significant estimates by the Chair and Management of FROB. Thus, these estimates have been based on the best information available at the date of preparation of the annual accounts.

Once this analysis is performed, when there are signs of impairment in such shares and investments, FROB carries out an impairment test of such investments in order to estimate whether their recoverable amount is lower than its carrying amount.

The recoverable amount of such investments registered on the accompanying annual accounts will depend, among other factors, on (i) the effective compliance with key assumptions considered in business plans, if this was the employed valuation method, (ii) the assumptions taken based on the best information available, (iii) certain uncertainties on the joint effect derived from certain events or contingencies of investees and, finally, (iv) the price to be obtained from the sale of entities in which FROB currently invests.

Our answer

Our audit procedures in relation to this area have included, among others, the following:

- Understanding of procedures established at FROB for the use of the appropriate valuation criterion and mitigation of errors in the estimation of such valuations.
- Revision and recalculation of the impairment tests performed by FROB on investments.
- Reading and understanding of the audited financial information for the shares valued according to net worth.
- Verification of the information disclosed in the annual accounts.

Valuation of guarantees granted in Credit Entities' Resolution Process

Description

FROB, as an Executive Resolution Authority, has granted a series of guarantees within the framework of different credit entities' restructuring resolution processes, mainly for a successful conclusion of the entities' sale processes, for which the amount of provisions has been estimated following methodologies indicated in Notes 4.9 and 11 to the accompanying financial statements.

Since the adequacy of the provisions made for these items 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, the economic resources to be used by FROB to assume these commitments are one of the most significant estimates in the preparation of the annual accounts.

Our response

Our audit procedures in relation to this area have included, among others, the following:

- Understanding the valuation process of the guarantees and provisions made by FROB.
- Analysis of the reasonableness of the existing guarantees and provisions at year end, and of the income and expenses recorded under these items.

- Arithmetic recalculation of the amounts recognised based on the assumptions and, as the case may be, a review of external reports as a basis for the justification of the estimates.
- Direct verification through third-party confirmations of some of the variables used by FROB in calculating the provisions for recorded guarantees.
- Verification of the adequacy of the information disclosed by FROB in the annual accounts in regarding the recorded guarantees.

Provisions and Contingencies for the existence of litigation and claims

Description

In the context of its mandate to manage the resolution processes of entities at their executive phase, as well as to exercise the powers granted to it by Law 11/2015, the broader National Legal Framework, and European Union Law, FROB may become involved in administrative, judicial, or other legal proceedings arising from the normal course of its activities.

These proceedings generally conclude after a long period of time, and are complex in nature according to the applicable legislation. The Chair and Management of FROB decide when to record a provision on the basis of an estimate made using prudent calculations methods, consistent with the uncertainty inherent in these proceedings.

The analysis of such litigation, therefore, requires a high degree of judgement and the application of complex estimates.

Our response

Our audit procedures in relation to this area have included, among others, the following:

- Analysis of the recording and quantification criteria implemented by FROB in relation to provisions and contingencies.
- Request for confirmation from both the FROB Legal Advice Department and its external advisors regarding the evaluation and quantification of any potential risks.
- Evaluation of whether the content included in the annual accounts regarding provisions and contingencies complies with the applicable legislation.

Other information: Directors' Report

Other information only comprises the Directors' Report for the 2023 financial year, the preparation of which is the responsibility of the Chair of FROB and is not an integral part of the annual accounts.

Our opinion on the audit of the annual accounts does not cover the Directors' Report. Our responsibility regarding the Directors' Report, in accordance with the regulations governing audit activity, is to evaluate and report on its consistency with the annual accounts, based on the knowledge of the entity obtained during the audit of those accounts, without including information beyond what was obtained as evidence during the audit. Additionally, our responsibility is to evaluate and report on whether the content and presentation of the Directors' Report comply with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work performed, as described in the previous paragraph, the information contained in the Directors' Report is consistent with the annual accounts for the 2023 financial year, and its content and presentation comply with the applicable regulations.

Responsibility of the Chair in relation to the annual accounts

The Chair of FROB is responsible for the preparation of the accompanying annual accounts, in such a way that they provide a true and fair view of the assets, financial position, and results of FROB, in accordance with financial reporting framework applicable to the entity in Spain, as well as for the internal control deemed necessary to enable the preparation of annual accounts that are free from material misstatements, whether due to fraud or error.

In preparing the annual accounts, the Chair is responsible for assessing FROB's ability to continue as a going concern, disclosing, as applicable, matters related to the going concern principle, and using this accounting principles unless the Chair intends to liquidate FROB or cease its operations, or if no realistic alternative exists.

Responsibilities of the auditor in relation to the audit of the annual accounts

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

Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with the regulations governing audit activity 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 aggregate, they could reasonably be expected to influence the economic decisions that users make based on the annual accounts.

Annex 1 of this audit report includes a more detailed description of our responsibilities in relation to the audit of the annual accounts. This description, found on page 5, is an integral part of our audit report.

PKF ATTEST Servicios Empresariales, S.L.
Registered in the ROAC under No. S1520

(signed in the original in Spanish)

Alfredo Ciriaco Fernández
Registered in the ROAC under No. 17,938

10 June 2024