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Spain: Fondo de Reestructuración Ordenada Bancaria (FROB)/ Fund for Orderly Bank Restructuring

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ANNUAL REPORT

2018

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ABBREVIATIONS AND ACRONYMS

Act 11/2015	Act 11/2015 of 18 June on the recovery and resolution of credit institutions and investment firms
APS	Asset Protection Scheme
BMN	Banco Mare Nostrum
BRRD	Bank Recovery and Resolution Directive
CBCM	Cross-border crisis management (groups), under the auspices of the FSB
CMG	Crisis management group
CNMV	Spanish Securities Market Regulator (CNMV)
CoCos	Contingent convertible bonds
COM	European Commission
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
EBA	European Banking Authority
ECB	European Central Bank
ESM	European Stability Mechanism
EU	European Union
fmiCBM	Cross-border crisis management group for financial market infrastructures, under the auspices of the FSB
FSB	Financial Stability Board
GCEU	General Court of the European Union
G-SIB	Global Systemically Important Bank
ICAC	Spanish Institute of Accountants and Auditors
IF	Investment firm
IGAE	Auditor General of the Spanish central government
IMF	International Monetary Fund
IRT	Internal Resolution Team
MAB	Spanish Alternative Equities Market
MREL	Minimum Requirement of Eligible Liabilities
NRA	National Resolution Authority
NRF	National Resolution Fund
SGRE	Subgroup on Resolution Execution of the EBA
SGRPP	Subgroup on Resolution Planning Preparedness of the EBA
SRF	Single Resolution Fund
SRB	Single Resolution Board

RC	Resolution College
REIT	Real estate investment trust
ResCo	Resolution Committee of the EBA
ReSG	Resolution Steering Group of the EBA
TLAC	Total loss-absorbing capacity

CHAIRMAN'S STATEMENT

It is once again my pleasure as FROB's chairman to present our Annual Report, this time for 2018. This is the third edition and is further evidence of our commitment to accountability concerning the main aspects of our work, within the legal and institutional framework to which we are subject as an executive resolution authority. I trust that this document will enhance the transparency of our organisation, which has become a key player in society and has a crucial role protecting financial stability and public interests.

With regards to resolution, 2018 can be seen as a year of transition in Spain. On the one hand, all the plans that Spanish institutions signed up to on receiving bailouts have been completed. While a number of very important matters still need to be resolved regarding the requirements imposed by European and Spanish authorities on the institutions that received support, the sector's restructuring has been completed with all the commitments we assumed having been satisfactorily fulfilled. It is only left to underline this achievement and highlight that the reforms rolled out have contributed to the establishment of a more efficient and stable banking system. The public effort has been significant but has also been accompanied by a major transformation of the sector, underpinned by the efforts of the banking industry itself to clean up and streamline its operations.

On the other hand, 2018 was also crucial for the consolidation of the European resolution framework and increased resolvability of financial institutions. Significant progress was made across Europe, for example, in incorporating the MREL (the requirement for liabilities that absorb losses in the event of the failure of a bank): an instrument that will undoubtedly help ensure a bank's shareholders and creditors are not impacted in a disorderly manner by the repercussions of the bank's resolution. The increasingly important role that resolution authorities will have to play in "peace time" has therefore become clearer as the above-described process has drawn to a close. Perfecting resolution plans, identifying obstacles to resolvability in order to eliminate them, and furthering the authorities' capabilities to execute their powers in an agile and effective manner have already been priorities in 2018.

I would also like to point out that 2019 is FROB's tenth anniversary. Ten years during which the organisation has accumulated a wealth of experience managing resolutions and built a top-notch team of professionals. Now, a decade on, when the worst years of the financial crisis are behind us, two new common tendencies have emerged that our institution wants to avoid. One is to undervalue progress made thus far. The other is to underestimate the inherent fragility of financial activity. With regard to the first, our country has certainly undertaken an extensive reconversion of the banking industry, although there are a number of issues still to be tackled. The most important of these for FROB is how we manage our investees: first, to sell off our stake in one of the largest banks in the country, Bankia; and second, to monitor our investment in Sareb – an institution that facilitated the restructuring but which still faces some significant challenges and uncertainties.

With regard to the “risk of amnesia”, the resolution authorities face the challenge of not giving up with transforming the financial sector regarding the steps that need to be taken to improve its resolvability. We are aware that this will have to be done in an environment that is increasingly less sensitive to the risks associated with managing resolution policies; however, the Banking Union will still have to strive to find a balance between its business model, the climate in which it is implemented, and the demands of the prevailing regulatory framework.

FROB will remain fully committed to and will channel all our best efforts into meeting the aforesaid objectives. To avoid any chance of complacency, one only needs to look back and appreciate the efforts of the whole of Spain’s society; or look forward and discover everything that lies ahead to ensure any failure of a private institution does not damage the greater common good.

Jaime Ponce Huerta

Chairman

EXECUTIVE SUMMARY

During 2018, FROB continued carrying out its duties within its remit established by the Single Resolution Mechanism:

- It has analysed the recovery plans of 12 significant credit institutions and 36 less significant institutions submitted by the Bank of Spain, and of 12 investment firms received from the CNMV.
- It has reviewed and issued a report on the resolution plans of 29 less significant institutions and eight investment firms.
- It has been actively involved in reviewing and analysing the draft resolution plans of 12 Spanish significant institutions and participated as an observer in 11 resolution colleges.

As the Spanish authority acting as contact for and coordinator in resolution matters, it has continued to defend the Spanish stance in the various international resolution-related forums. In this regard, the work performed in the context of the Single Resolution Board (SRB) plenary session, which has centred around enhancing the resolvability of banks and establishing a robust resolution framework, and in launching the Single Resolution Fund stands out.

Vis-à-vis the resolution funds, during 2018 FROB collected contributions from 99 credit institutions and 39 investment firms totalling EUR 736 million.

FROB's work in recovery and resolution processes prior to the entry into force of Act 11/2015 focused, as usual, on: monitoring the financial position and fulfilment of the recovery and resolution plans of entities; duly exercising FROB's rights in its investee credit institutions and Sareb; overseeing the legal disputes deriving from the resolution measures taken; managing the guarantees granted during the divestment of entities receiving bailouts; and monitoring the divestment of entities in which FROB continued to hold stakes.

The main developments in this area during 2018 were the completion of the plans for Catalunya Banc and CEISS, with all assumed commitments being honoured, which has seen the conclusion of the recovery of these Spanish credit institutions. The Bankia-BMN merger was also brought to a close as the best strategy for fulfilling the mandate of maximising the likelihood of recouping state bailouts, while the period for divesting Bankia was extended to December 2021.

ACTIVITIES IN 2018

1. WORK WITHIN THE FRAMEWORK OF THE SINGLE RESOLUTION MECHANISM

1. In 2018, FROB continued carrying out its duties within its remit established by the Single Resolution Mechanism¹:
 - For significant credit institutions or cross-border institutions, as representative in Spain of the governing bodies of the SRB and entity responsible for the implementation at a national level of the SRB's resolution decisions; and
 - For other banks (less significant institutions), as executive resolution authority charged with approving and executing the resolution schemes, and with certain advisory powers in the planning phase.
2. There are still 12 significant institutions in Spain.

Table 1. Spanish institutions

Spain	
Significant	Less significant
<i>SRB's responsibility</i>	<i>FROB's responsibility</i>
Santander	Credit institutions <i>Total 54</i>
BBVA	
La Caixa	
Sabadell	
Ibercaja	
Liberbank	
Unicaja	IF <i>Total 27</i>
Cajamar	
Bankinter	
Kutxabank	
Abanca	
BFA-Bankia	
Total: 12	Total: 81

Source: FROB

¹ [Regulation \(EU\) No 806/2014](#) establishes a Single Resolution Mechanism (SRB) in which the SRB is appointed as the single resolution authority directly responsible for all significant credit institutions supervised by the Single Resolution Mechanism (SRM), and any others that, while not significant due to their size, operate in two or more countries in the Banking Union. In addition to the SRB, the regulation establishes a Single Resolution Fund (SRF) which all significant and insignificant credit institutions in the Banking Union must pay into. This fund is managed by the SRB. The Single Resolution Mechanism is also made up of the National Resolution Authorities of each member state, which are responsible for the credit institutions outside the scope of the SRM and investment firms not included in banking groups.

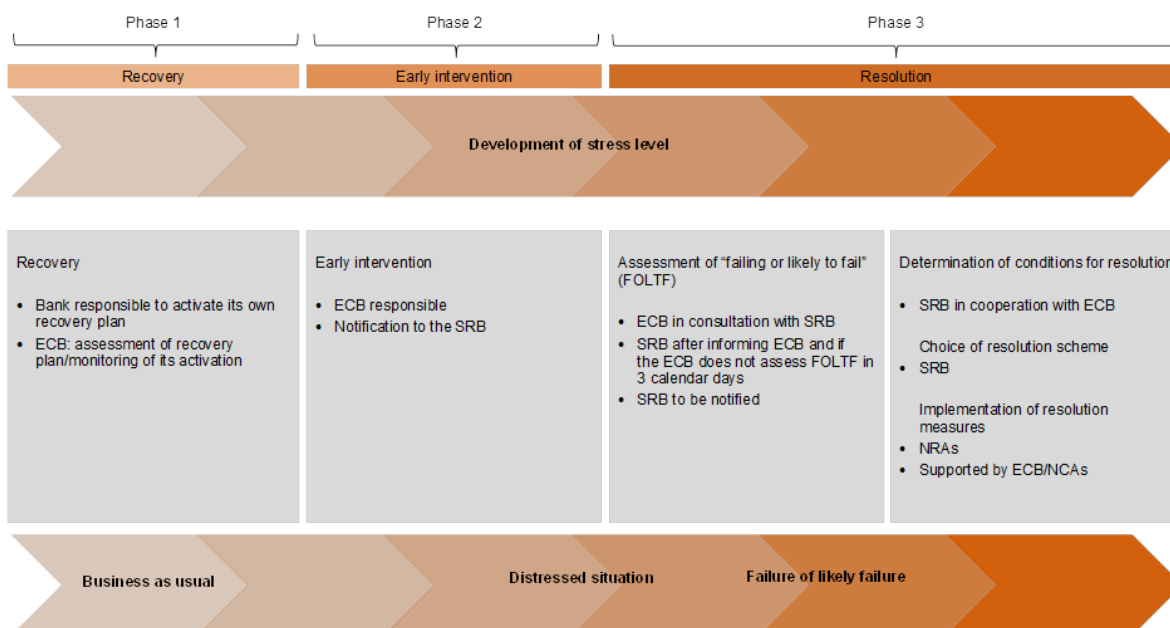
3. With regard to less significant institutions and investment firms (IFs), as executive resolution authority FROB is responsible for 54 credit institutions and 27 groups or individual IFs whose resolution plans are prepared by the CNMV under Act 11/2015.

1.1. RESOLUTION PLANNING

4. The European resolution framework places considerable emphasis on preventing the resolution of credit institutions and investment firms and on planning for the resolution of these entities.

1.1.1. Early intervention and recovery

5. While these preventive powers are primarily exercised by the supervisors (the European Central Bank, the Bank of Spain and the CNMV), the SRB and national resolution authorities also have certain legal powers in this area.
6. With regard to early intervention, Act 11/2015 requires all entities to prepare recovery plans that must be approved by the supervisor. Such plans must set out the measures that may be taken by the entity to re-establish its financial position in the event of a significant deterioration of its capital, liquidity or profitability or any other event that could jeopardise its viability.
7. In general, recovery plans must be updated annually, although updates can be less frequent in the case of plans that the supervisor deems to be subject to simplified obligations as permitted in article 5 of Royal Decree 1012/2015.
8. In 2018, FROB analysed the recovery plans of 12 significant credit institutions and 36 less significant institutions submitted by the Bank of Spain, and of 12 investment firms received from the CNMV. The aim of FROB's review of these plans is to evaluate whether the content thereof could negatively affect the entities' resolvability.

Table 2. From recovery to resolution²


Source: FROB

1.1.2. Resolution planning

Less significant institutions and investment firms

9. In the case of less significant institutions and investment firms, Act 11/2015 establishes that the preventive resolution authority – the Bank of Spain and the CNMV, respectively – must prepare and revise a resolution plan for these entities, which will be updated on a yearly basis, except in the case of those subject to simplified obligations, for which updates can be less frequent than in general.
10. Once these plans have been drawn up, they must be sent to FROB and the competent authority so that they can prepare the mandatory reports required under Act 11/2015 and analyse whether an entity is resolvable, i.e. if there would be no obstacles to either its liquidation through insolvency proceedings or its resolution, depending on each case.
11. The Bank of Spain must also send the resolution plans to the SRB to garner its opinions on them.
12. During 2018, FROB reviewed and issued a report on the resolution plans of 29 less significant institutions and eight investment firms.

² Significant institutions.

Significant credit institutions

13. The SRB is responsible for the resolution of significant credit institutions, while their resolution plans are prepared by joint working groups (internal resolution teams or IRTs) comprising personnel from the SRB and the national resolution authorities (in Spain: the Bank of Spain, the CNMV and FROB) headed up by a member of the SRB.
14. The resolution plans of significant institutions are signed off by the SRB in a so-called extended executive session involving the members of the board and representatives of the NRAs of the countries of the bank affected by the decision. FROB's chairman attends these sessions as a member with voting rights.
15. For the 2018 planning cycle, the SRB decided that the schedule for preparing resolution plans must be more closely aligned with supervisory activities to improve effectiveness and coherence. In this respect, the SRB divided the annual resolution planning cycle into two groups: (i) the planning cycle for entities without a resolution college, starting in January and ending in the first quarter of 2018; and (ii) for entities with a resolution college, the planning cycle commences in September and ends at the end of the following year.
16. During the 2018 planning cycle, FROB was actively involved as a member of the IRTs in reviewing and analysing the draft resolution plans for 12 Spanish significant institutions.
17. Meanwhile, the resolution plans of significant institutions from the European Union that operate in other countries outside the Banking Union are previously endorsed in extended executive sessions. A joint management process in a resolution college (RC) is required to definitively approve the resolution plan and the MREL³, once again in an extended executive session of the SRB.
18. For these institutions, whose 2017 planning cycle ended in April 2018, FROB has participated as an observer in 11 RCs (three for entities with controlling companies in Spain⁴ and the remaining eight⁵ with controlling companies in the Banking Union and with significant branches or subsidiaries in Spain). After the joint decisions were signed by the members of the RC, FROB's chairman attended the SRB's extended executive sessions, in which the resolution plans and MREL were signed off.

³ Minimum requirement of eligible liabilities

⁴ Santander, BBVA and Sabadell

⁵ ING, Deutsche Bank, BNP Paribas, Crédit Agricole, Société Générale, Banque Degroof, Caixa Geral and Crédit Mutuel

19. In the case of Global Systemic Banks (G-SIBs), certain agreements are also reached with the resolution authorities of non-EU countries in Crisis Management Groups (CMGs). FROB has been a member of a CMG during the year⁶.
20. In March 2018, the 2017 planning cycle for institutions without a resolution college⁷ drew to an end with the approval of the resolution plans which did not include any MREL.
21. Moreover, with regard to these institutions' 2018 planning cycle, FROB's chairman attended the SRB's extended executive sessions which signed off the resolution plans and MREL for the first quarter of 2019.
22. The MREL included in these plans is binding at consolidated level, and is set according to the preferred resolution strategy.
23. FROB is also a member of the IRTs of two cross-border groups with a subsidiary in Spain⁸ whose resolution plans were approved in December 2018 and the first quarter of 2019, bringing to a close these institutions' 2018 planning cycle.

Table 3. Joint collaboration in preparing resolution plans of significant and cross-border institutions

ENTITIES	BANKING UNION	EUROPEAN UNION (outside Banking Union)	Third country	FROB investment
No resolution college				
- Significant institutions	Parent + subsidiary			Caixabank, Ibercaja, Liberbank, Unicaja, Cajamar, Bankinter, Kutxabank, Abanca, BFA-Bankia, Banque Degroof Petercam, Caixa Geral de Depósitos & Crédit Mutuel
- Cross-border institutions	Parent + subsidiary			Banco Finantia & Banco Mediolanum
With resolution college	Parent	Subsidiary		BBVA, Banco Santander, Banco Sabadell, ING, Deutsche Bank, BNP Paribas, Crédit Agricole, Société Générale
	Subsidiary	Parent		EFG (A&G Banca Privada)
With European resolution college	Subsidiary	Subsidiary	Parent	Citigroup
With crisis management group (CMG)	G-SIB	G-SIB	G-SIB	Banco Santander

Source: FROB

⁶ The CMG for Santander

⁷ Liberbank, Ibercaja, Unicaja, Cajamar, Abanca, CaixaBank, Kutxabank and Bankinter

⁸ Banco Finantia and Banca Mediolanum

Table 4. Review of the Bank Recovery and Resolution Directive

REVIEW OF THE BANK RECOVERY AND RESOLUTION DIRECTIVE

1. In November 2016, the European Commission (COM) tabled a proposed amendment to the Capital Requirements Directive (CRD), the Capital Requirements Regulation (CRR), the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (SRMR) as part of the so-called Risk Reduction Package.
2. The key objective concerning resolution was to introduce the concept of total loss absorbing capacity (TLAC): similar to MREL, but with differences in the way it is calculated and applied in European rules.
3. The main changes introduced in the regulatory package, which is in the final phase of being approved by the European Parliament and Council of the European Union, are as follows:
 - **Inclusion of TLAC in European rules and revision of the MREL framework.** An obligation has been imposed on European G-SIBs to comply with requirements equivalent to TLAC. The MREL framework has also been revised to clarify the eligibility of instruments to be classified as TLAC and MREL, and minimum subordination requirements have been included depending on the type of institution.
 - **Transitional period.** The deadline for complying with the MREL and the subordination requirement is 1 January 2024. Resolution authorities may establish an interim objective for 1 January 2022 and a deadline after 2024 if duly justified.
 - **Capacity of the resolution authority to limit the Maximum Distributable Amount due to non-fulfilment of the MREL.** In the event of non-fulfilment of the aforesaid requirement, the resolution authority may prohibit certain payments: dividends, AT1 remuneration and certain variable payments (remuneration and pensions), if such a step is more appropriate and commensurate with improving the institution's resolvability and financial conditions.
 - **Resolution authority's powers to suspend certain contractual obligations.** Provided certain conditions are met, the resolution authorities **may** suspend the payment or delivery obligations of a non-viable entity for a period of up to two days (although as short a time as possible). This suspension may cover any secured deposits.
 - **Disclosures.** Entities are required to report their MREL to the market at least annually along with any information on their eligible liabilities (maturities and insolvency ranking).
 - **Restrictions on the marketing and sale to retail customers of instruments eligible for use in internal recapitalisations.** Restrictive conditions are introduced to avoid this type of customer investing excessively in instruments eligible for the MREL.

Planned publication in spring/summer 2019

1.2. RESOLUTION PHASE

24. The resolution of a credit institution or investment firm entails an extraordinary administrative procedure to manage its non-viability without having to resort to liquidation in normal insolvency proceedings. FROB is the authority responsible for executing the resolution decisions adopted by the SRB for significant institutions. For other entities, FROB is authorised to directly exercise its powers within the framework of the European Single Resolution Mechanism.
25. No resolution cases were opened in Spain during 2018. Nonetheless, FROB has continued its efforts over this period to improve the preparation of resolution plans for future cases. To this end, it has drawn up several internal crisis management manuals according to the resolution tool to be used; the national internal recapitalisation manual being the most noteworthy.

1.2.1 Developments concerning the European resolution of Banco Popular Español

26. In 2018, the SRB decided to publish additional important documents on Banco Popular Español's resolution, reconsidering its initial stance after it concluded that financial stability was not under threat. However, the SRB decided in any event to treat as confidential any specific information that could conflict with public interests regarding financial stability, conflict with the commercial interests of the bank or its buyer, or affect the 'Valuation 3' (which determines whether shareholders and creditors would have been better off if the institution had been wound up under normal insolvency proceedings⁹).
27. Further, in accordance with legal requirements, the SRB launched a procedure to evaluate whether shareholders and creditors would have been better off if the institution subject to resolution had filed for normal insolvency. The SRB appointed Deloitte, as an independent expert, to perform this evaluation, which prepared a report that is available on the SRB's website¹⁰. According to the 'Valuation 3' report, the shareholders and creditors whose instruments were written down or converted and transferred in resolution would not have received a better treatment if Banco Popular Español, S.A. had been wound up under normal insolvency proceedings. Thus, the preliminary decision was that it is not necessary to pay compensation to shareholders and creditors affected by the measures taken in the resolution of Banco Popular Español, S.A.¹¹. Nevertheless, in order to make a final decision on whether compensation must be awarded, the SRB opened a right to be heard procedure for eligible shareholders and creditors to submit their comments on the report. This consultation is in progress at the date of this report.

⁹ https://srb.europa.eu/sites/srbsite/files/explanatory_note.pdf

¹⁰ https://srb.europa.eu/sites/srbsite/files/20180806_informe_valoracion_3_no_confidencial.pdf

¹¹ <https://srb.europa.eu/en/content/la-jur-publica-hoy-la-version-no-confidencial-del-informe-de-valoracion-3-sobre-banco>

1.3. SINGLE RESOLUTION FUND AND NATIONAL RESOLUTION FUND

28. One of the pillars of the new resolution framework is the creation of resolution funds as funding tools that resolution authorities can use in certain circumstances to effectively carry out the various resolution measures put in place.
29. The funds comprise contributions of the credit institutions and investment firms established in Spain (as well as the contributions of the credit institutions of the other member countries of the Banking Union, in the case of the Single Resolution Fund). In the particular case of the Single Resolution Fund, an objective has been set to collect a minimum amount equivalent to 1% of the credit institutions' covered deposits by the end of the initial eight-year period as from 1 January 2016.
30. Spanish investment firms not in a banking group are required to contribute to the National Resolution Fund, as per Act 11/2015 transposing Directive 2014/59/EU into Spanish law, while the credit institutions and investment firms that are subsidiaries of credit institutions make contributions that are collected by FROB and transferred in full to the Single Resolution Fund. Using information provided by the affected entities, the fund itself, managed by the SRB, is responsible for calculating each entity's contribution.
31. Each entity's total liabilities excluding own funds less covered deposits as a percentage of the total for all entities are taken into consideration to calculate contributions. This result is then adjusted based on each entity's risk profile¹².
32. Regarding the National Resolution Fund, pursuant to Act 11/2015, FROB is authorised to set for each year the total contribution that institutions required to pay into the fund have to make, along with their individual contributions.
33. Regarding the Single Resolution Fund, pursuant to Regulation (EU) 806/2014, FROB is only authorised to collect the contributions comprising this fund and transfer them. Consequently, the annual contributions to the fund and ordinary contributions of each entity are set by the SRB.
34. Within this framework, as in the prior year, FROB's activity in 2018 primarily focused on announcing and carrying out the steps needed to effectively determine and collect contributions and, specifically:
 - Act as the first port of call for any queries or requests from entities required to make contributions. The task involves complex calculations that have to be exhaustively explained to contributors, which FROB has done since the first cycle of contributions.

¹²Details of the calculation method are provided in [Commission Delegated Regulation \(EU\) 2015/63](#) of 21 October 2014.

- Obtain from entities the data needed to calculate the contributions for each entity.
- Perform an initial assessment of the quality of the data reported by institutions by comparing it with the equivalent information collated by the Bank of Spain, the CNMV and the Deposit Guarantee Fund.
- Declare and collect the contributions of Spanish credit institutions and investment firms that are subsidiaries of such entities, transferring the contributions to the Single Resolution Fund.
- Monitor the legal claims institutions may lodge against FROB or the SRB in relation to the calculation and collection of contributions to the Single Resolution Fund.

Table 5. Contributions of Spanish entities to the NRF and the SRF

CONTRIBUCIONES EX-ANTE	EJERCICIO 2018				EJERCICIO 2017			
	FUR		FRN	Total	FUR		FRN	Total
	EE.CC. ^(*)	ESIS	ESIS		EE.CC. ^(*)	ESIS	ESIS	
Nº Entidades	99	11	28	138	100	10	30	140
Importe de la Contribución (miles de euros)	735.882	51	58	735.991	676.297	65	1.090	677.452

(*) Commission Delegated Regulation (EU) 2015/63 establishes that in the case of entities affiliated to a central body and exempted from prudential requirements in national law, contributions should only apply to the central body. Pursuant to information provided by the supervisor, there are two entities considered to be central bodies, in which a total of 24 affiliated entities are included.

Source: FROB

35. According to information provided by the Bank of Spain and the CNMV, in 2018 138 entities were required to contribute, 99 of which were credit institutions and 39 investment firms¹³.
36. In June 2018, FROB collected total contributions of EUR 736 million¹⁴ (EUR 735.93 million for the Single Resolution Fund and EUR 0.06 million for the National Resolution Fund). The Single Resolution Fund therefore has a balance of EUR 24.9 billion provided by approximately 3,300 European entities. EUR 2.8 billion of this amount was contributed by Spanish entities¹⁵.
37. Meanwhile, at the start of November, work started to gather information for calculating 2019 contributions. Entities had to furnish FROB with this information by 20 December 2018. The resulting amounts must be paid by the end of June.
38. A further development was that on 24 November, Royal Decree-Law 19/2018 of 23 November on payment services and other urgent financial measures, the

¹³ In 2017: 140 entities, 100 of which were credit institutions and 40 investment firms.

¹⁴ <http://www.frob.es/es/Lists/Contenidos/Attachments/549/20180724Contribexante2018-NotaPrensa.pdf>

¹⁵ <https://srb.europa.eu/en/node/596>

Eighth Final Provision of which amends, inter alia, articles 1.2.e) and 53.1.a) of Act 11/2015 of 18 June on the recovery and resolution of credit institutions and investment firms (hereinafter, “Act 11/2015”), was published in Spain’s Official State Gazette. Entry into force of the amendment to Act 11/2015 imposes an obligation on FROB to collect contributions from the branches in Spain of credit institutions and investment firms established outside the European Union. In fulfilment of this requirement, FROB has therefore started calculating and collecting the ex-ante 2019 contribution that these entities must make to the National Resolution Fund.

1.4. INTERNATIONAL ACTIVITY

39. As the Spanish authority acting as contact for and coordinator with the international authorities and other European Union Member States regarding resolutions, FROB has continued to play an active role in defending Spain’s position. It has worked in close collaboration with the Spanish preventive resolution authorities in the various international discussion forums that discuss, prepare and, where applicable, amend the resolution framework and rules.

1.4.1. Single Resolution Board

40. The Spanish representative on the Single Resolution Board is FROB’s chairman, who attends both the SRB plenary session and the extended executive sessions in which Spain is involved and that are attended by the Bank of Spain as an observer. Spain’s participation (FROB and the Bank of Spain) also extends to the various sub-committees and working groups set up under the auspices of the plenary session. They focus on enhancing the resolvability of all banks and establishing a robust resolution framework, effectively managing crises, and launching the Single Resolution Fund, all with a minimum impact on the real economy, financial system and public coffers.

41. In 2018, the SRB plenary session concentrated on bolstering the resolvability of institutions, managing effectively the various cases of resolution that have arisen, ensuring a robust resolution framework is in place, pushing forward with configuring and collecting SRF contributions, and establishing an optimal and efficient structure at the SRB.

42. The plenary session has three committees, which are dependent hierarchically and on their expert groups: i) the Resolution Committee, responsible for resolution planning and execution matters, and for the monitoring performed by the SRB of the activity of the national resolution authorities concerning entities in their countries; ii) the Administrative and Budgets Committee; and iii) the Single Resolution Fund Committee.

43. The remit of these committees is to help the SRB devise policies that develop the various technical measures to enhance the planning and execution of resolutions and achieve a greater degree of harmonisation in the Banking Union.
44. A crucial part of the SRB's work to review the resolution plans focuses on ensuring a higher degree of harmonisation between them and greater depth of content. The SRB prepares manuals and guidelines to help the IRTs during this process. FROB has participated in the various working groups set up to look at the different technical aspects that help to improve entities' resolvability and make the plans easier to implement.
45. The most notable matter dealt with in 2018 concerned the updating of the method (calculation approach, calibration, subordination criteria, etc.) the SRB will use to determine the MREL¹⁶. A further development in 2018 was the inclusion of a method for transfer strategies, although (as stated therein) this is a stopgap solution while a method for calculating the requirement that is better tailored to the specifics of each entity is developed. On the other hand, the MREL method was devised for entities with no resolution college that can be used to determine said requirement for their 2018 planning cycle.
46. As well as the developments concerning MREL, work has been carried out to: identify critical functions; determine public interest; maintain access to financial market infrastructures; select tools; develop tools for separating assets, internal recapitalisation and selling off businesses; analyse resolvability and the interrelations between recovery and resolution plans; evaluate public interest; determine simplified obligations; evaluate the recovery plan and non-viability or expected non-viability; and review the framework cooperation agreement between the SRB and the NRAs. Throughout the year, FROB has been involved in all SRB plenary session meetings, and in all the written procedures, contributing FROB's experience in a proactive and collaborative manner regarding organisational matters and resolution policy issues.
47. As well as participating in the groups responsible for developing the techniques for the IRTs, FROB has also played an active role in the other working groups set up to draft operational crisis management manuals and other key aspects to improve entities' resolvability and the SRB's work in the future.

¹⁶ Available on the SRB's website: <https://srb.europa.eu/en/content/mrel>

1.4.2. Other international forums

48. FROB actively participates in other discussion forums in Europe and around the world.
49. At European Union level, FROB is a member of the Resolution Committee (ResCo) of the European Banking Authority (EBA). This committee draws up the rules, reports, manuals and technical guidelines related with the Bank Recovery and Resolution Directive. Some of these rules are subsequently enacted as level-two EU law. FROB is a member of the sub-group for resolution execution (SGREs) and the sub-group for resolution planning and preparation (SGPPs). Key work carried out in 2018 included the tasks performed to develop the technical rules regulating how assets and liabilities are measured in resolution processes.
50. Internationally, FROB is a member of the Resolution Group (ResG) of the Financial Stability Board (FSB), which not only debates the resolution of banks but also examines the possible resolution of financial market infrastructure and insurance firms.
51. It is a member of the Cross-Border Crisis Management Group for banks (CBCM) and the Cross-Border Crisis Management Group for financial market infrastructures (fmiCBCM), as well as their respective sub-groups in which it actively participates.
52. In 2018, the CBCM focused on preparing manuals and guidelines on the key aspects concerning the resolution of credit institutions, including execution of internal recapitalisation and the way in which finance can be secured in resolution. It also carried out work related with maintaining the access of entities subject to resolution to financial market infrastructures, disclosures on resolutions, closure of a business arm, and on the degree of progress rolling out the regimes for resolution and TLAC (a concept similar to MREL, but with differences in the way it is calculated and applied).
53. As a member of the fmiCBCM, work has continued to ensure the adequacy of the funds available for the resolution of a central counterparty clearing house (CCP), the way in which a CCP's own funds may incur losses in resolution, and the establishment of CCP Crisis Management Groups (CMGs).
54. Lastly, in 2018 FROB continued advising the Spanish delegation led by the Spanish General Secretary of the Treasury and Financial Policy in meetings arranged by the European Commission and the Council of the European Union concerning resolutions and especially, the proposal to review the European Bank Resolution and Recovery Directive and the SRM Regulation¹⁷. FROB also supports the General Secretary of the Treasury and Financial Policy in preparing responses to European Commission enquiries to check the BRRD is being correctly transposed. It discussed draft regulatory changes with the General Secretary,

¹⁷ See Table 4.

which were subsequently approved as amendments to Act 11/2015 of 18 June, and it has assisted in the European Commission working group's negotiations on joint support and possible liquidity measures.

55. Moreover, FROB continues to work with the Ministry of Economy and Business as part of the ordinary regular analysis by the International Monetary Fund of the Spanish financial system.

2. RESTRUCTURING AND RESOLUTION PROCESSES

56. On 24 April 2018, the plans for Catalunya Banc (a member of the BBVA Group) and CEISS (a member of the Unicaja Banco Group) were finalised, with all the commitments assumed to receive bailouts having been satisfactorily met. These obligations basically comprised:

- Transferring to Sareb problem assets related with the real-estate sector;
- Managing hybrid instruments;
- Adjusting capacity through streamlining (the balance sheet, workforce and branches) and certain asset disinvestments; and
- Assuming during the recovery period commitments related with restricting activities and enhancing corporate governance, including imposing certain prohibitions and/or limitations.

57. Consequently, considering that the recovery periods for the other entities have come to an end and without prejudice to any work related therewith that FROB has yet to complete, **it can be concluded that this recovery process for Spanish credit institutions is complete.**

Table 6. Recovery and resolution plans

Institution	European Commission decision		Plan end date	Plan fulfilment
	Date	Reference number		
CajaSur ^(*)	08/11/2010	N392/2010	31/05/2015	Yes
UNNIM ^(*)	26/03/2012	SA.33733 2012/N	31/12/2015	Yes
CAM ^(*)	30/05/2012	SA.34255 2012/N	31/12/2015	Yes
Banco de Valencia	28/11/2012	SA.34053 2012/N	31/12/2015	Yes
BFA / Bankia	28/11/2012	SA.35253 2012/N	31/12/2017	Yes
BMN	20/12/2012	SA.35488 2012/N	31/12/2017	Yes
Caja3	20/12/2012	SA.35489 2012/N	31/12/2017	Yes
Liberbank	20/12/2012	SA.35490 2012/N	31/12/2017	Yes
Banco Gallego	25/07/2013	SA.36500 2013/N	31/12/2015	Yes
CEISS	13/03/2014	SA.36249 2014/N-3	24/04/2018	Yes
NCG	20/06/2014	SA.38143 2014/N	31/12/2016	Yes
Catalunya Banc	17/12/2014	SA. 39402 2014/N	24/04/2018	Yes

^(*) Institution that received assistance prior to the implementation of the programme to restructure the financial sector.

Source: FROB

2.1. ENTITIES SUBJECT TO RESTRUCTURING OR RESOLUTION

2.1.1. Credit institutions in which FROB holds a stake

58. Following the successful Bankia and BMN merger, and FROB's contribution to BFA (capital increase through non-monetary contributions) of Bankia shares received through the exchanging of BMN shares (both in January 2018) and the unfavourable court judgements on the selling of hybrid instruments, BFA (and therefore, indirectly, FROB) held 61.385% of Bankia's shares at 31 December 2018.
59. At year-end 2018, the BFA Group (which includes Bankia) posted earnings of EUR 521 million in a year that was heavily affected by interest rates and the additional provisions that had to be set aside as a result of Bankia's agreement to sell off non-performing and foreclosed asset portfolios for approximately EUR 3 billion.

Bankia-BMN merger

60. On 14 March 2017, following exhaustive analysis and based on the findings of external advisors, FROB's Governing Committee approved the reorganisation of its investee credit institutions (Bankia and BMN) through their merger. This was the best future divestment strategy for maximising the capacity to recover the public bailouts.
61. On 26 June 2017, the boards of directors of BMN and Bankia greenlighted the Joint Merger Project for both entities, which was signed off by their respective general shareholders' meetings on 14 September 2017.
62. On 28 December 2017, Bankia obtained all the authorisations required by the regulatory bodies and authorities in connection with the BMN merger. It was therefore able to start proceedings to complete the operation, with the merger taking effect for accounting purposes in December 2017.
63. BMN shares were exchanged for the newly issued Bankia shares in January 2018 after the public merger deed was executed before a notary, Bankia's capital was increased, and the merger deed was filed in the Valencia Companies Register.
64. On 16 January 2018, as sole partner, FROB approved the increase in BFA's capital through a non-monetary contribution of the Bankia shares received through the exchange of BMN shares as a result of the merger of the latter two institutions. The capital increase was entered in the Madrid Companies Register on 2 February 2018.

AT1 issuance

65. As part of its capital strategy, on 10 September Bankia completed its second placement of AT1 instruments: contingent convertible bonds (CoCos). The placement comprised EUR 500 million of perpetual bonds, with a redemption option after five years and paying an initial coupon of 6.375%. This placement – the second involving this type of instrument following the EUR 750-million placement in 2017 – was well received by the market and was five times oversubscribed. It has enabled Bankia to fulfil the regulatory requirement for this type of subordinated instrument to absorb losses after shares and before other liability instruments.

2018-2020 Strategic Plan and Restructuring Plan

66. As mentioned beforehand¹⁸, the BFA-Bankia Group's Restructuring Plan was completed on 31 December 2017, following fulfilment of all the commitments assumed with the European Commission. This has been validated by the Bank of Spain, as reported to FROB on 16 July 2018.

¹⁸ See Table 6.

67. Following fulfilment of said undertakings, Bankia unveiled its 2018-2020 Strategic Plan in February 2018. The cornerstones of this plan are to strengthen Bankia's position as a leader in Spain in terms of efficiency and shareholder remuneration, through the distribution of dividends and repayment of excess capital over the plan period.

Relationship agreement

68. While the restructuring plan was in force and under the premise that the day-to-day management of the bank should be the responsibility of its directors and be performed independently, FROB's management of the stake in the BFA Group focused on executing recapitalisation measures and continuously monitoring compliance with the commitments assumed, thereby fulfilling its responsibilities as a shareholder.
69. Once the BFA-Bankia Group restructuring plan was concluded, FROB's objectives of increasing recovery of the bailouts received and protecting the stability of the financial system took precedence. Therefore, in order to ensure continuity in the way the stake in the BFA-Bankia Group is managed, on 25 January 2019 FROB, BFA and Bankia signed and published the *Agreement regarding to the management of the indirect participation of FROB, through BFA Tenedora de Acciones, S.A.U., in Bankia, S.A.* This agreement establishes the responsible and informed monitoring of FROB's stake in the BFA Group, inhibits FROB from being involved in managing the credit institution, and encourages securities market best practices.

Legal contingencies

70. Minority shareholder tranche in the institution's stock market flotation: as a result of the Supreme Court Judgement of 27 January 2016, the institution agreed an out-of-court settlement to reimburse its minority shareholders. This settlement entailed payouts of approximately EUR 700 million for 135,000 claims. Added to this are the reimbursements by Bankia as a result of a number of court rulings that went against it. The charge against equity for the Group totalled EUR 1.871 billion until 31 December 2018.
71. Mis-selling of hybrid instruments: between 2013 and 2018, the BFA-Bankia Group set aside provisions for this contingency of EUR 2.949 billion (EUR 1.126 billion for the arbitration proceedings initiated by the institution and EUR 1.823 billion for unfavourable court judgements), EUR 2.825 billion of which had been used at 31 December 2018.

Divestment

72. Pursuant to Act 9/2012, FROB must finalise the divestment of its stake in Bankia within five years from the public bailout. Nonetheless, ROYAL DECREE-LAW 4/2016, of 2 December, extends this period to seven years and establishes a

deadline of December 2019. It also offers the Council of Ministers the option of extending this period further to facilitate better fulfilment of the resolution objectives.

73. The divestment strategy approved by FROB's Governing Committee in September 2017 established as a prerequisite to a phase involving merely monitoring the market, a phase concerning a potential sell-off with a raft of appropriate conditions of sale.
74. FROB has analysed the state of the market, also drawing on the analysis of the investment banks who are on a panel selected for this purpose and the expert opinion of its advisor. The conclusion of this analysis is that given the prevailing market volatility and poor valuations of banks at a time of low interest rates, the conditions are not right for performing a new sell-off.
75. Given the large stake still held by FROB at the end of 2018 and the difficulty and impact on the price of having to sell off all the shares before the end of the established period, Spain's Council of Ministers agreed on 21 December to extend the divestment period by a further two years to December 2021.

2.2. MONITORING OF GUARANTEES GIVEN IN DIVESTMENT PROCESSES

76. As part of the credit institutions' sale and resolution processes, FROB granted a series of guarantees securing certain contingencies, with a view to maximising sales prices and minimising the use of public funds due to the application of large haircuts on sales prices. The guarantees extended cover very different contingencies: some merely cover the volume of losses to be assumed by the buyer with regard to certain loan books, while others are intended to hold the buyer harmless or assume jointly with the buyer the cost of certain lawsuits or future events¹⁹.
77. FROB constantly monitors the status of these guarantees, confirming that the claimed disbursements are justified and within the parameters agreed with the buyer.
78. The main guarantees and the status thereof in 2018 are set out hereon:

¹⁹ Main guarantees extended: Asset Protection Scheme (APS) to cover any losses on a certain asset portfolio (only in the Banco de Valencia process); Sareb guarantee, covering a number of potential contingencies deriving from the transfer of the entities' assets to Sareb; tax credits, through which FROB will ensure these credits can be used by the entities in the future; mis-selling, in light of possible liabilities that could arise from lawsuits for mis-selling of hybrid instruments, floor clauses or interest-rate hedge agreements; legal/damages, holding the entity harmless of any damages stemming from final legal rulings; equity stakes, compensation for amounts due for price of stake or any possible future claims concerning the early cancellation of significant contracts, based on a change in control of the acquired entity, to finance certain payment obligations of entities; and liquidity, to finance certain payment commitments assumed by the entities.

2.2.1. APS arranged in sale of Banco de Valencia

79. On 27 November 2012, FROB arranged an Asset Protection Scheme (APS) for the buyer of Banco Valencia (CaixaBank), maturing on 30 September 2022, covering 72.5% of any losses on a closed loan book, which initially totalled EUR 6.424 billion, with a first-loss threshold of EUR 402 million. As a result of two writedowns and a correction of scope in April and August 2013 and October 2016, respectively, these amounts were reduced to EUR 5.192 billion and EUR 212 million, respectively.
80. Having breached the entire first-loss threshold at year-end 2017 (EUR 212 million), losses incurred in 2018 entail a new obligation for FROB to pay CaixaBank. These losses in 2018 totalled EUR 77 million, whereby FROB must pay CaixaBank, as per the Protocol on Financial Assistance Measures in the Banco de Valencia, S.A. Resolution Plan (document regulating the terms and conditions of the APS) EUR 56 million before 30 June 2019.
81. To date, FROB has collected over EUR 2 million for the annual APS commission.

2.2.2. Other guarantees

82. As explained, FROB has also extended other guarantees as part of the sales processes. In order to ensure the guarantees are used effectively, beneficiaries must submit formal compensation claim requests to FROB. In order to ensure compliance with the terms and conditions of the relevant guarantee agreements, these requests, which are reviewed exhaustively, must specify individually and in a detailed manner the case for which each claim is being lodged and the corresponding amount thereof. FROB's technical services team uses this information to closely and continuously monitor and review each claim.

2.3. Sareb

83. The Asset Management Company for Assets Arising from the Banking Sector Reorganisation (Sareb) was incorporated on 28 November 2012 as a limited company for a finite period to November 2027. Its original own funds totalled EUR 4.8 billion, EUR 1.2 billion of which was capital and EUR 3.6 billion, deriving from two issues of unsecured subordinated debt contingently convertible into shares subscribed by shareholders.
84. FROB subscribed 45% of the shares and 45.9% of the subordinated debt (EUR 540 million and EUR 1.652 billion, respectively). The current shareholder structure is practically unchanged from the original structure, with some insignificant differences in terms of percentages held (due to the conversion of

subordinated debt in 2016). FROB holds 45.9% of capital and outstanding subordinated debt.

85. The total value of assets transferred to Sareb was EUR 50.781 billion. Payment for the transfer was effected through the delivery of six senior debt issues by Sareb with an irrevocable state guarantee, signed by the recipients of bailouts. The bonds received as payment are non-transferable and may be redeemed on expiration in cash or through the delivery of newly issued bonds, as Sareb so decides.

Sareb's performance

86. In 2018, buildings were sold for EUR 1.2 billion, with a net margin of around EUR 150 million. This growth in real-estate activity is also reflected in the number of units sold by Sareb: 20,400 properties – 12,600 directly and 7,800 through agreements with developers.
87. In line with its social remit, Sareb also continued its efforts in the area of corporate social responsibility. This primarily entailed:
- Improving the lives of groups at risk of social exclusion, granting financial aid for social housing and emergency funds, distributed through agreements with local councils and regional governments;
 - Providing alternative affordable rented accommodation, with a view to offering especially vulnerable groups alternatives to asset repossession processes; and
 - Providing support to entrepreneurs, in partnership with local councils, to tackle unemployment.
88. Sareb has put a stock of 4,000 homes at the disposal of public institutions through these programmes, which can be ceded for social use. In this regard, Sareb continued to sign agreements in 2018 with several local and autonomous governments. At year-end, the company had signed or was close to signing agreements involving 2,500 dwellings. Close to 6,000 individuals have already benefited from the plans to provide affordable rented accommodation.

Financial position at 31 December 2018

89. A loss of EUR 878 million was posted in 2018, taking Sareb's own funds at year-end 2018 to EUR 1.177 billion, including EUR 304 million of capital and EUR 1.751 billion of reserves. EUR 1.430 billion of subordinated debt needs to be added to this amount, taking the company's total own funds to EUR 2.607 billion.

Table 7. Key financials of Sareb at year-end 2018 (EUR million)

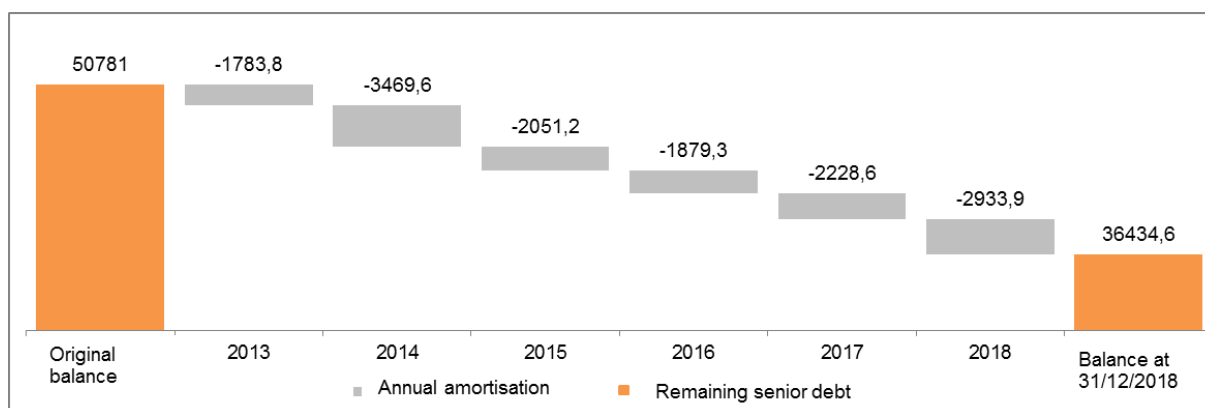
2018 results	
Total income	3,501
<i>Income from financial assets</i>	2,231
<i>Income from real-estate assets</i>	1,270
Total gross income	550
<i>Gross income from financial assets</i>	343
<i>Gross income from real-estate assets</i>	208
Operating expenses	(697)
Amortisation and depreciation charges and others	(74)
Finance costs	(658)
Taxes	1
Loss for the year	(878)

Source: FROB

90. The year brought with it a significant decrease in ordinary income from financial assets of approximately EUR 415 million, while revenue from property sales was up. It is notable that Sareb posted an operating loss of EUR 221 million compared to operating profit of EUR 7 million in the previous year. This difference is due to the sharp decline in margins on financial asset sell-offs, with a 15% decrease in revenue and a narrowing of margins of around 50%.
91. The result has led to a substantial fall in own funds, although these are still a positive EUR 1.177 billion. Equity was a negative EUR 5.136 billion, given the marking to market of interest-rate hedging derivatives (a negative EUR 1.221 billion) and the impairment of financial assets (a negative EUR 5.092 billion). These items do not include the gains on real-estate assets.
92. Despite the company's negative equity position, from a trading perspective and as per article 36 of Spain's Code of Commerce, the valuation adjustments to the hedging derivative and valuation allowances for asset groups are not factored in with regard to the distribution of profit, mandatory reduction in capital or mandatory wind-up due to losses.

93. The remaining senior debt amounted to EUR 36.435 billion at the 2018 year-end (72% of the initial total), following repayment of EUR 2.934 billion in 2018. Consequently, at 31 December 2018 a total of EUR 14.346 billion of the senior debt had been repaid since the start.

Table 8. Changes in Sareb's senior debt (EUR million)

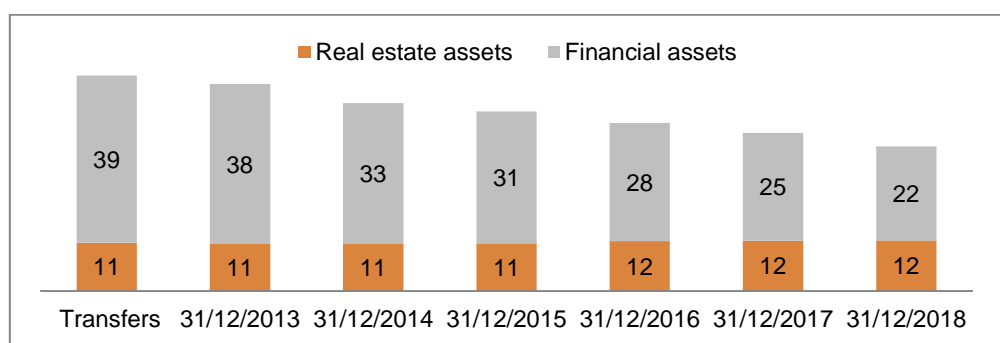


(*) The balance at 31/12/2018 does not include the repayments made in February 2019 of EUR 674 million, EUR 505 million of which was deducted from cash generated in 2018.

Source: FROB

94. The remaining balance of transferred assets stands at around EUR 34 billion, approximately 68% of which are financial assets and the remainder, real-estate assets. Changes in the carrying amounts of the financial and real-estate assets on Sareb's balance sheet (excluding the estimated impairment losses on Sareb's 2018 annual accounts) were as follows:

Table 9. Changes in the financial and real-estate assets on Sareb's balance sheet (EUR thousand million)



Source: FROB

2.4. LEGAL MATTERS

95. FROB continues to actively participate in and monitor legal proceedings related with recovery and resolution processes and any action associated therewith. FROB's activity can, in this regard, be classified in the four major blocks of law comprising Spanish legislation: criminal law, administrative appeals, civil-commercial law; and lastly, corporate law.
96. Also included is the work related with the various administrative cases being handled by the Legal Affairs Department, such as pecuniary liability claims and other administrative appeals, as well as information requests under the Transparency Act.
97. FROB is also actively involved in several international arbitration cases, defending the Kingdom of Spain.

2.4.1. Criminal law

98. This year, FROB has forged ahead with its major drive to pursue and penalise anyone involved in irregular conduct in property transactions and internal remuneration practices detected in the various credit institutions receiving state aid during recovery and resolution processes, all in accordance with the legal mandate laid down in article 64.1.ñ of Act 11/2015.
99. The origin for these cases are diverse: nine claims were lodged against the provisional administrators appointed by FROB in a failed institution; 11 were opened as a result of several forensic reports that FROB commissioned from various independent expert consultants to investigate a number of suspicious transactions and, where irregularities were detected, the Special Prosecutor for Corruption and Organised Crime was notified so it could carry out its own inquiries and initiate the appropriate proceedings; and four derived from claims made by third parties in which the presiding judge summonsed FROB to appear before the court..
100. Consequently, at the start of this year FROB was party to 25 criminal cases against numerous former directors of several entities and, following the shelving of one of the cases due to the lapsing of the prosecution period, the other 24 cases are still being heard. In these cases, FROB is the aggrieved party defending public interests and recovering the contested sums through any fines imposed on the guilty parties for public liability offences.
101. All these cases are at different stages, although most of the pre-trial periods have ended; many are at the oral trial stage, while some guilty verdicts have been issued and sums have been recovered.

2.4.2. Administrative appeals

102. These processes in which FROB is involved derive from the administrative actions of FROB in its role as resolution authority in the processes carried out in the various entities that have been subject of recovery or resolution and in which FROB therefore had to take certain recovery and resolution measures through administrative acts approved by it.
103. During the year, numerous appeals have therefore been heard and closed, most deriving from claims filed contesting actions performed by FROB during restructuring and resolution processes within the framework and as authorised under the now repealed Act 9/2012, of 14 November (steps taken to manage hybrid instruments, increase or decrease capital without preferential subscription rights, or transfer assets to Sareb). In particular, a total of 11 cases were heavily contested during 2018. At the date of this report, all legal rulings have confirmed the legality and compliance with the law of the administrative actions of FROB.
104. Special mentions should be given to the appeals for judicial review lodged to contest FROB's administrative actions within the framework of its new remit as national resolution authority as established in Act 11/2015. Specifically, work continues to process the numerous appeals against the 7 June 2017 resolution of FROB's Governing Committee on the measures needed to execute the Single Resolution Board's decision taken at an extended executive session on 7 June 2017 adopting the resolution scheme for Banco Popular Español, S.A., in accordance with article 29 of Regulation (EU) No 806/2014 of the European Union and of the Council of 15 July 2014 establishing standard rules and a standard procedure for the resolution of credit institutions and certain investment firms within the framework of the Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) 1093/2010.
105. At the date of this report, information shows that a total of 262 appeals for a judicial review have been accepted by the National Court, which have been suspended until the final ruling is issued on the actions for annulment taken against the SRB's decision at its 7 June 2017 extended executive session adopting the resolution scheme for Banco Popular Español, S.A., which is pending at the General Court of the European Union.
106. Also suspended is the case concerning the appeal lodged by FROB against a ruling of the Good Governance and Transparency Council in which the Council partially approved access to certain information in accordance with Act 19/2013 of 9 December on transparency, access to public information and good governance. The hearing of this appeal was suspended by the competent Central Judicial Review Court until the General Court of the European Union issues its final decision on the matters being heard by it, ruling that the Single Resolution Board had respected the right to decide.

2.4.3. Civil-commercial law

107. In this area, the lawsuits involving FROB have been in connection with FROB's actions under the powers bestowed upon it initially by article 63 of Act 9/2012 (now repealed and replaced by the same article of Act 11/2015 currently in force). These include cases in which petitions were filed to annul agreements to buy and sell shares the shares of entities subject to restructuring or resolution to a third party. Most of these cases concern lawsuits that were filed in prior years and were still being heard at the date of this report, although some involved lawsuits filed more recently, in 2018.
108. While the majority of the lawsuits concerning petitions filed in prior years by former minority shareholders to annul agreements to buy and sell the shares of entities subject to restructuring or resolution to a third party have resulted in final favourable rulings confirming the legality of FROB's actions, a number are still in progress which have been appealed against this year delaying any final rulings. In particular, nine cases have been heavily contested in this area of law during 2018.
109. Another area of civil law in which FROB is party to several court cases concerns the scope and interpretation of the guarantees given by FROB to acquirors in the corresponding resolution processes, and the effect of the ensuing decision rendering floor clauses null and void in these acquisitions. These cases are still in progress and are expected to be closed over the coming year.
110. Lastly, with regard to those civil lawsuits brought against FROB for which appeals were filed with the court of cassation to re-examine the cases and involving the so-called "Review Mechanism" used by FROB in the resolution of Banco CEISS, the results of which were disputed by a number of this entity's customers who decided to submit their case to the courts, it is worth noting that, to date, all the legal rulings issued have confirmed the legality and compliance with the law of the administrative actions of FROB. Only once case is still in progress and is pending acceptance by the Supreme Court.

2.4.4. Corporate law

111. As mentioned before in relation to its work to prosecute irregular conduct detected in the entities receiving state aid, FROB has remained steadfast in this, also looking to assign liability in those cases involving remuneration practices that could comprise irregularities in said entities, submitting them to the courts.
112. In this respect, some cases concerning corporate law that had been temporarily suspended have been reopened following rulings exonerating the defendant from criminal liability to decide on matters not affected by the decisions on criminal offences. Specifically, one of these cases is pending an appeal at the court of cassation for unification of doctrine.

2.4.5. Pecuniary liability claims

113. Notable is the large number of pecuniary liability claims (1,063 to date) received in relation to FROB's work concerning the 7 June 2017 resolution of FROB's Governing Committee on the measures needed to execute the Single Resolution Board's decision taken at an extended executive session on 7 June 2017 adopting the resolution scheme for Banco Popular Español, S.A., in accordance with article 29 of Regulation (EU) No 806/2014 of the European Union and of the Council of 15 July 2014 establishing standard rules and a standard procedure for the resolution of credit institutions and certain investment firms within the framework of the Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) 1093/2010.
114. By virtue of these claims and other similar claims filed with other authorities (the Ministry of Economy and Business, the Bank of Spain and the CNMV), those Banco Popular shareholders who lost their investment due to the bank's resolution have called for compensation on the understanding that the state administration was subject to pecuniary liability. At the date of preparing this report, FROB's Legal Affairs Department is continuing to provide counsel on these cases.

2.4.6. International arbitration

115. No international arbitration claims were lodged against FROB in 2018. However, it is worth mentioning that although FROB is not a defendant in any cases, it is working in accordance with article 6 of Act 52/1997 on legal assistance to the state and public institutions with other national administrations defending the Kingdom of Spain who are formally liable in the two international arbitration claims brought against the Kingdom of Spain by a group of Mexican investors in connection with Banco Popular's resolution.

2.4.7. Transparency requests processed in 2018

116. Ten requests for access to information pursuant to Act 19/2013 of 9 December on transparency, access to public information and good governance were resolved in 2018.
117. It is worth mentioning that the claims filed with the Good Governance and Transparency Council in accordance with article 24 of Act 19/2013 of 9 December on transparency, access to public information and good governance disputing the decisions taken by FROB's Governing Committee in relation to requests for access to information on the implementation of the resolution scheme for Banco Popular Español, S.A. that have not yet been resolved are still suspended by the Council pending the conclusion of the appeal for a judicial review (mentioned beforehand) on this matter. This appeal is also suspended pending a ruling by the General Court of the European Union.

ORGANISATION OF FROB

1. CONTROL AND GOVERNANCE BODIES

1.1 Governing Committee

118. FROB is governed and managed by a Governing Committee of 11 members:

- Chairman of the Governing Committee: FROB Chairman;
- Vice-Chairman: Deputy Governor of the Bank of Spain, standing in for the Chairman in the event of the latter's absence or illness or if the chairmanship becomes vacant;
- Three members of the Bank of Spain, appointed by the Bank of Spain's Executive Committee. These positions are currently held by the Director General of Banking Supervision, Director General of Financial Stability and Resolution, and the General Secretary of the Bank of Spain;
- Vice Chairman of the CNMV;
- Three representatives of the Ministry of the Economy and Business, appointed by the ministry. These representatives are currently the Deputy Secretary of the ministry, the General Secretary of the Treasury and Financial Policy, and the Chairman of the Spanish Institute of Accountants and Auditors (ICAC); and
- Two representatives of the Ministry of Finance, appointed by the ministry. These representatives are currently the ministry's Secretary of State for Finance and the Director General for Budgeting.

119. Sessions of the Governing Committee are also attended by a representative of the Auditor General and another of the Attorney General and another from the State Legal Service – State Attorney, Head of the Ministry of Economy and Business, who have a voice but no vote.

120. Irrespective of the aforesaid, decisions affecting the General State Budgets are made by a reduced number of members of the Governing Committee:

- Chairman;
- Three representatives of the Ministry of the Economy, Industry and Competitiveness; and
- Two representatives of the Ministry of Finance and Public Administrations.

121. The plenary session of the Governing Committee met on 19 occasions in 2018, while nine meetings were held in its reduced format.

122. An Audit Committee has been set up under the auspices of the Governing Committee comprising three members of the Governing Committee: the Bank of Spain's Director General of Financial Stability and Resolution (acting as chair), the Director General for Budgeting, and the representative appointed by the Auditor General of the Spanish central government.

Table 10. Composition of the Governing Committee at 31 December 2018

Name	Job position	GC position
Jaime Ponce Huerta	FROB Chairman	Chairman
Margarita Delgado Tejero ¹	Deputy Governor of the BoS	Vice Chairman
Mercedes Olano Librán ²	Director General of Banking Supervision of the BoS	Committee member
Jesús Saurina Salas	Director General of Financial Stability, Regulation and Resolution of the BoS	Committee member
Francisco Javier Priego Pérez	General Secretary of the BoS	Committee member
Amparo López Senovilla ³	Deputy Secretary of Economy and Business	Committee member
Carlos San Basilio Pardo ⁴	General Secretary of the Treasury and International Finance	Committee member
Enrique Rubio Herrera	ICAC Chairman	Committee member
Ana María Martínez-Pina García	Vice Chairman of the CNMV	Committee member
Inés María Bardón Rafael ⁵	Secretary of State for Finance	Committee member
Jaime Iglesias Quintana	Director General for Budgeting	Committee member
Pablo Arellano Pardo ⁶	Auditor General of the Spanish central government	Global Economic Activity Indicator (IGAE) representative
Julio José Díez Menéndez	State Attorney at the Ministry of Economy and Business	Attorney General representative

1. Javier Alonso Ruíz-Ojeda sat on the committee as Deputy Governor of the Bank of Spain, serving as Vice Chairman until governing committee meeting 15/2018 on 1-2 August 2018.

2. Julio Durán Hernández sat on the committee as Director General of Supervision of the Bank of Spain, serving as committee member until governing committee meeting 17/2018 on 8-10 October 2018.

3. *Alfredo González-Panizo Tamargo sat on the committee as Deputy Secretary of Economy, Industry and Competitiveness, serving as committee member until governing committee meeting 12/2018 on 19 June 2018.*

4. *Emma Navarro Aguilera sat on the committee as General Secretary of the Treasury and Financial Policy, serving as committee member until governing committee meeting 08/2018 on 10-11 April 2018.*

Fernando Navarrete Rojas sat on the committee as General Secretary of the Treasury and Financial Policy, serving as committee member until governing committee meeting 11/2018 on 12-13 June 2018.

5. *Felipe Martínez Rico sat on the committee as Deputy Secretary of Finance and Public Administrations, serving as committee member until governing committee meeting 10/2018 on 21 May 2018.*

María del Pilar Paneque Sosa sat on the committee as Deputy Secretary of Finance, serving as committee member until governing committee meeting 11/2018 on 12-13 June 2018.

6. *Rosario Martínez Manzanedo sat on the committee as Director of the National Accounting Office, serving as representative of the State Auditor General until governing committee meeting 15/2018 on 1-2 August 2018.*

Juan Miguel Báscones Ramos sat on the committee as Director of the National Accounting Office, serving as representative of the State Auditor General until governing committee meeting 16/2018 on 24 September 2018.

2. ORGANISATION

123. FROB has four divisions led by its Chairman. At the date of this report, these are:

- The Administration and Control Division, led by Daniel J. Avedillo de Juan;
- The Finance and Investees Division, headed up by Leopoldo Puig Turégano;
- The Legal Affairs Division, led by Alba María Taboada García; and
- The Resolution and Strategy Division, overseen by Paula Conthe Calvo²⁰.

124. The divisions are split into departments for the purpose of exercising the powers and conducting the activities assigned to each of them.

125. There is also a unit reporting to the Chairman's office that is headed up by a director, Amaia Rivas Kortazar²¹, and is responsible for legal relations with investees.

²⁰ Appointed on 9 April 2019.

²¹ Joined on 13 February 2019.

Table 11. Map of FROB's functions

Resolution process phases					
Resolution functions	I Preparation of resolution	II Resolution	III Supervision of resolution	IV Exit strategy	
Resolution management	<ul style="list-style-type: none"> In-house planning and preparation to optimise resolution measures Preparation and updating of crisis management manuals and action protocols Performance of simulations Collaboration with preparing and updating resolution plans Reporting on resolution plans and exercising Spanish vote on the SRB 	<ul style="list-style-type: none"> Launching resolution process (less significant institutions) after declaration that an institution is no longer viable: analysis of alignment with public interest and lack of private sector solutions Evaluation of need to begin viability analysis Collaboration with the SRB to launch resolution schemes for significant institutions Design and approval of resolution scheme for less significant institutions Execution of resolution powers and instruments 	<ul style="list-style-type: none"> Supervision of implementation and fulfilment of commitments of resolution schemes Supervision and control of banks placed into resolution Supervision and management of guarantees given in divestments Handling of legal disputes related with institutions placed into resolution Supervision of bridge institutions or asset management vehicles (AMV) and business restructuring plans AMV oversight Updating of manuals 	<ul style="list-style-type: none"> Design of sell-off or divestment of institutions, bridge institutions, portfolios or business lines Execution and supervision of sell-offs Monitoring of markets and economy Investor relations 	
	Coordination of analytical capabilities and supervision of institutions				
	Design and implementation of Resolution Policy				
Support functions					
Legal	Legal advice on action by the FROB and Governing Committee Secretary		Acting on behalf of the FROB in legal proceedings to defend its interests	Supervision of and participation in drafting rules related with the FROB's work	
Corporate resource management and control	Training Knowledge management	Training Contracting and outsource framework	Administration and general services ITC strategy and management	Regulatory compliance and internal control (risks, In-house procedures)	Liaison with external control bodies
Financial	Budget and finance management		Cash management	Management of Resolution Fund	
Communications	Design and implementation of in-house and external communications strategy		Management of image and institutional culture	Institutional relations and events	
Reporting	Coordination of institutional reporting	Quarterly reports to Congress	Submission accounts to Gov. Committee	Appearances of Chairman before Parliament	Reporting to investors
Strategy	Monitoring of strategic plan		Design of corporate strategy	Market scanning of market agents	

Source: FROB

126. At 31 December 2018, FROB had 46 members of staff, including the Chairman and directors. The following tables show the distribution of its workforce by professional category and gender:

Table 12. Distribution of personnel by professional category

Category	Headcount
Senior Management ²²	6
Group II	17
Group III	13
Group IV	6
Group V	4
Total	46

Of the 46 employees, 24 are women and 22 men.

Source: FROB

²² As defined in Royal Decree 451/2012 of 5 March, regulating the remuneration of senior executives and directors in state-owned companies and other entities.

FINANCIAL MANAGEMENT

1. TREASURY MANAGEMENT

127. FROB's Finance and Investees Division manages the entity's funds as per the requirement to invest in highly liquid, low risk assets. This means holding current accounts with the Bank of Spain and acquiring short-term treasury bonds and bills.
128. In 2018, FROB's Treasury team handled a number of payments and collections, the most relevant being as follows:
- a. On 31 May 2018, FROB paid Abanca EUR 13.2 million for guarantees given during the sale of NCG.
 - b. On 29 June 2018, FROB paid CaixaBank EUR 37.1 million for the annual settlement of losses deriving from the APS of Banco de Valencia.
 - c. On 19 October, FROB paid a total of EUR 17.7 million to FGD as settlement for the sale of NCG and CX shares (EUR 1.6 million and EUR 16.1 million, respectively).
 - d. Also, FROB received over the course of the year, payments corresponding to the coupons on assets in the public debt portfolio, totalling around EUR 21 million.
129. At 31 December 2018, FROB's unrestricted cash reserves totalled EUR 1.103 billion; sufficient to cover expected cash outlays.

Table 13. FROB's cash reserves at year-end 2018

PRODUCT	31/12/2018
	Nominal (EUR million)
Public debt portfolio	610
Bank of Spain account	482
Other bank accounts	11
Total (*)	1,103

(*) Amounts corresponding to the commission are not included in this item
(Transitional Provision Five of Act 11/2015).

Source: FROB

2. FEE TO FUND FROB'S ACTIVITY

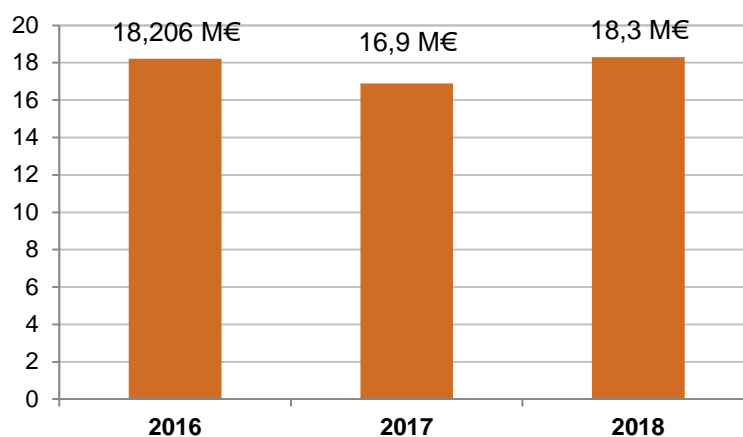
130. Article 53.4 of Act 11/2015 introduces the so-called “fee for activities performed by FROB in its capacity as a resolution authority”. This fee is intended to cover the entity’s operating costs and is charged to the entities required to contribute to either the Single Resolution Fund or the National Resolution Fund.
131. This funding system is in line with that established for the Single Resolution Board, the administrative expenses of which are also covered by the entities through the pertinent annual payments.

Table 14. Main features of the fee collected by FROB

- **Chargeable event** – Performance of supervisor and reporting functions and application of resolution tools during the preventive and execution phases of resolutions.
- **Accrual** – The fee is accrued on 1 January each year, except for the incorporation of entities, in which case it is accrued from the incorporation date.
- **Fee payers** – Credit institutions and investment firms established in Spain.
- **Calculation base** – The ordinary annual contributions payable by each entity to the National Resolution Fund or, where applicable, the Single Resolution Fund.
- **Tax liability** – Result of applying a rate of 2.5% to the taxable fee.

132. As per Royal Decree 1012/2015, FROB’s Governing Committee approved in its 17 April 2018 meeting, the proposed fee breakdown for activities performed by FROB as resolution authority in 2018, and delivery of the corresponding payment form to the fee payers.
133. All the fee payers paid the fee within the stipulated deadline, with a total of EUR 18.3 million collected in 2018, some EUR 1.08 million more than in 2017.

Table 15. Changes in the fee to fund FROB's activity



Source: FROB

3. STATE LOAN FOR FINANCIAL SECTOR RECAPITALISATION

134. On 3 December 2012, the Spanish State granted FROB a loan to execute the European financial assistance programme for the restructuring of Spain's financial system. This loan acted as a vehicle through which funds from the European Stability Mechanism (ESM) could be channelled to the Kingdom of Spain and subsequently through FROB to Spanish credit institutions.
135. The loan was paid out in two tranches, the first in 2012 (EUR 39.468 billion) and the second in 2013 (EUR 1.865 billion), through the contribution of financial instruments (bills and bonds) issued by the ESM.
136. The key developments concerning the loan from the Spanish State in prior years were as follows:
- Following the ESM's approval, part of the loan was converted on 9 December 2013 into a contribution to FROB's capital of EUR 27.170 billion.
 - In 2014, unused funds held by Sareb of EUR 307.54 million were returned by FROB. A voluntary repayment of EUR 399 million was also made.
 - In 2014, 2015, 2016 and 2017, the Treasury made six voluntary repayments of EUR 8.904 billion.
 - Following the ESM's approval, part of the loan was also converted on 30 June 2017 into a contribution to FROB's capital of EUR 3.000 billion.
137. Steps taken in relation to the loan in 2018 involved the following:

- The Treasury made three voluntary repayments totalling EUR 8 billion, on top of the six repayments in prior years. This took the total amount repaid to EUR 16.904 billion.
- Interest, arrangement fees and other associated costs of EUR 111.5 million were paid to the Treasury by FROB.

138. At 31 December 2018, the outstanding balance on the loan awarded to FROB by the Spanish State totalled EUR 10.456 billion: EUR 8.591 billion corresponding to the first payout and EUR 1.865 billion to the second. The first repayment of the remaining loan principal corresponding to the first tranche will be on 11 December 2022, and annually thereafter until it matures in 2027, all for the same amount. The second tranche will fall due in two equal parts on 11 December 2024 and 2025, respectively.

4. 2017 ANNUAL ACCOUNTS

139. On 13 May 2019, FROB Governing Committee approved the entity's annual accounts for 2018, previously authorised for issue by the Chairman, in fulfilment of articles 54.5 c) and 55.4 c) of Act 11/2015.
140. FROB's 2018 annual accounts show assets of EUR 10.935 billion, liabilities of EUR 11.404 billion and negative equity of EUR 469 billion, including the loss for the year of EUR 905 billion. This was primarily the result of the year-end valuation of FROB's shareholding in BFA and Sareb's subordinated debt, considering the recovery projections obtained from the business plan approved by the company, in turn, based on increasingly more conservative assumptions.
141. FROB's annual accounts are audited by an independent auditor. The auditor stipulates in its audit report on the 2018 annual accounts that, in its opinion, FROB's annual accounts give, in all material respects, a true and fair view of the assets and liabilities and financial position of FROB at 31 December 2018.

ANNEX
Record of FROB bailouts

Entities involved	APS and guarantees	Shares, preference securities or CoCos	Recoveries (FROB) ^(*)
Catalunya Banc Catalunya, Tarragona, Manresa	547	12,052	782
CEISS Caja España-Duero	430	1,129	604
Nova CaixaGalicia Galicia, Caixanova	352	9,052	783
*Banco Gallego (spun off from NCG)	-	245	-
BFA-Bankia Madrid, Bancaja, Laietana, Insular, Rioja, Ávila, Segovia	-	22,424	-
Banco Mare Nostrum Murcia, Penedés, Sa Nostra, Granada	-	1,645	-
Banca Cívica Navarra, Cajasol-Guadalajara, General de Canarias, Municipal de Burgos	-	977	977
Banco de Valencia	605	5,498	-
Liberbank G. Cajastur, C. Extremadura, C. Cantabria	-	124	124
Caja3 CAI, C. Círculo, C. Badajoz	-	407	407
Caja Sur	392	800	800
Interest collected through coupons and others	-	-	1,434
FROB injection	2,326	54,353	-
Sareb	-	2,192	-
Total	2,326	56,545	5,911

^(*)The bailouts that will ultimately be collected will depend on the performance and final divestment of FROB's investees (BFA/Bankia with BMN, and Sareb). This column does not include: EUR 1.304 billion from the sale of 7.5% of Bankia in January 2014; EUR 818.3 million divested through the sale of 7% of Bankia in December 2017; and EUR 962 million of dividends paid out by Bankia for 2014 to 2018, as the amounts received are retained in BFA.

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2018