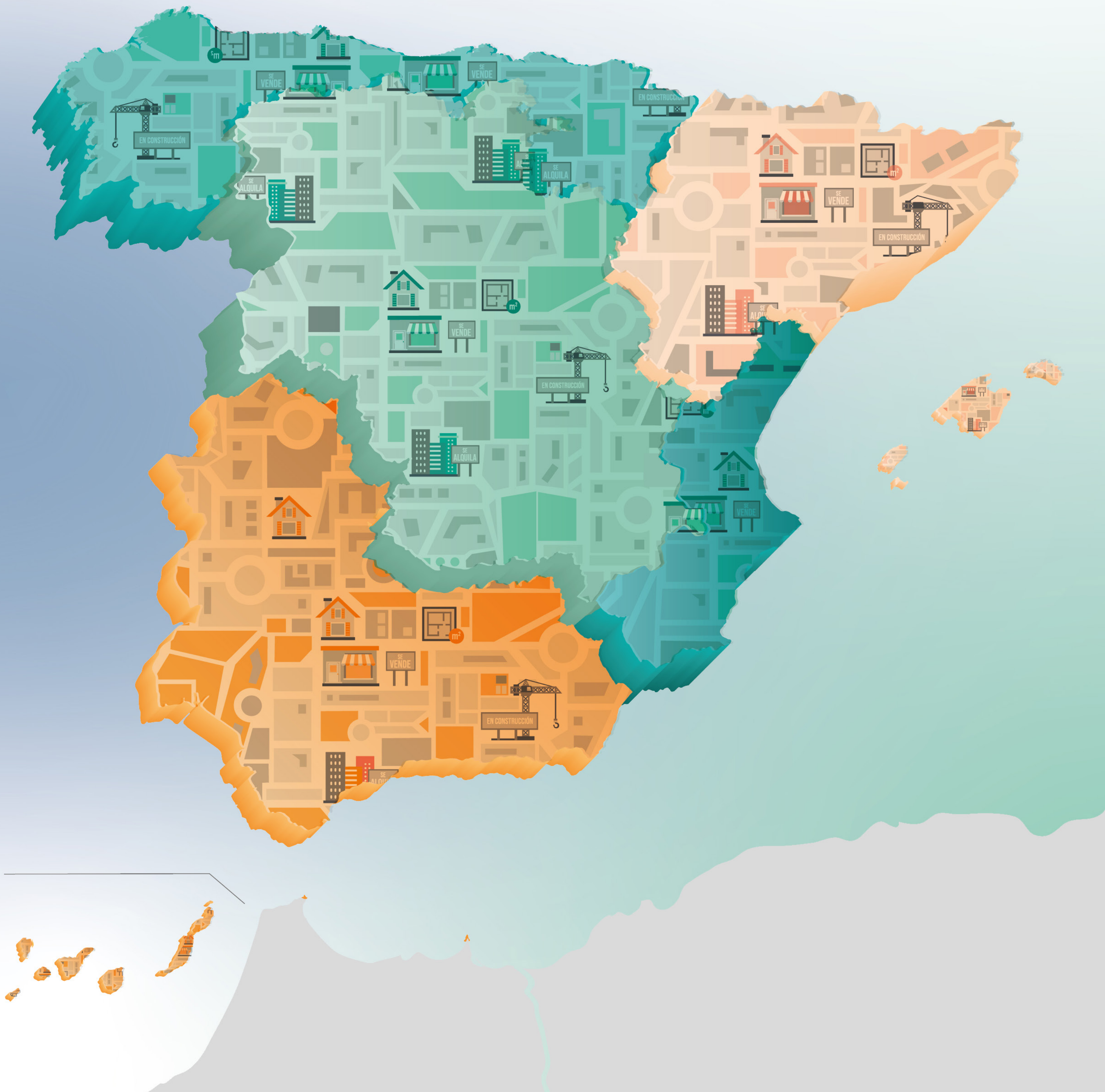
Sareb

Sociedad de Gestión de Activos
Procedentes de la Reestructuración
Bancaria, S.A.

2019
ANNUAL ACTIVITY REPORT



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ANNUAL ACTIVITY REPORT

Sareb presents its Annual Activity Report corresponding to 2019 in line with the guidelines of the International Integrated Reporting Framework and the provisions of the Global Reporting Initiative Standards (GRI) for the preparation of sustainability reports.

This report, which includes audited annual accounts, meets the transparency requirements set out in Royal Decree 1559/2012.

The orientation and approach of the content were determined by the conclusions of the materiality assessment, in line with the commitment undertaken by the company to continuously improve the transparency and quality of the information that is to be presented to its stakeholders.

The prospective information contained in this report is subject to the analysis of the context at the time when this report is presented (April 2020) and its expected evolution, without compromising those objectives for achieving it.

This report also shows Sareb's contribution to the **United Nations 2030 Agenda**, to illustrate how the company helps in complying with the **Sustainable Development Goals** set by that organisation.

After reviewing the different goals to which it contributes, the company explains its contribution under the corresponding headings.

Further information on the 2030 Agenda

https://www.un.org/sustainabledevelopment/

The images used to illustrate this report show Sareb real estate assets.

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1. INTERVIEW WITH JAIME ECHEGOYEN

Picture: Sareb corporate headquarters in Paseo de la Castellana, Madrid (Region of Madrid).

INTERVIEW WITH JAIME ECHEGOYEN

Jaime Echegoyen, *Chairman of Sareb,*

reflecting on the company's performance last year and focussing the long-term vision on the challenges and opportunities facing the organisation and its environment

> How would you weight up 2019?

2019 has been a key year for Sareb. This is the year in which we began working according to our new business strategy, which merely seeks to strengthen the protection, to increase the value of our asset portfolio and to streamline costs. This will enable us to continue fulfilling our mandate efficiently and responsibly.

During the year now ended, for the first time real estate has been the main source of income for Sareb, 57% of the total. The path forward is to invest in order to increase the future value of part of our real estate portfolio. Accordingly, in 2019 we launched Arqura Homes, a vehicle through which we will handle the management and promotion of the majority of our residential projects and which is expected to build 17,368 homes by 2027.

We have to continue with careful, specialist management of each type of asset in order to be able to adapt to the demands of the market. An example of this is the launch of Témpore Properties, the REIT we created in 2017 for managing our real estate assets for rental and of which we are now a non-controlling shareholder after selling 75% of our holding in 2019.

"We have to continue with a careful, specialist management of each type of asset in order to be able to adapt to the demands of the market."

While last year saw a certain slowing down of the real estate market, we sold 16,948 properties of all types, but essentially residential real estate assets. During our short history we have already sold over 105,000 properties, almost all of them on the retail market.

As for loans, which still account for almost 60% of our total portfolio, we are promoting their conversion into real estate through processes of dation and foreclosures. This we do convinced that we are protecting their value and liquidity on the market. In 2019 alone, we obtained a total of 21,140 properties under this method, valued at €1,867 M, 33% more than the 2018 figure of €1,402 M.

Another relevant aspect during the year was that we were less active on the wholesale loan market. This is a market where discounts are applied that Sareb cannot afford, so we have preferred to opt for the conversion and subsequent sale of the collateral properties on the retail market.

> Over the course of the year Sareb has taken its first steps in setting up a geographical structure. What advantages does this new model bring to the company?

Indeed, in 2019 we established the bases for a geographical structure that will help us to be closer to our servicers and their function as commercial networks for the administration and management of our real estate assets and debtors, while at the same time making it possible for us to have first-hand knowledge of the local markets and adapt products to the demand in each area.

We believe that this model of geographical branch offices will result in better service and attention to our customers, as we will be more aware of their needs, which is essential in the asymmetric real estate market we have in Spain and in which there are marked differences between regions.

Our five geographical branch offices are operative since 1 January 2020, although the Geographical Branch Office East already began operating in 2019. This is the office that handles our portfolio in the Region of Valencia and the Region of Murcia and has acted as our pilot project and the example for opening the other branch offices.

This geographical structure was implemented under the framework of the Esparta Project, approved in 2019 and which is also based on the selection of specialist managers, direct management of certain activities and centralisation of information on the assets.

> "In 2019 we established the bases for a geographical structure that will help us to be closer to our servicers and their function as sales networks for the administration and management of our real estate assets and debtors, while at the same time making it possible for us to have first-hand knowledge of the local markets and adapt products to the demand in each area."

> After seven years of activity, how far has the company progressed towards fulfilling its mandate?

During the first years of operation, we have made important steps toward fulfilling our mandate, although we still have a long way to go. The first years served for becoming familiar with our portfolio and knowing what we could offer on the market. At the end of 2019, Sareb's financial asset portfolio -most of which were non-performing loans- acquired from the banks who received public aid, had gone down by 51%. Taking into account the overall portfolio of real estate and loans, our balance sheet has been reduced by 36%, meaning€18,117 M.

It is important to bear in mind that the divestment process goes hand in hand with payment of the debt guaranteed by the central Government, which we had to issue in order to cover the acquisition of our portfolio. During its seven years of activity, Sareb has repaid €15,676 M in this way, while also providing liquidity for the former savings banks who had transferred their assets, by paying €2,785 M in interest. And all of this been made possible because our business generates sufficient income -over €26,500 M in seven years- to cover our costs and our liabilities.

If we consider the impact beyond our business, with our activity over the years, Sareb has contributed €29,548 M to the Spanish economy, according to estimates in the 'Report on the Social and Economic impact of Sareb (2013-2019)' drawn up by the EY consultancy firm, generating positive effects in the growth of local economies and creation of jobs in the different regions of the country.

And over and above our contribution to the recovery of the financial sector and to the growth of the real estate market, we have done our bit in palliating the problem of housing. At the end of 2019, we had assigned to autonomous regions and town councils a total of 2,295 apartments for use as social housing, from which over 9,000 people have been able to benefit. But we would like to continue contributing, which is why, at the beginning of 2020, we extended our pool of social housing. We now have a total of 10,000 apartments to continue collaborating with the administrations, especially with town councils of small towns with housing problems.

With our work, we are committed to the implementation of responsible management and compliance with the guidelines of the ten principles of the United Nations Global Compact, with a view to encouraging sustainable development in areas relating to human rights, workers' rights, the environment and the fight against corruption.

> "At the end of 2019, we had assigned to autonomous regions and town councils a total of 2,295 apartments for use as social housing, from which over 9,000 people have been able to benefit. But we would like to continue contributing, which is why, at the beginning of 2020, we extended our pool of social housing. We now have a total of 10,000 properties to continue collaborating with the administrations."

> How does the company face the second half of its mandate?

We are facing this second stage of the useful life of Sareb determined to continue investing our best efforts in the fulfilment of our mandate. The experience accumulated over these seven years, the efforts invested and the lessons learned are the best guarantee for this.

Nevertheless, today new challenges arise on the horizon affecting Society as a whole and for which we have no answer. The world-wide health crisis we are currently experiencing as a result of the spreading of the SARS-CoV-2 virus –the cause of the coronavirus disease–, will to a great extent change the paradigm of our community and will establish a new scenario for social and labour relationships. It will also have significant economic consequences for which we have not yet been able to establish a figure, although Sareb is already including in its analysis the impacts of the crisis on its business and it is involved in drawing up a plan to reactivate its activity once the situation has normalised.

And now more than ever we would like to express our solidarity with Society as a whole in this time of crisis. With people who have lost their loved ones, those who are sick, or who are suffering the uncertainty of their future. We must give our thanks to everyone for their response to this difficult situation, to those who are in the first line of fire for combating the spread of the virus, to those who have unfortunately been forced to temporarily close their businesses and stop working, and those who are observing preventive confinement in compliance with the instructions from the authorities and the experts.

The mobilisation of companies is also to be applauded. Each to the extent of its possibilities is placing whatever it can offer at the disposal of Society. Sareb has also offered the Ministry of Transport, Mobility and Urban Agenda the use of industrial warehouses, hotels, apartments, office blocks, commercial premises and even shopping centres for medical purposes -such as for creating field hospitals- or logistics -warehouses for storing healthcare equipment. Or for any purpose they need or consider appropriate. We have assets in many areas of Spain that can be used if they require.

In this context our commitment remains firm and we will continue working and collaborating with the public administrations, the suppliers and all other social stakeholders so that Society can pull through, contributing to the reactivation of local and regional economies and in this way overcoming the adversities that may be raised in the short and medium term.

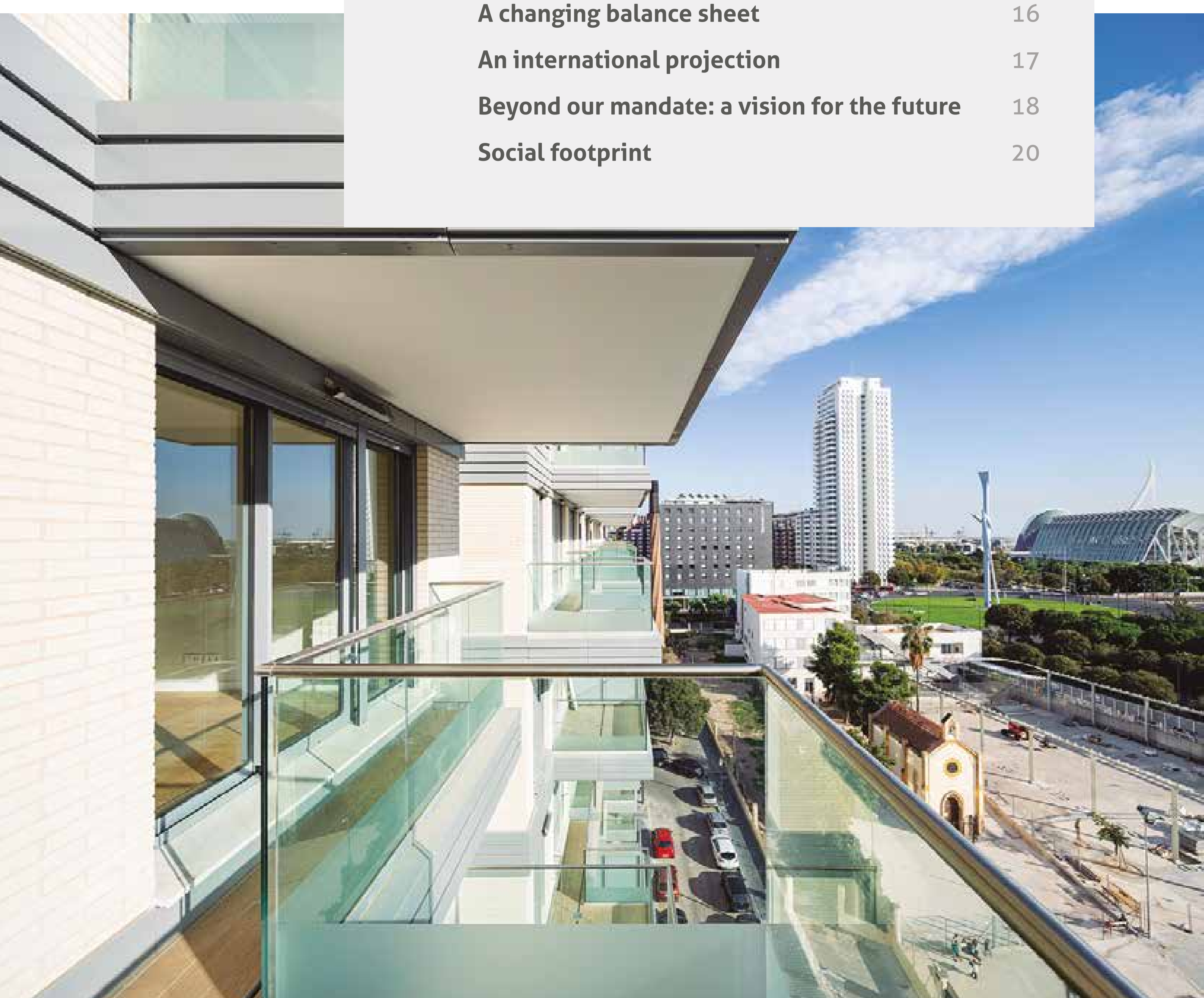
We know all about overcoming difficulties. Sareb was born in one of those moments of difficulty and we have been witness to what Society, the administrations and the productive fabric can achieve if they all work together. We will do it again this time.

Our divestment activity and plans will have to be adapted to correspond to this new context, as we have been doing up until now. We have to continue with a careful, specialist management of each of our assets in order to be able to respond efficiently to the demands of the market. For us, that is the best way to fulfil the mandate that has been entrusted to us. We are going to continue doing this responsibly, following our values of integrity, transparency and civic engagement, and with this, contributing to sustainable growth and development.

> "We know all about overcoming difficulties. Sareb was born in one of those moments of difficulty and we have been witness to what Society, the administrations and the productive fabric can achieve if they all work together. We will do it again this time."

Picture: Interior of the Sareb office building in Paseo de la Castellana, Madrid (Region of Madrid).

2. GET TO KNOW SAREB



Picture: Views from a Sareb residential property development in the centre of Valencia (Region of Valencia).

OUR INCEPTION, MISSION, VISION AND VALUES

Sareb was founded in November 2012, as part of the Memorandum of Understanding (MoU) signed between the Spanish and international authorities to assist the restructuring and recapitalisation of the Spanish banking sector.

The agreement established that a management company would be set up to which the properties awarded and developer loans would be transferred from banks undergoing difficulties due to their excessive exposure in the real estate sector, so that they could liquidate their assets in an orderly manner over a 15-year period, until November 2027.

Sareb received
200,000
assets

valued at
€50,781 M
of which...

A key aspect for the recovery of the financial sector created in the context of the paralysis of the real estate market in Spain

MISSION

Sareb is a special purpose vehicle whose assignment is to liquidate those assets in an orderly manner, optimising their value. The company works on a daily basis in order to meet its commitments assumed with shareholders, investors and Society as a whole.

VISION

Sareb is a private company fulfilling the public –supranational– mandate that it has been entrusted with, contributing to the recovery of the financial sector. In this process the professional qualifications and ethics of its employees are crucial.

VALUES

Integrity
This means assuming that actions and attitudes will preserve the ethical standards of Sareb's corporate culture.

Transparency
Sareb assumes the commitment to openness in communicating its policies and procedures, aware that it acts under the watchful eye of Society as a whole.

Civic engagement
The company operates under ethical standards and with socially responsible criteria.

Sareb's contribution to the United Nations 2030 Agenda

8 DECENT WORK AND ECONOMIC GROWTH
17 PARTNERSHIPS FOR THE GOALS

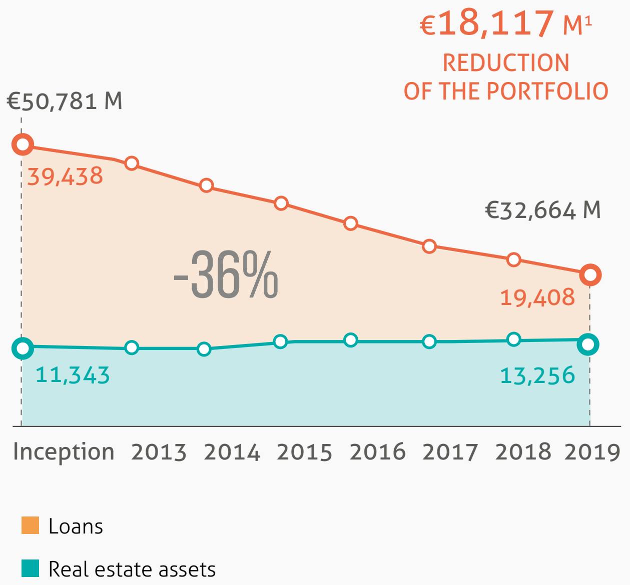
The primary goal of Sareb is restoring the Spanish financial sector and reactivating the real estate market. With this it is contributing to goal 17.13 of the United Nations 2030 Agenda: **"To increase global macroeconomic stability including through policy coordination and coherence"**. Over and above, by taking over part of the assets of banks going through difficulties, Sareb has contributed to restoring their balance sheets, reinforcing their liquidity and increasing their solvency. This contributes directly to goal 8.10 of the United Nations 2030 Agenda, which aims to **"strengthen the capacity of domestic financial institutions for promoting and widening access to the banking, financial and insurance services for everyone"**.

More information on
What is Sareb?
https://www.sareb.es/en_US/about-us/who-we-are/about-us

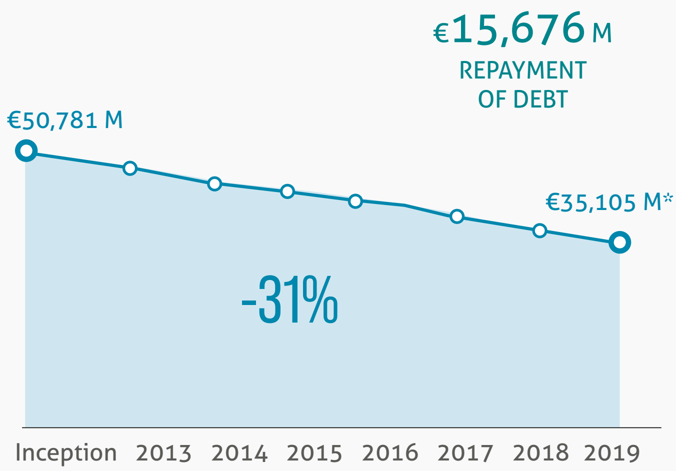
WHAT HAVE WE ACHIEVED UNTIL NOW?

Balance of the period 2012-2019

1. Evolution of the portfolio



2. Reduction of senior debt



* Balance of outstanding debt at the end of 2019 after including €293.3 M corresponding to the cash generated in 2019 and €10.7 M corresponding to the escrow account for 2018, repaid in February 2020.

2012

- Incorporation of Sareb.
- First subordinated debt subscribed.
- Assets received from BFA-Bankia, Catalunya Banc (CX), Banco de Valencia, Novagalicia Banco and Banco Gallego.

2013

- Second subordinated debt subscribed.
- Assets received from Liberbank, Caja 3, CEISS and BMN.
- Approval of the Sareb Code of Conduct.
- Creation of a pool of 2,000 properties for social purposes which subsequently would be increased to 4,000 and then to 10,000.

2014

- It was announced that €259 M had been written-off from the loan portfolio.
- Signing of the first agreement for assignment of social housing.
- Within the framework of the Íbero Project, management of the assets was assigned to four real estate management companies or servicers: Altamira Asset Management, Haya Real Estate, Servihabitat and Solvia.

2015

- Further write-off of €719 M from the loan portfolio.
- The Bank of Spain Circular was published which establishes the criteria for valuing Sareb's assets.
- For the first time, Sareb announced the development of land it owns.

[1] Not including accumulated amortisation/depreciation or impairment.

[2] Included in the Business Plan up to 2027.

[3] From application of the 2015 Bank of Spain Circular which establishes the criteria for valuing Sareb's assets and requires it to capitalise €2,170 M of the company's subordinated debt.

[4] Increase of the pool of social housing units to 10,000 in March 2020. More information on "Social footprint".

KEY FIGURES

€26,506 M
Income

€2,785 M
Interest paid to the assigning banks

106,450
Properties sold

70,190
Proposals from developers managed

21,433 properties planned for construction[2]

4,065
from Sareb

17,368
from Arqura Homes

4,647
Reduction of no. of borrowers

10,000[4]
Properties for social housing

2016

- A further write-off in the Sareb portfolio with €2,044 M in provisions[3].
- The company approved the capitalising of €2,170 M of subordinated debt to cover write-offs in the portfolio.

2017

- Creation of the department for Development, Promotion and Investment to enhance the value of the assets.
- Launching of the online channel for the sale of loans.
- Creation of the REIT, Témpore Properties, with a portfolio of 1,554 assets transferred by Sareb for the value of €175 M.

2018

- Témpore Properties makes its debut on the Alternative Stock Market (MAB).
- Sareb began its decentralisation process by opening a small geographical structure in five cities.
- Launch of a competitive process to sell the holding of Sareb in Témpore Properties.

2019

- Sareb, in partnership with Värde Partners, launched Arqura Homes to promote more than 17,000 properties.
- The company arranged the sale of 75% of Témpore Properties to TPG Real Estate Partners.
- The Board of Directors approves the Esparta Project, based on the selection of specialist managers, direct management of some activities from Sareb, centralisation of the information on assets and putting the geographical branch offices into operation.
- Under the Esparta Project, Sareb chose Haya Real Estate for the commercial management of a portfolio of €8,400 M.
- Sareb concluded the first sale to a Public Administration (Town Council of Badalona) of properties for social purposes.

More information on the present-day Sareb
https://www.sareb.es/en_US/whats-new/news

BUSINESS MODEL

A long-term vision to increase the value of the assets and to efficiently fulfil the divestment mandate and repayment of the senior debt

The effects of the systemic international financial crisis, which began in 2007, quickly became apparent in the Spanish economy, as some of the most representative indicators show.

STRATEGIC GUIDELINES TO THE 2020-2027 BUSINESS PLAN

REDUCTION IN VOLUME OF THE PORTFOLIO

GREATER FOCUS AND SPECIALISATION: THE ESPARTA PROJECT

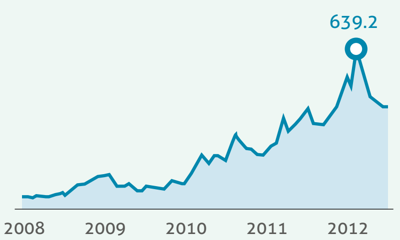
Assets under management:
- Loan portfolio
- Real estate portfolio

Assets undergoing conversion:
- Dations in payment
- Foreclosures

Year-on-year growth of GDP (%)

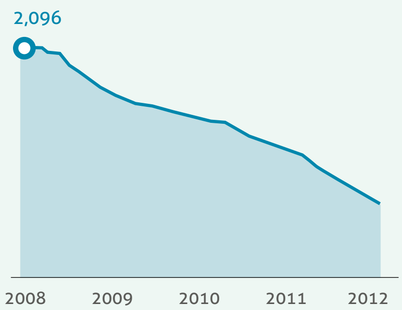
Source: National Institute of Statistics (INE).

Risk premium (basis points)



Source: Bloomberg.

Free-market housing price (€/m²)



Source: National Institute of Statistics (INE).

PORTFOLIO (€50,781 M ORIGINALLY)	DIVESTMENT SINCE 2012 (36%)
SENIOR DEBT (€50,781 M ORIGINALLY)	REDUCTION SINCE 2012 (31%)

INTENSIFICATION OF THE CONVERSION OF THE BALANCE SHEET

INVESTMENT AND SPECIALISED MANAGEMENT FOR THE CREATION OF VALUE

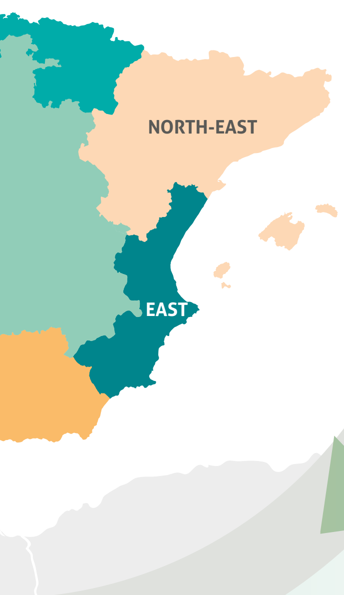
Direct management:

- Major debtors
- Development, Promotion and Investment
- Single items of assets

Specialist suppliers (property maintenance, conversion, legal reorganisation, etc.)

Following the creation of Sareb, and other the measures applied, the representative economic indicators have shown positive growth in the construction and real estate sectors.

consists of converting
s which are less liquid–
peed up divestment
nd strengthen the
liquidation process.



MANAGEMENT AND SALE OF **REAL ESTATE ASSETS**

Retail property sales through the sales managers or servicers.

Property development and promotion

> Creation of Arqura Homes to promote more than 17,368 homes.

> Sareb property development:

- Construction of new developments.
- Completion of unfinished construction works.

Stock of properties for rental

> Residential and commercial rental.

> Creation of the REIT Témpore Properties and subsequent sale of 75% of the holding in the company.

Social housing

> Signing agreements with the Public Administration for the temporary assignment of properties to groups at risk of social exclusion.

> These agreements open the door to the acquisition of said properties by the administrations.

Current portfolio... €32,664 M

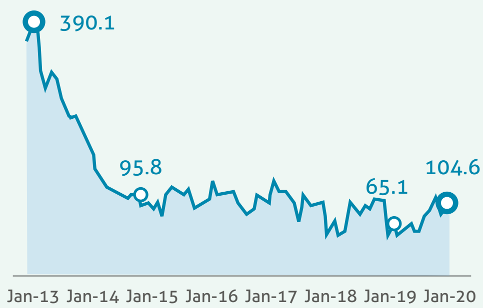
LOANS €19,408 M (59%)	REAL ESTATE ASSETS €13,256 M (41%)

Outstanding debt in 2019 €35,105 M*

Year-on-year growth of GDP (%)

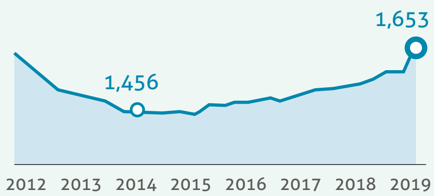
Source: National Institute of Statistics (INE).
(P) Provisional estimate
(A) Forecast estimate

Risk premium (basis points)



Source: Bloomberg.

Free-market housing price (€/m²)



Source: Ministry of Transport, Mobility and Urban Agenda. February 2020.

* Balance of outstanding debt at the end of 2019 after including €293.3 M corresponding to the cash generated in 2019 and €10.7 M corresponding to the escrow account for 2018 repaid in February 2020.

A CHANGING BALANCE SHEET

Even though the transfer of the assets to Sareb was completed in 2013, the company's balance sheet is undergoing constant change.

The loan litigation process means having to accept longer settlement periods, even though it helps to preserve the value of the portfolio, as financial assets are sold on the institutional market with heavy discounts; conversely, real estate assets can be sold to retail customers at market prices. This process provides greater liquidity by increasing and diversifying the company's real estate offer.

Sareb is currently undergoing a strategic process of converting its balance sheet, which consists of pushing forward with dations and foreclosures of its loan portfolio -most of which are NPL- in order to obtain ownership of the properties given as collateral. With this Sareb obtains assets that are more liquid for selling on the market.

The conversion of loans is adapted to the specific situation of each one –depending on the willingness of the debtor to collaborate or the legal process involved– and it takes place under three instruments: dation, insolvency and foreclosure proceedings.

Under this conversion process, in 2019, Sareb has obtained a total of 21,140 properties valued at €1,867 M, 33 % more than the figure of €1,402 M in 2018. Accordingly, between 2020 and 2022 the company anticipates that the conversion process will make it possible to add 98,610 properties to its portfolio valued at €8,886 M.

Dation in payment

A process of collaboration with debtors, with agreements in place for repaying their debt in exchange for handing over their assets.

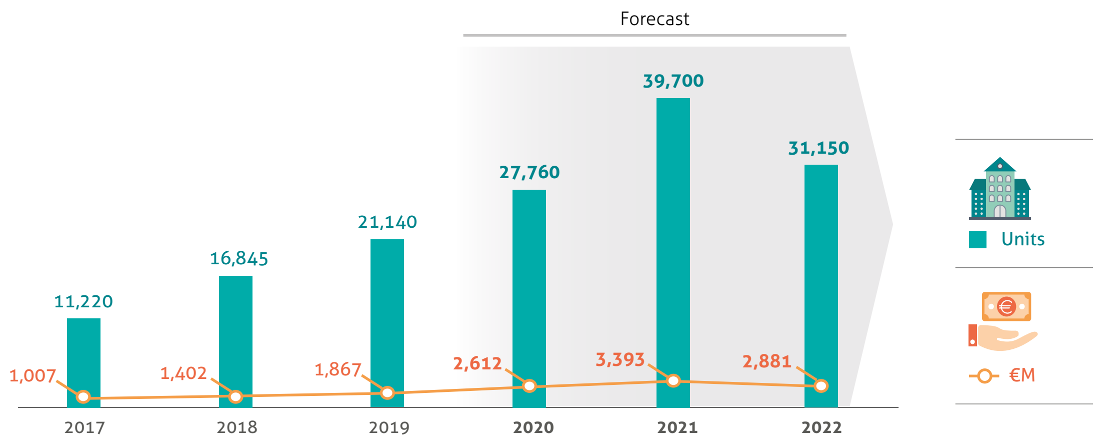
Insolvency proceedings

In cases in which the borrower is the subject of insolvency proceedings, Sareb collaborates with them or with the insolvency administrator to come to a solution.

Foreclosure proceedings

If such collaboration is not possible, the debt will be claimed through legal action.

1. Record of conversions and perspectives in the future (units and €M)



More information on the conversion of the balance sheet in
Management and sale of real estate assets and Management and sale of loans

AN INTERNATIONAL PROJECTION

Since Sareb was created, different national and international institutions have been observing and studying the performance and evolution of its business. Furthermore, the company meets regularly with international authorities from various countries which are currently looking for formulas similar to the one applied in Spain for restoring the health of their financial systems.

Different institutions are observing and analysing the activity of the company

2015

- The International Monetary Fund (IMF) highlights Sareb's role as a catalyst in the development of a secondary domestic market for impaired assets[5].

2016

- The European Commission has made reference to the role of Sareb in the resolution of the financial crisis in Spain, thanks to being rapidly created and put into operation, and to its agility to divest assets, which has contributed to the recovery and reactivation of the real estate market[6].

2017

- Representatives of the Vietnam National Bank visit Sareb's offices for a first-hand view of the company model and how it works.
- The International Monetary Fund recognises the effective approach of Sareb's management and the advances in the divestment and repayment of debt.
- The Economic and Financial Affairs Council of the European Union (ECOFIN) decides on the definition of a common framework for the creation of asset management companies in the Eurozone, following the example of Sareb, amongst others.
- Sareb meets with representatives of the BAMC[7], the bank asset management company of Slovenia and other institutions in the country, to share experiences and analyse the perspectives for both entities in the future.

2018

- Sareb meets members of the Parliamentary Standing Economic Committee and the Central Bank of Mongolia to explain its model.
- The company also participates in a work session in Kazakhstan – promoted by the World Bank– where it explains the management model for non-performing loans.

2019

- Kazakhstan continues to be interested in the Sareb's management model and visited Spain to learn the details of how the company was designed and created.
- Sareb sets out the Spanish experience in managing non-performing loans, in an event organised by the World Bank and the European Bank for Reconstruction and Development in Turkey.
- The European Commission echoes Sareb's strategy for maximising the value of its assets, although it thinks its implementation should be closely monitored.

More information on International reference
https://www.sareb.es/en_US/about-us/international-references

[5] A strategy for resolving Europe's Problem Loans.
[6] Evaluation of the Financial Sector Assistance Programme. Spain 2012-2014 and What makes a good 'bad bank'? The Irish, Spanish and German Experience.
[7] Slovenia's Bank Asset Management Company (BAMC)

BEYOND OUR MANDATE: A VISION FOR THE FUTURE

Sareb's activity contributes to the growth and progress of the real estate sector

Sareb's activity is focused towards the fulfilment of its assignment to divest but, at the same time, it implements innovative initiatives that enable it to contribute to the progress and the growth of the sector and to undertake its mandate in the most efficient way.

Decision-making is based on a medium and long-term vision that allows the company to increase the value of its assets. To this end, Sareb develops different projects that will allow it to increase margins in the future, even though this involves current investment and containment of income, with the consequent impact on short-term results.

Value-adding projects based on specialisation

Esparta Project

With the imminent expiry of the contracts with the servicers defined in the Íbero Project, the company has approved a new management model based on a geographical structure, selection of specialist managers, the direct management of certain activities and the centralisation of information on assets.

page 32

Arqura Homes: specialisation in property development

Arqura Homes is a Bank Assets Fund (FAB) created in 2019 to which the company has transferred land, works in progress and unfinished property development projects, which will enable 17,368 properties to be built and put on the market.

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Témpore Properties

In 2017, Sareb promoted the creation of a REIT specialising in the rental of residential real estate assets, in order to accelerate the divestment rate of its portfolio. In 2019 the company sold 75% of its holding in that business to TPG Real Estate Partners.

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8 DECENT WORK AND ECONOMIC GROWTH

Sareb's contribution to the United Nations 2030 Agenda

The development of innovative initiatives used in its sector of activity has contributed to goal 8.2 of the United Nations 2030 Agenda, which seeks to **"achieve higher economic productivity levels through diversification, technological upgrading and innovation, amongst other things, focussing on the sectors with high added value and which are labour-intensive"**.

Initiatives for stimulating the real estate market and innovation in loan and real estate management

Geographical branch offices

One of the pillars of the Esparta Project is the creation and setting up of geographical branch offices to strengthen the knowledge on the local markets, be able to adapt to the demand of each area and be closer to both customers and borrowers.

page 33

Sales Growth Plans (SGP)

The Sales Growth Plans are initiatives with Sareb debtors for them to sell properties which are set up as collateral for their loans and in this way obtain the liquidity necessary to reduce their debt to the company.

page 62

Online channel for the sale of loans

In order to bring greater visibility, momentum and transparency to the market for sales of non-performing loans (NPL), the company has been pioneer in launching an online channel for the sale of loans.

page 61

'visítame'

visitame

This tool launched by Sareb as pilot project enables potential buyers of real estate to independently arrange visits to the properties from their mobile devices.

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Contribution to the progress and social and economic development

Collaboration with the Public Administration and agreements for stimulating regional economies

At the same time as its divestment activity, Sareb demonstrates its willingness to contribute to stimulating the regional economies by signing agreements with Public Administrations to boost social and economic development and respond to the planning requirements of each region.

pages 20 and 54

Sareb's contribution to sustainable development: focussing action on a positive impact, in line with the 2030 Agenda.

After the expiry of the Corporate Social Responsibility Plan for 2017–2019, in 2020 the company is already working on defining a new Strategic Sustainability Plan for the period 2020–2023.

The lines of action for the coming years continue taking into account the reality of the context in which Sareb operates and seek to direct the activities of the company toward a positive impact that will extend beyond its useful life. All of which, in line with the Objectives of Sustainable Development, and specifically with the goals and targets in which the company has the greatest potential for contribution.

SOCIAL FOOTPRINT

Collaboration with public administrations

In 2019, Sareb concluded its first operation with an Administration for the sale of properties intended for social purposes, while at the same time continuing to broaden the spectrum of agreements for the temporary assignment of properties to be used for vulnerable groups of people

Over and above the commitment assumed by Sareb for complying with the mandate it was given, the company demonstrated its social vocation by responding to the housing needs of groups at risk of exclusion in Spain.

In 2013, Sareb set up a social pool that included 2,000 properties, increasing to 4,000 in 2015. The pool of properties intended for social purposes currently stands at 10,000 properties, after the Board of Directors of Sareb approved extending it in February 2020, with the intention of encouraging the assignment of properties over to the Town Councils of small-sized municipalities with housing problems.

In its first seven years of activity, the company has signed agreements with 12 autonomous regions and 12 town councils for assignment of social housing.

During the year, agreements were signed with the Region of Valencia and with the Town Councils of Almoradí, Santander, Badalona, Cordoba and Vilafranca del Penedès, making a total of 85 properties assigned. These agreements and those already reached with other administrations are benefiting 9,180[8] people.

Furthermore, in 2019 the company concluded the first sale of a property for social purposes with a public administration. This is an agreement reached with the Town Council of Badalona for the transfer of two properties that had been temporarily assigned for addressing emergency housing situations. In February 2020, the company did the same with the Basque Government to whom it sold 9 properties through the public rentals agency, Alokabide.

Once the temporary assignment agreements expire, Sareb offers the Public Administrations the possibility of acquiring those properties so that they can become part of their pool of properties intended for social purposes

Sareb's contribution to the United Nations 2030 Agenda

Sareb's assignment of real estate enables the company to respond to housing needs in Spain and demonstrates its voluntary commitment to goals 10.2 and 11.1 of the of the United Nations 2030 Agenda which aim to **"empower and promote the social, economic and political inclusion of all"** and **"ensure access for all to adequate, safe and affordable housing and basic services and to improve the marginalised neighbourhoods"**, respectively.

[8] Estimate calculated for an average of four people per family unit.

Programmes for access to social housing

Assignment of social housing

Temporary assignment of properties to groups at risk of social exclusion.

Aid in situation of social emergency

Temporary assignment of the use of properties to groups who are in exceptional circumstances.

Alternative affordable rentals

In collaboration with the social services, it is proposed as an alternative housing solution for families who are socially vulnerable.

Social housing and beneficiaries of the initiatives

10,000[10]
Pool of properties intended for social purposes

2,295[11]
Properties used for rented social housing

9,180[9]
People benefiting from the social housing programmes with autonomous regions and town councils

1,244[9]
People benefiting from agreements with Sareb itself for assignment of properties

9 **Agreements with autonomous regions**
No. of properties

- Andalusia 400
- Canary Islands 50
- Cantabria 40
- Castile and Leon 100
- Catalonia 930
- Region of Valencia 30
- Extremadura 45
- Galicia 50
- Basque Country 10

3 **Expired agreements**
No. of properties

- Chartered Community of Navarre 30
- Aragón 80
- Balearic Islands 75

11 **Agreements with Town Councils**
No. of properties

- Almoradí 15
- Barcelona 200
- Madrid 300
- S. S. de los Reyes 9
- Malaga 6
- Seville 15
- L'Hospitalet de Llobregat 50
- Elche 7
- Santander 6
- Cordoba 17
- Vilafranca del Penedès 15

1 **Expired agreements**
No. of properties

- Badalona 2

(sold to Town Council)

[9] Estimate calculated for an average of four people per family unit (311 case files).

[10] The increase of the pool of social housing units to 10,000 properties was announced in March 2020.

[11] Not including properties subject to agreements expiring in 2019: Navarra (30), Aragón (80), Balearic Islands (75) and Town Council of Badalona (2).

Sareb's contribution to the United Nations 2030 Agenda

The implementation of collaboration agreements with Autonomous Regions and Town Councils on matters of social housing, and the partnerships with the civil society for creating jobs, are Sareb's contribution to goal 17.17 of the United Nations 2030 Agenda: **"to foster and promote the creation of effective alliances in the public and public-private spheres and civil society, making the most of experience and the strategies for obtaining resources from those alliances".**

Creation of employment with social value

To improve the job opportunities and quality of life of people living in Sareb's rented social housing, the company develops initiatives aimed at improving their employability and integration into society.

In 2019, in collaboration with the Integra Foundation, Sareb developed the second edition of the programme 'Building future: jobs with social value'. This programme makes available to people in a vulnerable situation the social and employment tools that they need for being able to enter the employment market through sessions of technical and motivational training given by volunteers of Sareb.

28
Volunteers from Sareb have undertaken to give workshops

25
Participants in vulnerable circumstances have received counselling

6
Participants in the programme **have found work**

The company has also renewed the agreement with this foundation for implementing a new scheme to improve access to employment for 30 people benefiting from Sareb's social housing programme.

Sareb's contribution to the United Nations 2030 Agenda

Through the "Building future: jobs with social value" job creation programme, the company aims to contribute to goal 8.3 of the United Nations 2030 Agenda which seeks to **"promote policies aimed at development supporting the production activities, the creation of decent jobs, enterprise, creativity and innovation, and to boost the formalisation and growth of microenterprises and small and medium businesses, by also facilitating access to financial services".**

Picture: Marketing of a Sareb residential property development in the Vallecas district (Region of Madrid).

'Sareb Ambassadors': transparency and raising awareness in the classrooms

This initiative aims at making younger people more aware of how the company operates and its raison d'être, its values and the commitments undertaken for contributing to the growth of the financial and real estate sector and to providing a solution to the lack of social housing in Spain. To do so, the company has a group of employees who voluntarily give these talks in different education centres around Spain.

Figures for 'Sareb Ambassadors' in the last academic year

66 Talks
...given by

30 Sareb
...employees

...in **50 schools**

...to **2,354 students**

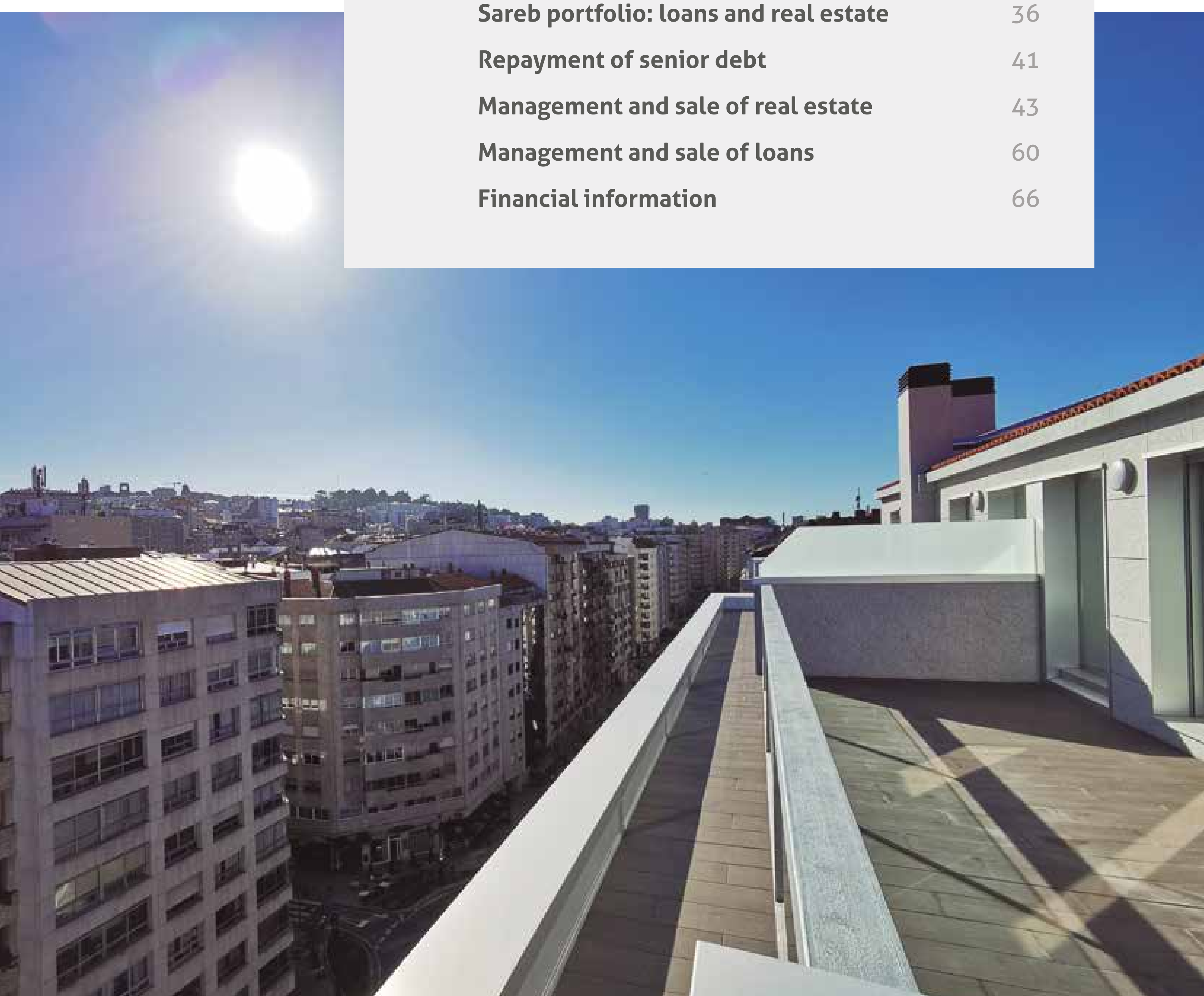
4 QUALITY EDUCATION

Sareb's contribution to the United Nations 2030 Agenda

The training workshops given by Sareb volunteers at the Strengthening Schools and the programme 'Sareb Ambassadors' respond to goal 4.4 of the United Nations 2030 Agenda: **"to substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship".**

Picture: Apartments in the Hacienda del Alamo Golf & Resort complex, in Fuente Álamo (Murcia).

3. OUR BUSINESS



Picture: Views from the first property development finished by Arqura Homes. The building is situated in Rúa Rosalía de Castro, Vigo (Galicia).

MAIN FIGURES

Advances for the fulfilment of our mandate

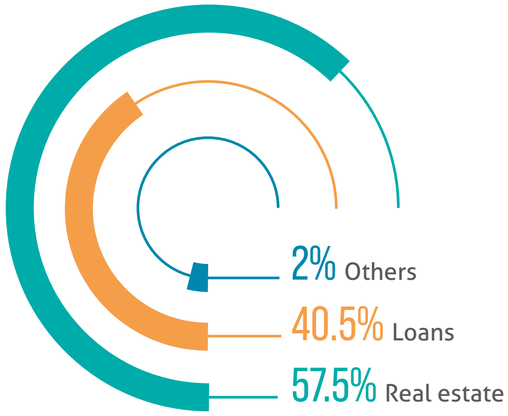
TOTAL INCOME

€2,307.7[12] M (2019)

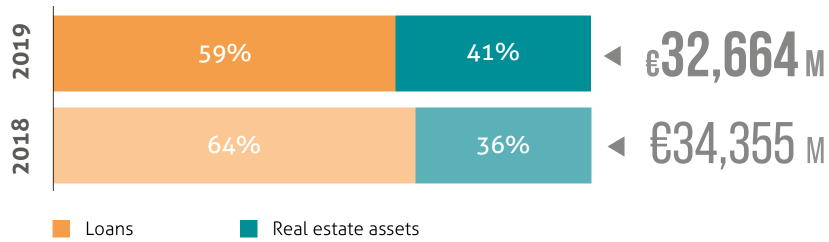
(-34.1% vs 2018)

€3,501 M[13] (2018)

PER TYPE (% of €M)



PORTFOLIO OF ASSETS



-4.9%

(vs 2018)

BALANCE OF OUTSTANDING DEBT

* Balance of outstanding debt at the end of 2019 after including €293.3 M corresponding to the cash generated in 2019 and €10.7 M corresponding to the escrow account for 2018, repaid in February 2020.

-2.3%

(vs 2018)

[12] Includes other income for the amount of €46 M.

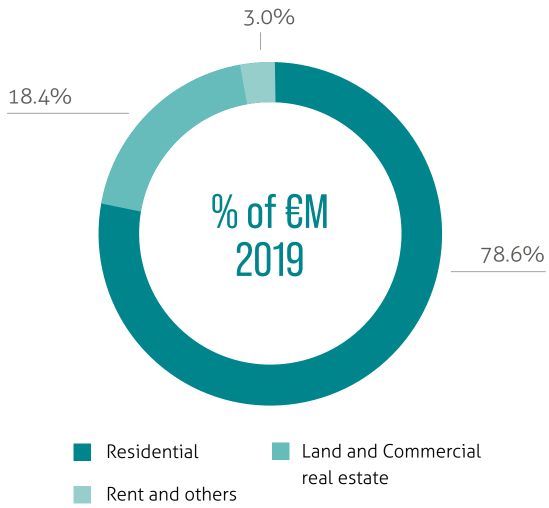
[13] The volume of income for 2018 differs from the figures given for that year because it does not include the transfer of assets to Témpore Properties at the end of 2018, within the framework of the ROFO (right of first offer) agreement signed between Sareb and the REIT. That income is included in 2019.

[14] The Annual Activity Report for 2018 reflected €35,761 M by taking into consideration €169 M corresponding to the escrow account for 2018 which was finally repaid between 2019 and 2020.

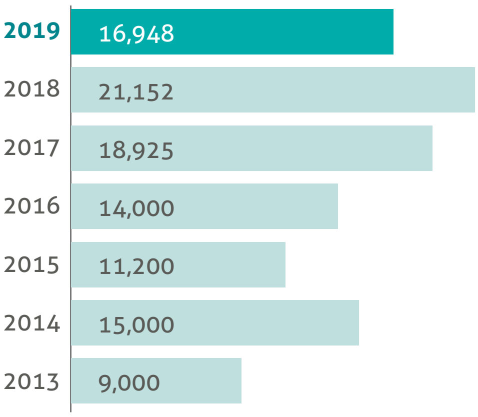
REAL ESTATE ASSETS

Income from real estate assets

€1,327.7 M (2019)
(+4.5% vs 2018)
€1,270.2 M[15] (2018)



Real estate assets sold (units)



16,948
PROPERTIES SOLD IN 2019

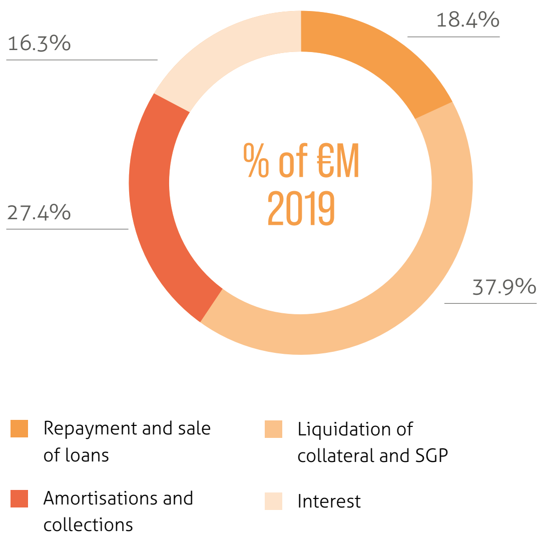
Units own sales
13,275

Agreements with developers
3,673

LOANS

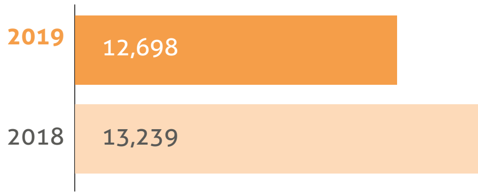
Income from loans

€934.1 M (2019)
(-57.7% vs 2018)
€2,207.8 M (2018)



Loans

Number of debtors
-4.1%
(vs 2018)



6,755
PROPOSALS MANAGED IN 2019

-44.1 (vs 2018)

[15] The volume of income from real estate in 2018 differs from the figures given for that year because it does not include the transfer of assets to Témpore Properties at the end of 2018, within the framework of the ROFO agreement signed between Sareb and the REIT. That income is included in 2019.

EVOLUTION OF THE BUSINESS PLAN

Sareb reviews its Business Plan every year

2019 was characterised by the company's progress in meeting the objectives established in the 2019-2027 Business Plan and both an evolution of the market and a view of the future which were less optimistic than expected in the context of the preparation of that Plan.

In 2019 Sareb followed its Business Plan in respect of both total income and margin, and also in EBITDA[16] and net income/(loss). However, there have been changes in the composition of the business compared to what was expected due to inertia and to following the previous loan strategy in the early months of 2019 and also due to the operating and market difficulties encountered for attaining the targets set for the real estate side of the business.

The 2019-2027 Business Plan, approved at the beginning of the year, envisaged the company strategically withdrawing from the market for sales of Non-Performing Loans (NPL) as a result of the discounts demanded on that market and which Sareb, seeking to maximise the value of its portfolio, could not and should not assume. In this context a drastic reduction of more than 74% was envisaged in the level of activity in this business line and, parallelly, an intensification of the strategy for converting loans, in order to bring the underlying collateral properties into the Sareb portfolio and then market and sell them through the retail channel.

The reduction of activity in the sale of loans was not so marked as had been expected, for two reasons. Firstly, the company's inertia in the approval of transactions

Picture: Sareb apartment building development in the centre of Madrid.

[16] Earnings before interest, tax, depreciation and amortisation.

during the months prior to that strategic reflection at the beginning of the year created a business volume in loans that rivalled the forecast for the whole year. Secondly, by reducing the budgetary pressure for that business line, the company has had the opportunity to make a more rigorous selection of any possible transactions without having to assume major discounts on the internal valuation of the assets.

From the real estate side, the positive evolution of the market has been somewhat less than expected in terms of volume, with much more moderate price increases compared to previous years. Specifically, the average upswing of prices in Spain in 2019 was 2.1%[17], and although the figures continue to be asymmetric between regions, we are beginning to see signs of of burn-out in some of the areas that had recorded the highest increases in the past. During the year now ended, transactions for free-market housing at national level went down to 544,800 units.

During the year, some market players -mainly international investment funds and often REITs and development companies backed by them- have continued to be highly prominent by becoming the holders of large portfolios of real estate intended for retail sale. The volume of assets handled directly by the investment funds already stands at over €80,000 M and it is expected that they will implement an aggressive strategy in areas where their product is comparable to that of Sareb -for example, on the outskirts of major cities or on the coast- due to the low price they paid for their assets. Although the large volume of transactions between private individuals will continue to set the tone for prices, this competition with the investment funds has an adverse effect in terms of the turnover rate for Sareb. The strategies adopted by the REITs and the development companies are less competitive, although they will also give rise to certain local competition to Sareb's development activity.

Fulfilment of the Business Plan in 2019

In that context, at the end of June of 2019 the degree of compliance of the general objectives of the Business Plan stood at 106% from the perspective of income, and at 122% in respect of business margins.

During the year, there has been a considerable increase in the process of converting loans into real estate assets. The volume of financial assets converted into real estate assets has grown by 33% year-on-year, reaching €1,867 M; this means the estimated conversion of the balance sheet has been met to a degree of 102%. The positive effects of the mass litigation process in respect of the portfolio of loans where there is no collaboration from the borrowers -started in mid 2017- were materialised in 2019. Nevertheless, the most important channel for conversion continues to be through agreements for dation in payment, ahead of mortgage foreclosures and insolvency proceedings. With this, the company has more capacity for controlling the flow of conversion -and the subsequent process of legal and technical reorganisation of the assets-, to the point of being able to accelerate it through court actions and with dations as a tool.

In the real estate side of the business, the degree of progress during the year was less than expected, meeting 82% of the target for income and 90% in net margin, in spite of the fact that 2019 is the first year in which the income from real estate -57% of the total- is greater than the income from financial assets.

The geographical concentration of Sareb sales is in line with Business Plan projections, and is lower in market areas showing growth than in the market as a whole. This is the reflection of Sareb's efforts for not letting itself be carried away by the inertia of a very asymmetric market and for looking for a divestment strategy consistent with the characteristics of its portfolio. In this respect, special mention is made of the implementation of marketing plans in difficult areas, those where Sareb has a large number of products and the turnover level of the portfolio is very low. In 2019 those plans have generated sales totalling €38 M and have helped to the significant growth of the marketing of finished residential product in those locations.

[17] Data from the Ministry of Transport, Mobility and Urban Agenda (2020).

The loans side has exceeded expectations, with fulfilment levels at 166% for income and 124% in terms of net margin. In this segment, the intensification of two phenomena is especially relevant. The first one involves contractual repayments without reductions, and interest payments -coming from Sareb's best quality portfolio-, that fall from year to year, affecting equally the repayment and the maturity of those loans. Consequently, the annual reduction for these items stands at €68 M for revenue and €42 M for margin. The second is related to many of the bankruptcy procedures which affect Sareb's major borrowers entering their final phase, while the award and sale of the associated collateral properties takes place at a slower rate than was expected.

Keys to the 2020-2027 Business Plan

The 2020-2027 Business Plan, approved at the beginning of this year before the outbreak of the Covid-19 health crisis in Spain, reflected continuity with the strategy implemented in 2019 by Sareb, with especial emphasis on the details of the activity of the first three years (2020-2022). In this respect, the priority continued to be the preservation of the financial value of company assets and taking into consideration a certain slowdown of real estate activity regarding volume and price. The main conclusion was the need to continue with the strategy, adapting the volumes of divestment of each channel to the actual conditions of each market.

Sareb took last year's experience as the basis for determining the importance of being better able to cope with the anticipated operating needs of each strategy and the desirability of an intensive use of dations in payment to be able to offset the slower pace of the mortgage foreclosure and insolvency procedures.

And also the streamlining of company expenditure has already been put forward as an objective for Sareb to pursue relentlessly.

Picture: Sareb apartment building in Arganda del Rey, Madrid (Region of Madrid).

The same as for the economy as a whole and for the growth forecasts at worldwide and domestic level, the impact of Covid-19 has for the time being caused any predictions made by Sareb on the evolution of the real estate market for the preparation of its Business Plan to be rendered ineffective. While this circumstance should not affect the essence of the strategy contained in the Plan as regards optimising the value of the assets –firmly based on the legal mandates received by Sareb since its inception-, it would however have a strong impact, and difficult to predict, on how it should be implemented.

More information on Market and trends for the sector

The basic pillars of the company's strategy will be valid for both 2020 and the years to come, and take the following aspects into account:

Creation of market value for assets

- Creation of value through investment: using new developments on Sareb-owned land and on land which currently appears as collateral for loans but which in the future will form part of the Sareb balance sheet. This segment includes Arqura Homes, and also the urban development of land in the company portfolio or conditioning the residential product to the demands of the most demanding customers.
- Increase of the value with a specialist, differential management: the creation of the REIT Témpore Properties is an example of a portfolio for rental properties that has gained in value with this type of management. Here there are also single items of commercial assets that require specialist management and aggressive commercial repositioning.
- Recovery of value that is additional to the value of the loan collaterals (RAC): This is complex to obtain and requires managing the properties over a period of time for achieving the status where they are unencumbered by charges on the borrowers or from the guarantors or bondsmen or pledges of other assets.

Opting for the conversion process

- Creation of value through conversion: this takes place in the case of loans where the recovery capacity is focussed on taking control of the collateral properties, reorganising of their status, publicising and then selling them on the retail market in the form of assets that are more liquid and easier to sell.

Streamlining the company's expenditure

- Implementation of a new relationship model with the servicers, based on greater control of information and specialisation.
- Unification of services provided by the different suppliers, simplification of the foreclosure process, and identification of operational synergies that will result in improved economic conditions for contracting.
- Review of all sources of expenditure to identify areas for improvement.

Opportunities resulting from the change of model

One of the greatest opportunities for the company in 2019 has been the change in the relationship model with its servicers. Sareb now has a stronger negotiating position with its sales managers as a result of greater control of information and of the essential documentation for its assets, which enables it to not have to condition future changes of model or the replacement of sales managers who do not achieve optimum performance levels to the difficulties in migrating assets between platforms.

The new model designed, which seeks to improve effectiveness in the management of the Sareb portfolio and in the remuneration of servicers and suppliers, is based on three basic premises: the flexibility and autonomy provided by control of information in Sareb's IT systems; the need for the different activities within the chain of value to be carried out by providers specialising in those services -with individual contracts and incentives adapted to each activity-; and the importance of proximity to the geographical area and the assets.

The backup provided by the geographical branch offices set up by Sareb in 2019 will result in better knowledge of the portfolio and greater control of the activities and suppliers involved in the portfolio.

What are the risks that could affect Sareb's Business Plan?

Over and above the risks pertinent to the market and business activity that could arise in normal situations, the health crisis caused by Covid-19 has become the major risk that Sareb is facing in 2020 and subsequent years.

The slowdown in production encountered at the time of publishing this report will have a sharp impact on Sareb's business and value chain in 2020, which will give rise to deviations from the previsions in its Business Plan.

A direct impact is expected on the output of the production sectors that have ceased in their activity, as in the case of real estate and construction, and also in commerce, hotel and catering, tourism, transport and education. That first impact is being seen simultaneously in the demand, as both private consumption and investments in tourism are very restricted.

Buying a property is an important investment decision which is conditioned by the expectations for the future -whether for an individual buying a home, for a company purchasing offices or hotels, or for a developer needing land. In this respect, it is to be expected that many potential buyers will postpone their decisions to buy until a time when the current uncertainties begin to clear. In this context, and coinciding with a year of sharp recession for the Spanish economy, the prospects for the real estate market indicate a decline to historic minimums in the volume of transactions, with the consequent effect on prices.

The real estate assets most affected will be holiday homes on the coast and/or golf, properties requiring an investment of several years for returns -such as the case of land-, and the sales of loans with property as collateral. In the same vein, at the moment there is no way of knowing if this situation will have a lasting effect on the cultural pattern of using tertiary properties as offices, hotels or shopping centres.

There is also another risk for the company as regards the potential price aggressiveness of the large investment funds, if they opt for a rapid outlet for their investments by lowering prices.

Sareb is currently working from a dual perspective which addresses how to respond to the situation and the strategies to be implemented in order to mitigate its effects. There is no doubt that, in the short term, the company continues with its priority of safeguarding the health of its employees, and maintaining the relationships of cooperation with the public administration, the servicers and other providers with which it is working.

At the same time, Sareb is including in its analyses the impacts of the crisis on its business and on its potential customers, and it is also involved in drawing up a plan to reactivate its activity once the situation has normalised.

Esparta Project

In 2014, Sareb launched the Íbero Project, which concluded with the hiring of Haya Real Estate, Solvia, Altamira Asset Management and Servihabitat as servicers responsible for the management and marketing of almost the entire Sareb portfolio.

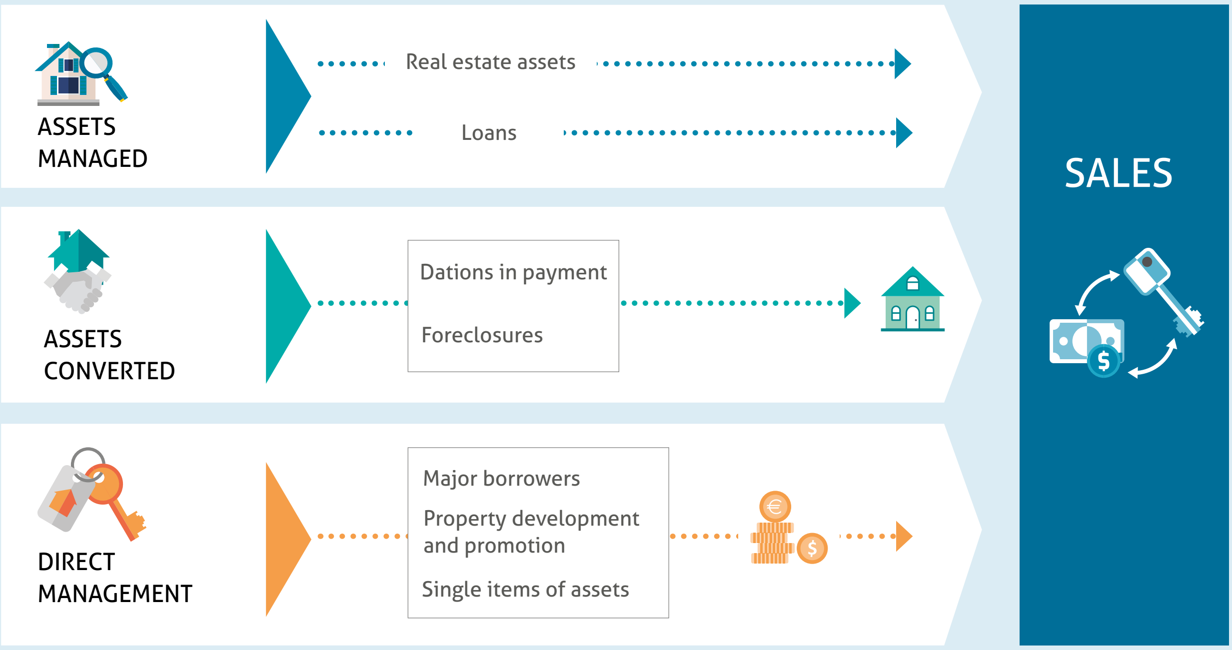
In the intervening period, the servicing market has evolved. Operators have undergone significant changes and new players have appeared. At the same time, Sareb has gained experience and knowledge to improve its efficiency in managing its assets.

In this context, and before the expiry of the current contracts, the company has studied alternatives to improve efficiency in remunerating its providers and the agility of its portfolio management. This analysis has allowed the company to determine three fundamental pillars on which the new approach is based:

- Manager specialisation in certain activities and the development of different functions from Sareb.
- Centralised information about Sareb assets to enable any operator to manage this information with greater flexibility.
- Geographical management of the portfolio, with the creation of five branch offices.

In 2019, the Board of Directors of Sareb has approved this project and the company has advanced in the definition of an organisational structure consistent with the Esparta pillars, and in incorporating and introducing it –progressively and in an orderly manner– into the dynamics of the company.

Along these lines, the company has worked on developing different technological tools that will enable it to guarantee the management of the portfolio consistent with Esparta.



Geographical branch offices

One of the pillars of the Esparta Project is the creation and setting up of geographical branch offices to strengthen the knowledge on the local markets, be able to adapt to the demand of each area and be closer to both customers and borrowers.

In 2019, Sareb defined its geographical structure, which includes five branch offices, creating the teams of professionals forming part of that structure. Also during the year the Geographical Branch Office East began operating, while the other four began operating in January of 2020.

By putting this relationship model into operation, Sareb has reviewed and distributed the internal responsibilities for facilitating management and avoiding possible conflicts and overlapping.

Geographical Branch Office Centre
Madrid / Castile La Mancha / Castile and Leon

Geographical Branch Office East
Region of Valencia / Region of Murcia

Geographical Branch Office North-East
Catalonia / Aragón / Balearic Islands

Geographical Branch Office North-West
Galicia / Asturias / Cantabria / Basque Country / Chartered Community of Navarre / La Rioja

Geographical Branch Office South
Andalusia / Extremadura / Canary Islands / Ceuta / Melilla

More information on Management and sale of real estate, management and sale of loans and human assets

THE MARKET AND TRENDS FOR THE SECTOR

In 2019, the economy continued to grow moderately, similar to growth seen since the end of 2017. The GDP at the end of year went up 1.8 % on the previous year, according to the National Institute of Statistics, with domestic consumption as the main driver, although foreign demand has gained weight in the past year.

New challenges on the horizon ...

Demographic and social change

- By 2027, Spain will have a population of over 48 million. More than a quarter will be over the age of 65 according to the National Institute of Statistics (INE). There is also a trend towards smaller families and households: single-parent families, singles, people living alone...
- The effects of the SARS-CoV-2 virus could bring about changes in the daily lives of people and the organisation of society.

Infrastructure resilient to climate change

- Investment in low-carbon infrastructure, combined with structural improvements, could increase the world GDP by up to 5% by 2050, while at the same time reducing CO_2 emissions and mitigating the risks associated to extreme weather events (OECD).
- The Spanish Law on Climate Change and Energy Transition -currently going through Parliament- includes articles referring to adaptation of buildings to climate change.

Smart, interconnected cities

- The market for smart cities will increase to 1.29 billion in 2020 (Bank of America Merrill Lynch).
- The incorporation of technology seeks to improve the efficiency and conditions for city living.

New models of residential property

- The emergence of new models for living together, such as co-living –shared living spaces– becomes more relevant and is a boost for the market for these properties.

Energy efficiency in buildings

- Buildings consume 40% of the energy used in the European Union (EU).
- In line with the Paris Agreement, the EU has established an indicative target for improving energy efficiency by at least 27% for 2030.
- The Green Deal brought forward by the European Commission refers to the need for European countries to make more efficient and sustainable use of their real estate portfolio and future developments.

However, the forecasts for 2020 and subsequent years were based on the behaviour displayed by the economy prior to the Covid-19 health crisis, and its final impact on the economy and in the real estate sector is yet to be determined.

... with an impact on the real estate market

Innovation applied to the real estate business

- The use of technology such as virtual reality, artificial intelligence, internet of things and big data, is transforming how the sector operates.
- The new business models revolve around PropTech solutions, smart properties and providing services related to data management.

Changes in the model: from owning to renting

- In Spain the option of buying a home rather than renting continues to predominate, but since 2007 there has been a 4-point increase in the proportion of families living in rented property, which stood at 18% in 2018, according to the latest 'National survey on living conditions' published by the National Institute of Statistics in 2019.

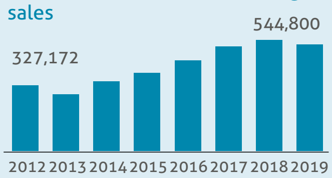
Major upturns in:

▲ Region of Madrid ▲ Balearic Islands
▲ Chartered Community of Navarre ▲ Canary Islands

Homes and plots of land: transactions in line with previous years

- 568,180 residential properties were sold[18], 2.5% less than in 2018. The declared price went up 2.1% year-on-year, reaching €1,653/m².
- After three years of upward trend, land sales in 2019 went down by 13% compared to 2018, with a total of 19,047 units sold.

No. of total free-market housing sales



Source: Ministry of Transport, Mobility and Urban Agenda

No. of total sales of land

Source: Ministry of Transport, Mobility and Urban Agenda

Homes
€1,653/m²
Average price at the end of 2019

Land
€157/m²
Average price in 2019

Non-residential property market: offices, commercial premises, shopping centres, industrial and logistics-related properties

- The market for office space reached an historic maximum in 2019 and continues to be the most attractive product in this segment.
- The retail sector and the industrial market are undergoing changes to adapt to the new reality of the market in which e-commerce is advancing.

Sale of loans: a market characterised by competition

- The sale of loans on the institutional market entails selling assets at significant discounts.
- The stock of NPLs in Spain stood at €61,500 M at the end of 2019 and the index for this type of loan is 3.4%, close to the European average of 2.9%. (Bank of Spain).

[18] Includes free-market housing and subsidised housing

SAREB PORTFOLIO: LOANS AND REAL ESTATE ASSETS

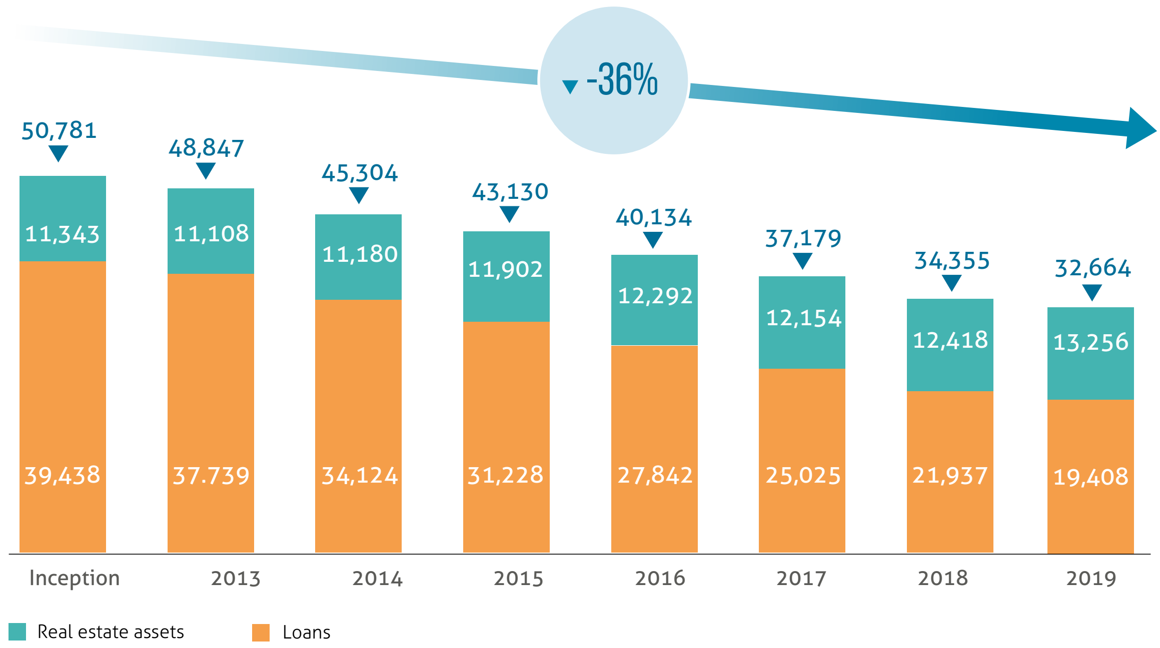
Sareb's asset portfolio has decreased by 36% since its inception

Sareb has continued working in the process of divesting its total portfolio of assets, which in 2019 went down by €1,691 M now standing at €32,664 M. Compared to the original starting portfolio of €50,781 M, this figure represents a reduction of 36%.

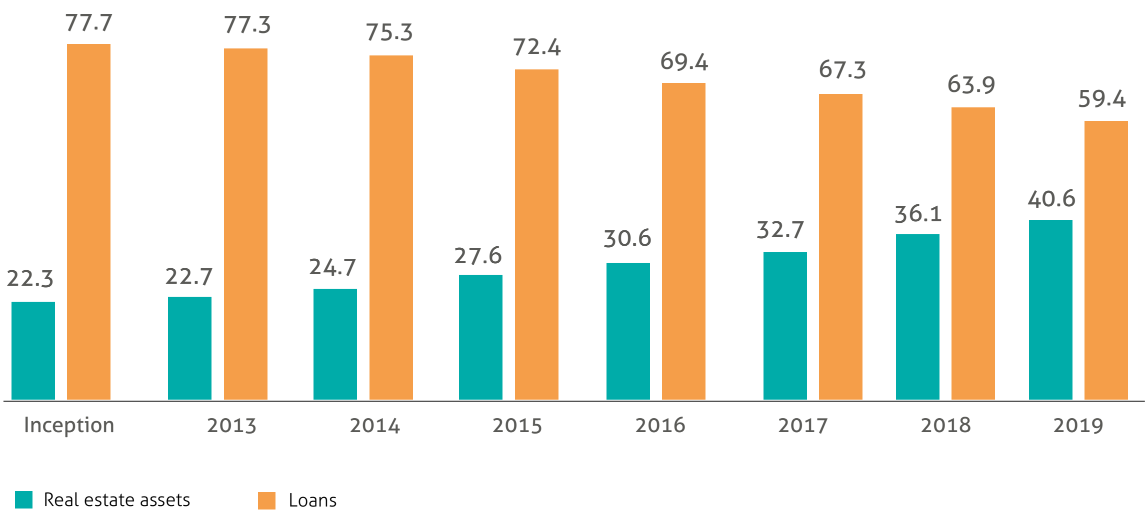
The volume of real estate on the balance sheet has gone up by 6.7% year-on-year in 2019 following the process of converting loans into real estate assets.

Picture: Residential property development in Yebes, Guadalajara (Castile-La Mancha).

3. Evolution of the portfolio (€M)[19]

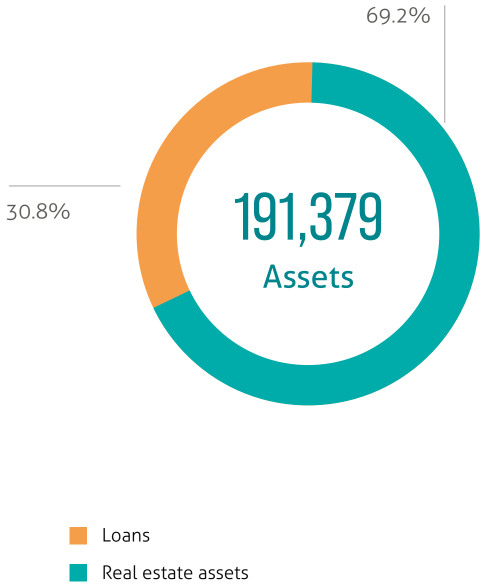


4. Composition of the portfolio (% of €M)

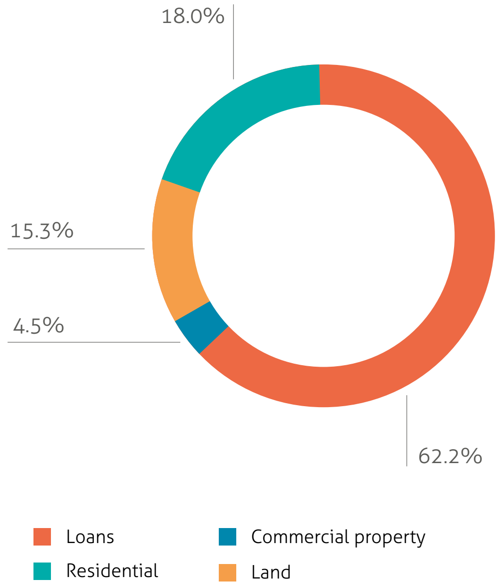


[19] Not taking into account amortisation/depreciation or impairment.

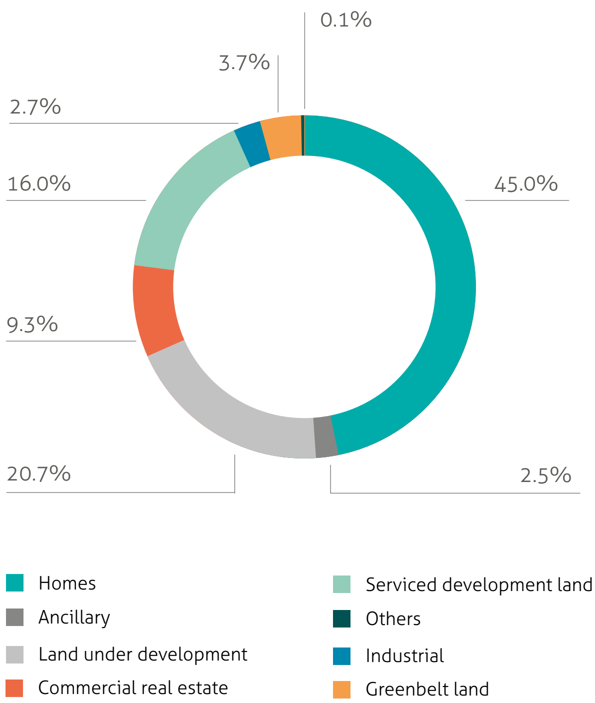
5. Composition of the portfolio (% of number of assets)



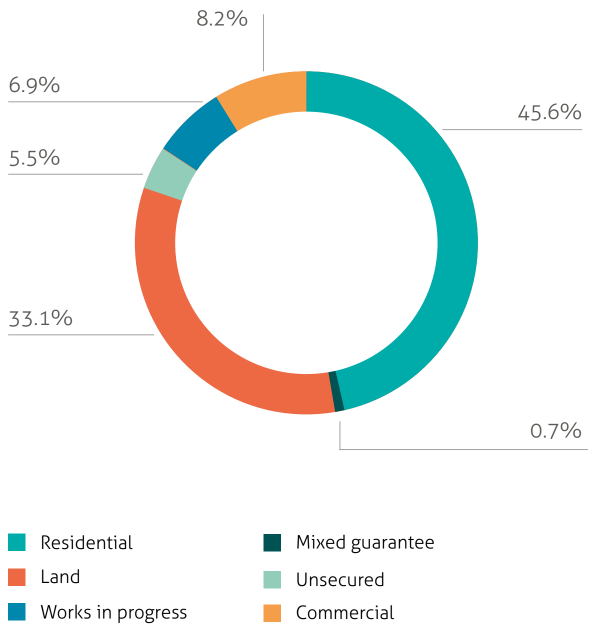
6. Breakdown per type of asset (% of €M)



7. Breakdown of real estate assets per type (% of €M - NBV[20])

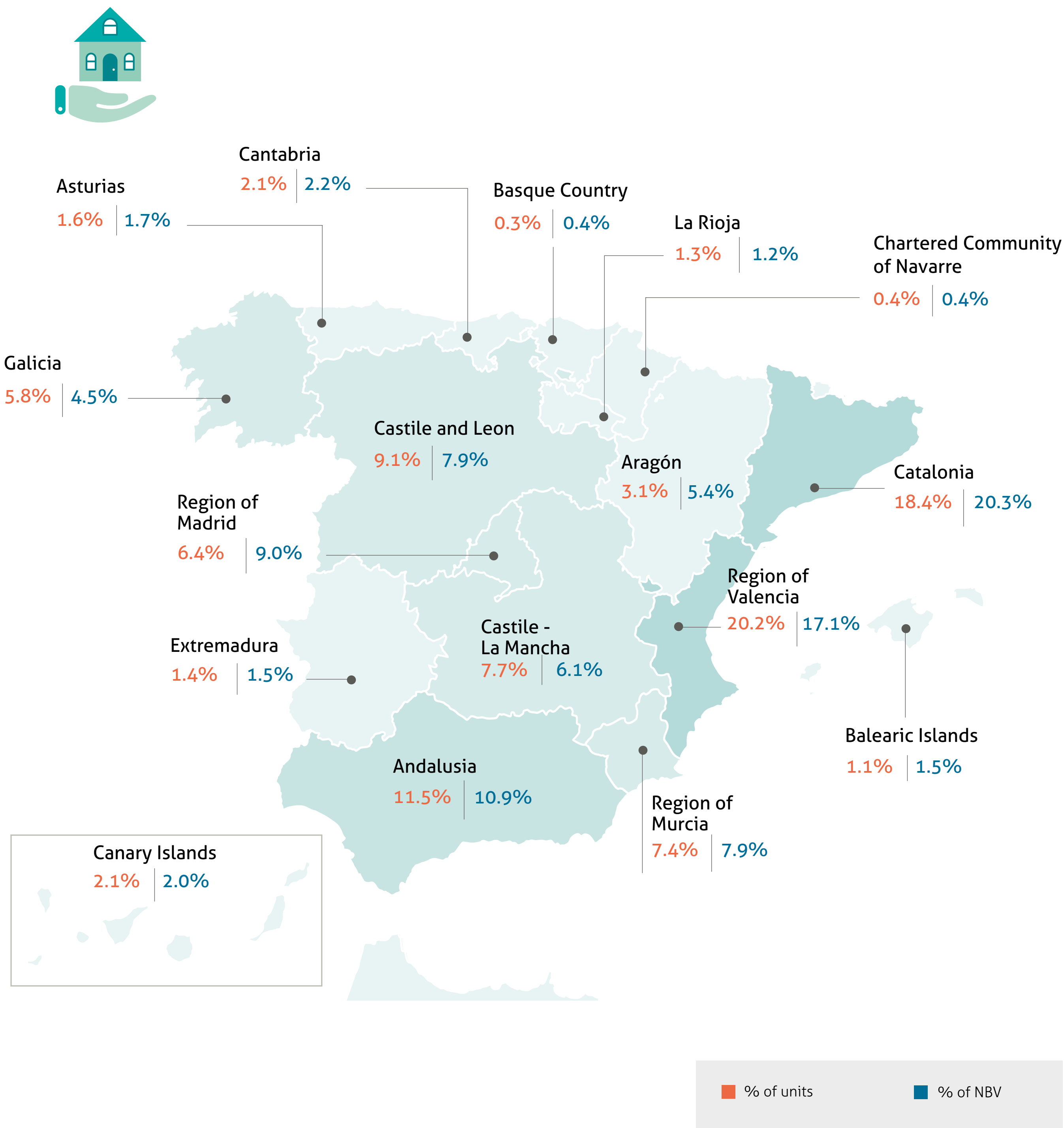


8. Breakdown of financial assets per type of guarantee (% of €M - NBV[20])



[20] Net Book Value.

9. Geographical breakdown of the real estate portfolio[21]
(% of units[22] and NBV[23])



[21] Does not include works in progress.

[22] Not reported: 0.1%.

[23] Net Book Value.

10. Geographical breakdown of loan portfolio[24] (% of €M based on NBV[25])

[24] 0.02% of loans are not assigned to a specific autonomous region.

[25] Net Book Value.

REPAYMENT OF SENIOR DEBT

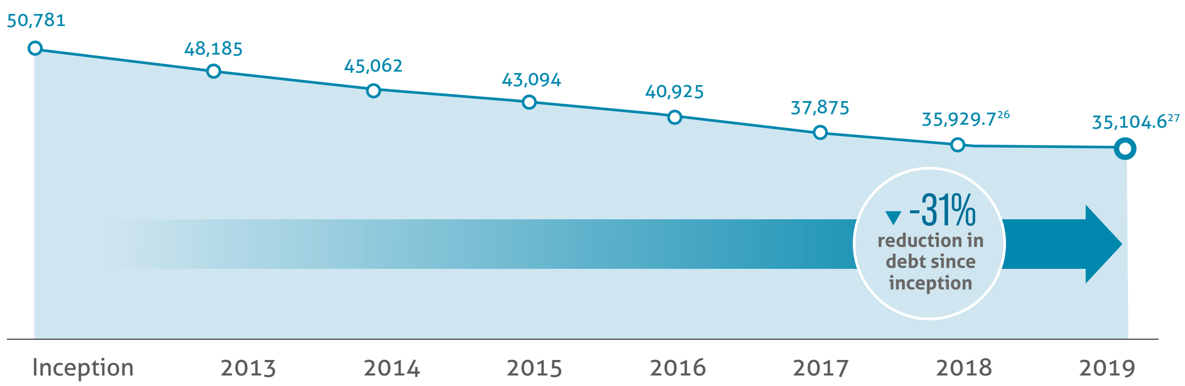
In its first seven years of activity, Sareb has repaid 31% of senior debt

Sareb focuses on generating income through the management and sale of loans and real estate to repay the debt issued when the company was set up and to pay the associated interest.

Since its creation, the company has reduced the amount of senior debt by €15,676 M, 31% of the total.

€825.1 M
of senior debt repaid and charged against 2019

11. Evolution of senior debt since the inception of Sareb (€M)



Charged against 2019, the company repaid €825.1 M of senior debt, a lower amount than in previous years as a result of the company obtaining less income in the year.
The repayment of debt charged against 2019 took place on five different occasions:

2019

May
€37.4 M* of the escrow account

June
€93.3 M* of the escrow account

July
€1.1 M corresponding to the rectification of an assets agreement[28]

December
€361.7 M of the cash generated in the year[29]
€27.6 M* of the escrow account

2020

February
€293.3 M from the cash generated in 2019 and which were repaid in February 2020[30]
€10.7 M* of the escrow account

* The breakdown of the repayment of €169 M from the escrow account is shown in grey, corresponding to 2018 and repaid between 2019 and 2020

[26] The Annual Activity Report for 2018 reflected €35,761 M by taking into consideration €169 M corresponding to the escrow account for 2018 which was finally repaid between 2019 and 2020.
[27] Includes €293.3 M corresponding to the cash generated in 2019 and €10.7 M corresponding to the escrow account for 2018 repaid in February 2020.
[28] This is an agreement in place with Bankia for the transfer of assets since December 2012.
[29] Corresponding to bonds of Group 1: BFA-Bankia, Catalunya Banc, NCG Banco-Banco Gallego and Banco de Valencia.
[30] Corresponding to bonds of Group 2: Liberbank, BMN, CEISS and Caja 3.

Interest paid, associated to Sareb's debt since its inception, stood at €5,388.1 M, of which €2,784.9 M went directly to the banks assigning the assets.

How is the debt repaid?

The repayment mechanism is based on applying the cash surplus pursuant to the cash protocol defined in Sareb's senior debt contract.

Under that mechanism, 92% of the cash generated is used entirely for the regular or early repayment of the debt on the corresponding amortisation date.

During the first five years of Sareb's life, the remaining 8% has been reserved in a deposit account as a guarantee or escrow account against possible management contingencies. At the end of that period, and after complying with one of the conditions established for their release, €1,058 M accumulated in that account and charged against 2017 and 2018 were repaid. Of that amount, €889 M related to the 2013-2017 period and €169 M to 2018. The escrow account for 2019 accumulated €57 M which will be repaid in coming years.

From now on, Sareb can use 100% of the cash surplus for the repayment of the debt, provided that the two conditions defined in the company's senior debt contract have been met.

Picture: Entrance to an apartment building developed by Sareb in the centre of Valencia (Region of Valencia).

MANAGEMENT AND SALE OF REAL ESTATE ASSETS

2019 is the first year in which real estate assets have been the main source of income for Sareb, 57% of the total

The momentum given to the conversion of loans into real estate has resulted in the management and sale of real estate assets becoming the main source of income in 2019 reaching a volume of €1,327.7 M. This figure represents 57.5% of the total income in the period[31], 21 percentage points more than in 2018[32].

During the year there has been a conservative growth in real estate. While the economic capacity of buyers and access to financing remain stable with regard to previous years, the political context during 2019, the new contracting terms in the mortgage market and the saturation of the offer in certain areas –with prices relatively higher than the demand– have contained the market.

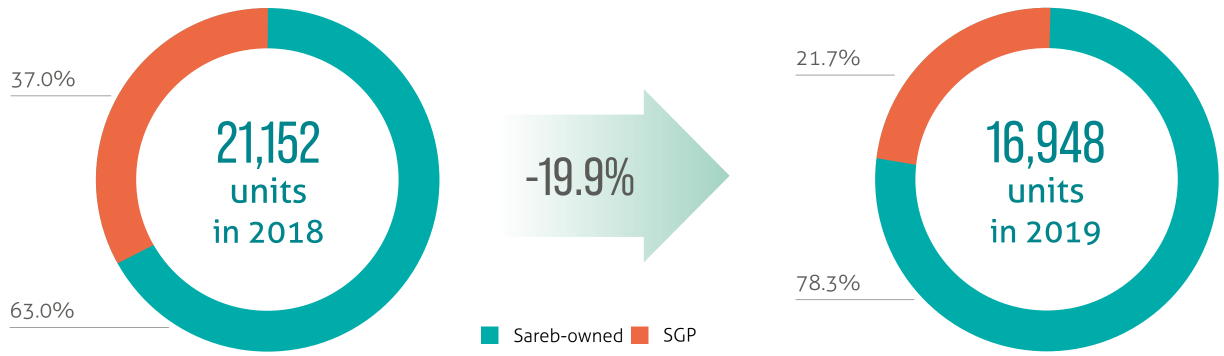
In 2019, Sareb sold 16,948 properties, 19.9% less than in 2018. This setback is due to the annual drop of 53% in sales of real estate assets from the developers' books, down to 3,673 units. Priority was given to the conversion of real estate into loans at the expense of the sale of those assets from the developers' books.

Nevertheless, despite moderation in the growth of the real estate business, Sareb has managed to maintain the volume of sales of Sareb-owned real estate in 2019, which stood at 13,275 properties, 0.4% less than in 2018.

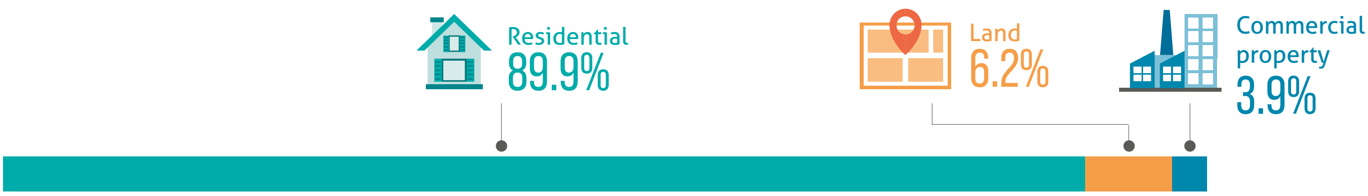
In terms of declared price, income from sales of Sareb-owned real estate stood at €968.6 M this year, 21.6% less than in the previous year.

Per number of units, Catalonia, the Region of Valencia and the Region of Madrid are the autonomous regions that were the leaders in sales in 2019, followed by Andalusia and the Region of Murcia.

12. Sale of real estate assets (% of the total of units sold)



13. Real estate sale per type (% of the total of units sold in 2019)



[31] 2% of the total sales figure in 2019 relates to other income.

[32] The total volume of income for 2018 differs from the figures for that year because it does not include the transfer of assets to Témpore Properties at the end of 2018, within the framework of the ROFO agreement signed between Sareb and the REIT. That transfer is included in 2019.

Residential

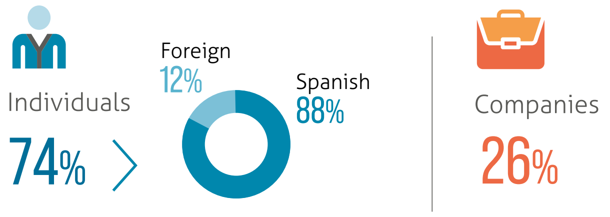
In 2019, Sareb has increased sales of its own residential real estate assets by 3.9% compared to 2018 to 12,046 units. The 3,195 properties sold from the the developers' books during the year must also be added to that figure, a 53% decrease on the previous year.

The total residential real estate asset sales therefore reached 15,241 units in 2019, 17.1% less.

In terms of declared price, sales of Sareb-owned residential real estate have contributed to Sareb €738.4 M this year, 7.4% less than in 2018.

In units, the highest volume for Sareb-owned residential real estate asset sales was concentrated in Catalonia, the Region of Valencia and the Region of Madrid, which account for 51.5% of the total.

Profile of the buyer of a Sareb-owned residential real estate asset



Land

Land sales stood at a total of 1,048 units during this year, of which 681 are Sareb-owned land, 38.2% less than in 2018.

In terms of declared price, the volume of income obtained from marketing Sareb-owned land was €132,2 M, a 45.15% decrease on the previous year.

These figures are the result of Sareb's marketing strategy for this type of assets, focussed on trying to maximise their value by prioritising reserving land with potential for property development above sale in the short term.

In units, Castile - La Mancha, the Region of Valencia, Castile and Leon and Catalonia accounted for 50.1% of sales in 2019.

Commercial property

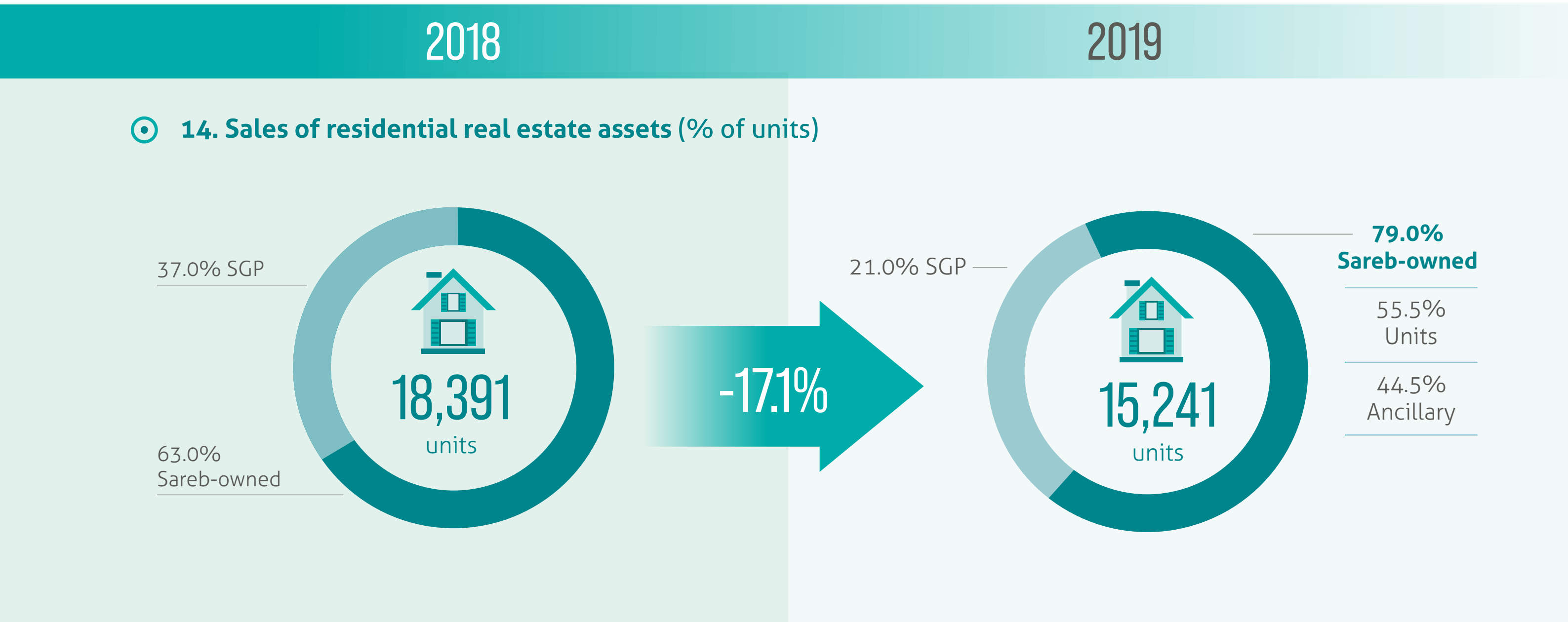
In 2019, Sareb has sold 659 assets of this type, which is a 38.2% decrease on the same period of the previous year. Of the total of commercial real estate sold in the year, 83.2% relates to Sareb-owned assets.

The declared value stood at €114.86 M, a 41.6% decrease. Most of this comes from the sale of single items of assets in attractive locations, as can be seen from the fact that 20 transactions of over €1 M have accounted for 60% of the sales for the year. Of these, special mention is made of the sale in Madrid of an office block which is 80% rented, and the sale of a logistics warehouse, also rented, in Les Franqueses del Vallès (Barcelona), both for a total of €20.6 M.

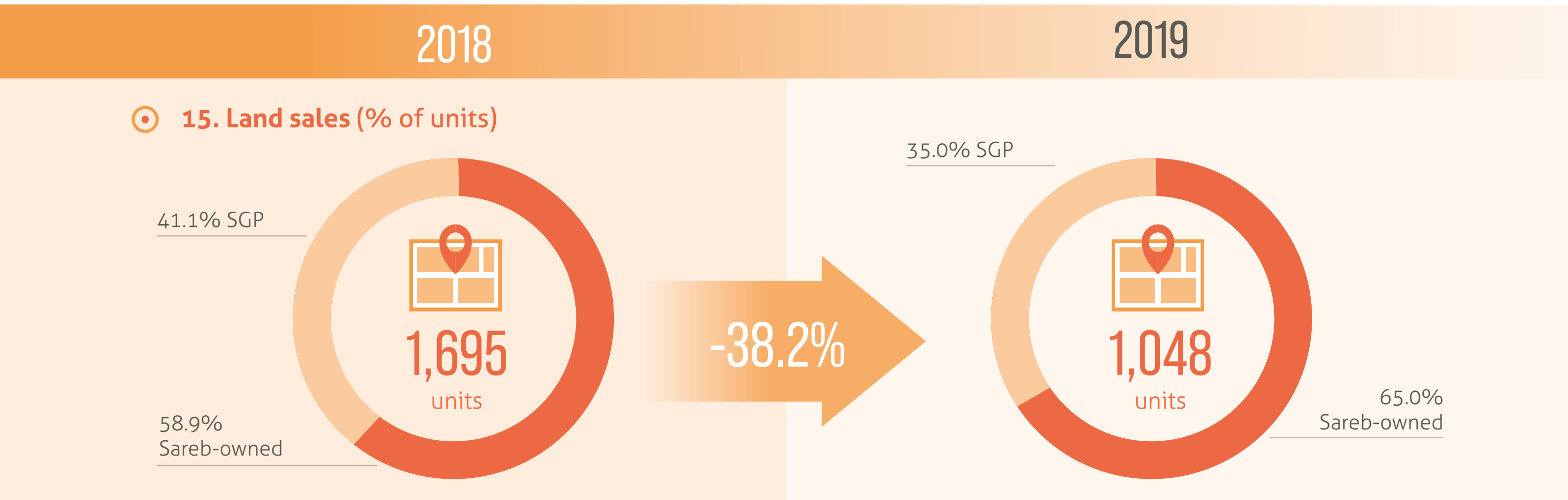
During the year the volume of commercial assets used for rental has increased, especially those used for offices and industrial warehouses. The rental strategy for this type of asset enables them to be made more profitable and optimise their possibilities of sale in the medium term.

Per region, the Balearic Islands, the Region of Madrid, Catalonia and the Region of Valencia, with a total of 341 units sold, account for the highest volume of sales of Sareb-owned commercial real estate in the period.

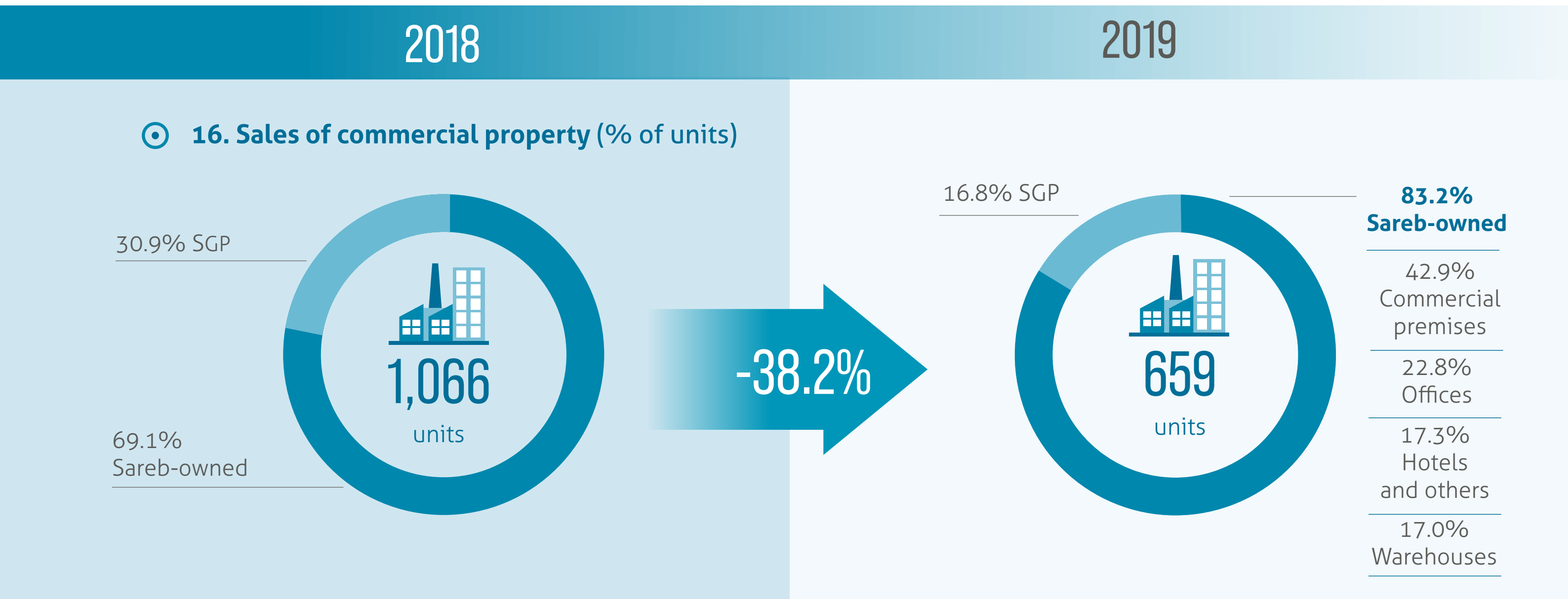
14. Sales of residential real estate assets (% of units)



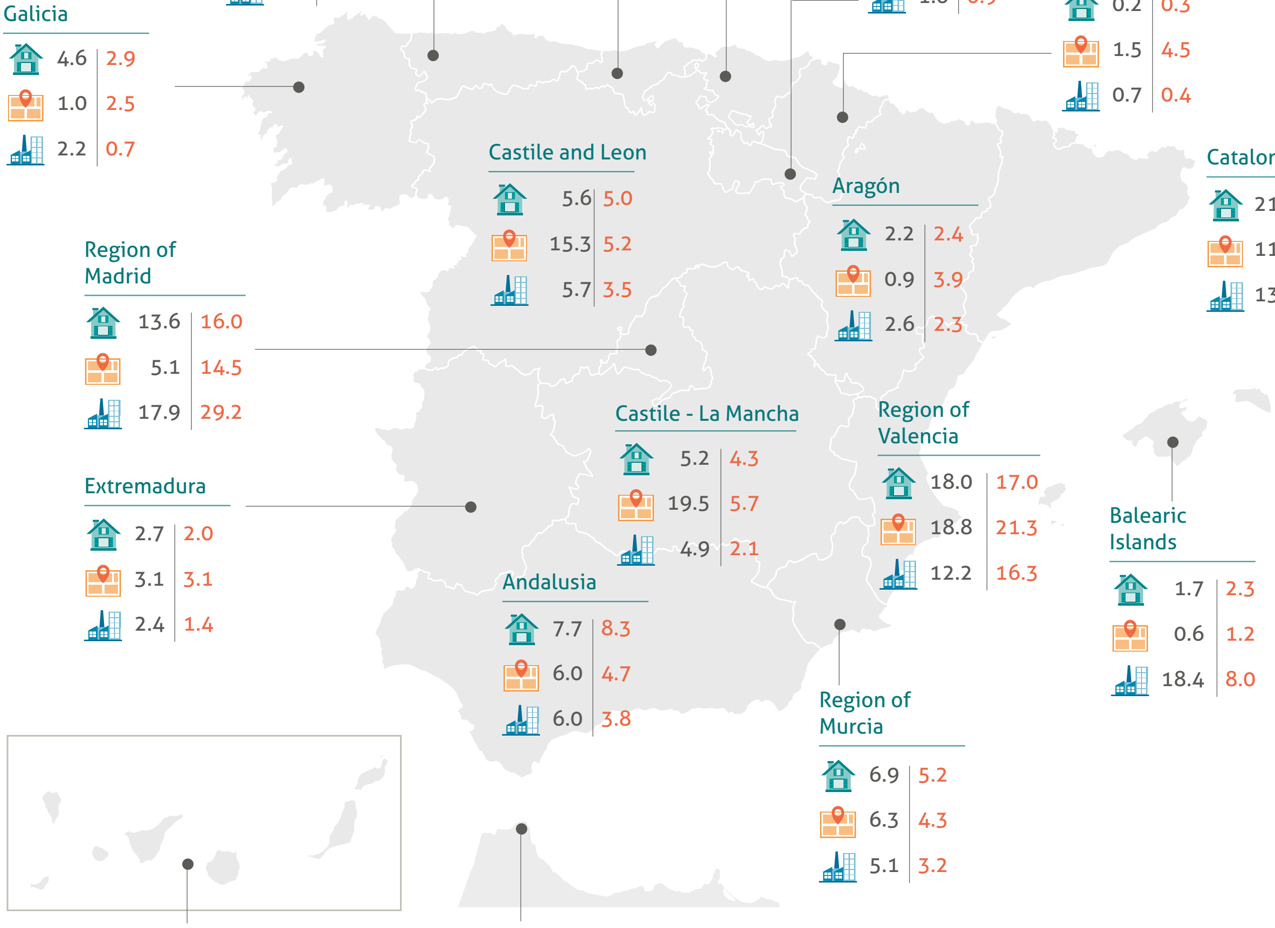
15. Land sales (% of units)



16. Sales of commercial property (% of units)



17. Geographical breakdown of sales of Sareb-owned real estate assets [33]



Region	Residential (% of units sold)	Residential (% of €M)	Land (% of units sold)	Land (% of €M)	Commercial property (% of units sold)	Commercial property (% of €M)
Cantabria	1.6	1.5	4.3	5.6	0.5	0.3
Basque Country	0.0	0.1	0.3	2.9	0.4	0.1
La Rioja	0.7	0.7	0.6	0.3	1.6	0.9
Asturias	2.0	1.9	2.8	3.1	0.9	0.3
Chartered Community of Navarre	0.2	0.3	1.5	4.5	0.7	0.4
Galicia	4.6	2.9	1.0	2.5	2.2	0.7
Castile and Leon	5.6	5.0	15.3	5.2	5.7	3.5
Catalonia	21.1	24.4	11.3	15.4	13.7	25.1
Aragón	2.2	2.4	0.9	3.9	2.6	2.3
Region of Madrid	13.6	16.0	5.1	14.5	17.9	29.2
Castile - La Mancha	5.2	4.3	19.5	5.7	4.9	2.1
Region of Valencia	18.0	17.0	18.8	21.3	12.2	16.3
Balearic Islands	1.7	2.3	0.6	1.2	18.4	8.0
Extremadura	2.7	2.0	3.1	3.1	2.4	1.4
Andalusia	7.7	8.3	6.0	4.7	6.0	3.8
Region of Murcia	6.9	5.2	6.3	4.3	5.1	3.2
Canary Islands	4.6	3.4	1.2	2.0	4.7	2.4
Ceuta	1.6	2.3	1.5	0.1	–	–

Residential Land Commercial property

% of units sold

% of €M

More information on The transformation of the balance sheet **and** Geographical branch offices

[33] Includes works in progress.

Specific plans for areas with less real estate stimulus

Sareb has launched specific initiatives to stimulate its sales activity in regions in which the real estate market develops less rapidly. In this way the company contributes to the growth and development of these areas while also advancing in the divestment of its assets.

An example of this is the launch in 2019 of the campaign "Village homes; for those looking for another way of life" which could encourage part of the population to return to areas sparsely populated at the moment.

Picture: Apartment building included under the "Village homes" campaign located in the village of Botorrita, Zaragoza (Aragón).

Sale of the Conde de Cifuentes and Duque de Crillon barracks (Es Castell, Menorca) for public use

In 2019 Sareb and the Balearic Islands Government reached an agreement –for a figure of €2.4 M– for the barracks to form part of the assets of the Balearic Islands and be put to public interest or social use.

This operation has been possible as a result of the agreement reached between three administrations: The Government of the Autonomous Region, the Menorca Island Council and the Town Council of Es Castell, who had already signed an agreement at the end of 2018 for the Balearic Islands Government to purchase the two properties from Sareb directly.

The sale of these barracks is added to other operations that Sareb has concluded during this year with other public administrations, amongst which the swap arranged with the Town Council of Valencia for the former La Ceramo factory, and the sale to the Town Council of Ponte-Caldelas (Pontevedra) of an unfinished spa that the company received in the hot springs of the Verdugo River.

Property development

With the creation of Arqura Homes in 2019, Sareb has boosted its residential property development business in different regions of Spain

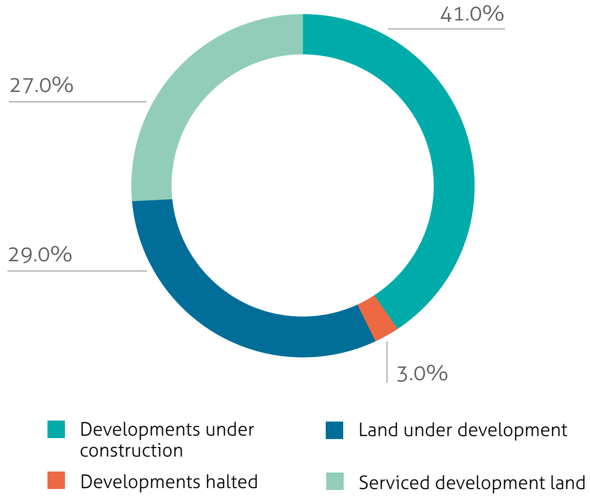
Arqura Homes property development

Sareb's real estate development and promotion activity was marked by the launch of Arqura Homes in mid 2019, a Bank Assets Fund (FAB) through which the company will carry out the management and development of part of its portfolio of residential projects in different geographical areas of Spain.

The company has transferred to this FAB, as of the moment of its creation, a number of assets valued at €811 M, amongst which some are developments that have been halted and others under construction, and also land.

In 2020 Sareb received authorisation from the National Commission on Markets and Competition (CNMC) for Värde Partners to acquire joint control over Arqura Homes. This U.S. Company becomes a non-controlling shareholder with a 10% holding in the shares issued by the Bank Assets Fund.

18. Type of assets transferred to Arqura Homes from Sareb (as a % of the contribution value)



19. Activity at the end of 2019 (units)

Arqura has advanced in the works of
4,276 properties
(24.6% of the total forecast for 2027)

3,938 Under construction

338 Completed

Picture: Apartment building under development in Ponent, Badalona (Catalonia).

ÁRQURA HOMES

Projects and land for development up to 2027

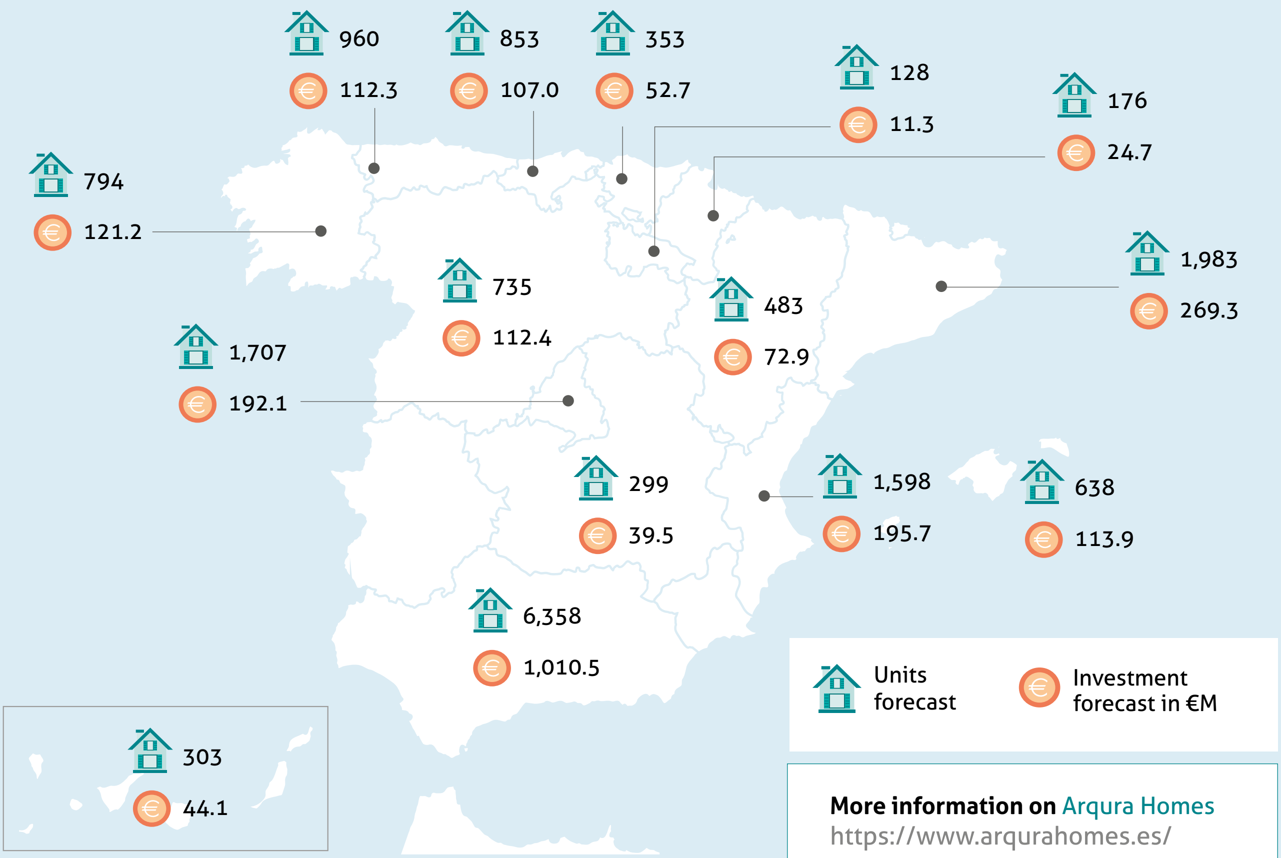
In line with the strategy promoted by Sareb for encouraging specialisation in certain activities, Sareb has entrusted the management and marketing of the Arqura Homes assets to Aelca, one of the leading development companies in the sector.

Through Arqura Homes, Sareb forecasts investing a total of €2,479.8 M by 2027 in developing 17,368 properties distributed throughout Spain, mainly in Andalusia, Catalonia, the Region of Madrid and the Region of Valencia, which accounts for 67.1% of the real estate to be built.

This activity, carried out by Aelca (owned by funds managed by Värde Partners), will make it possible to have first-hand knowledge on the local markets and adapt products to the demand in each area. Furthermore, specialist agent's management of these assets will allow us to optimise the costs associated with project development and increase margins deriving from the marketing and sale of the real estate assets.

At the end of 2019, Arqura Homes had finished 5 developments, involving a total of 338 properties. The first one to be completed is a development of 36 homes and 1 commercial premises situated in Rúa Rosalía de Castro, Vigo (Galicia). Also, at 31 December, the company had a further 65 blocks under construction, entailing a total of 3,938 properties.

20. Properties and investment projected until 2027 through Arqura Homes (units and €M)[34]



More information on Arqura Homes
https://www.arqurahomes.es/

[34] The number of homes planned and the volume of investment are higher than the figures given in the Report for the 1st HY 2019, due to updates made in the Business Plan of Arqura Homes. The volume of investment also includes OPEX (previously only the CAPEX was taken into account).

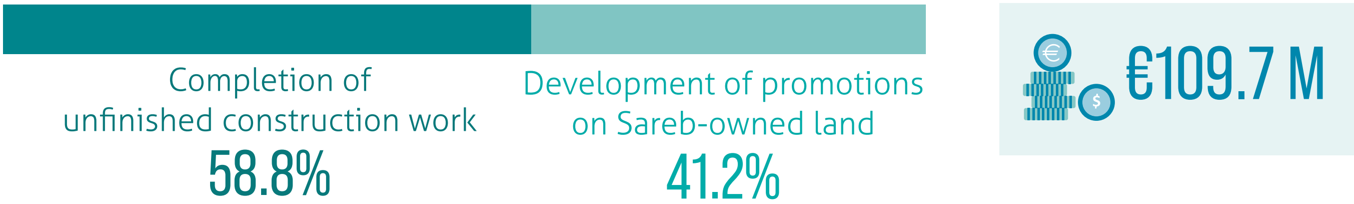
Sareb property development

Although Sareb carries out most of its property development business through Arqura Homes, it has maintained its own scope for building residential properties. This way, after excluding the projects transferred to Arqura Homes in 2019, Sareb has already approved the construction of 4,065 homes by developing real estate projects on own land or by completion of unfinished construction works.

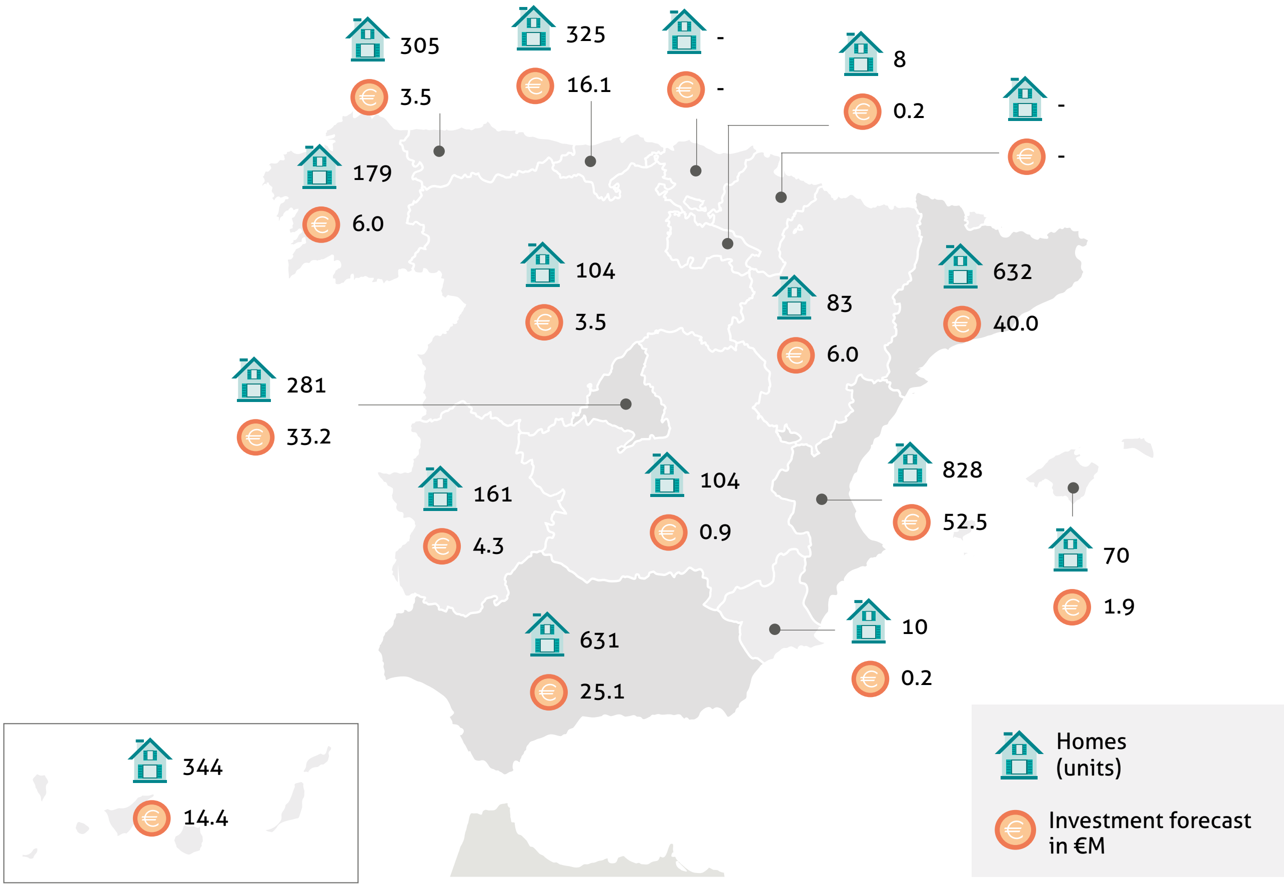
Of that total number of properties, 2,369 are already finished, while the rest is still under construction.

21. Sareb direct property development in figures[35] (units)

22. Total investment in Sareb residential property development (% of €M)



23. Geographical breakdown of Sareb direct residential property development (units and €M)



[35] Not including the promotion and development projects transferred from Sareb to Arqura Homes.

New channels of collaboration with regional developers

The company holds property-related meetings at local level with the aim of strengthening collaboration, opening channels of communication and exploring possible opportunities that will benefit both parties.

As a result of the commitment of Sareb and Arqura Homes to property development in different regions, in 2019 various organisations in the sector have approached the company to bring up concerns and specific issues related to the projects that will be built in the coming years.

8 DECENT WORK AND ECONOMIC GROWTH

Sareb's contribution to the United Nations 2030 Agenda

To carry out its property development and promotion activity, Sareb forms alliances with suppliers in the different regions, in this way stimulating local employment, which contributes to goal 8.3 of the United Nations 2030 Agenda, that seeks to **"promote policies aimed at development supporting the production activities, the creation of decent jobs, enterprise, creativity and innovation, and to boost the formalisation and growth of microenterprises and small and medium businesses, by also facilitating access to financial services".**

11 SUSTAINABLE CITIES AND COMMUNITIES

Sareb's contribution to the United Nations 2030 Agenda

Property development and the completion of unfinished construction works in the regions where Sareb operates improve housing conditions and revitalisation of certain areas, and accounts for the contribution to goal 11.1 of the United Nations 2030 Agenda, aimed at**"ensuring access for all to adequate, safe and affordable housing and basic services and to improve the marginalised neighbourhoods".**

Urban land management and greater visibility of this type of assets

Sareb portfolio of land encompasses 99.4 M m2 of land under development and serviced development land, and 5,830 hectares of greenbelt land and, in general terms, follows an upward trend as a result of accelerating the conversion and subsequent award of land.

Per type of land, the portfolio of serviced development land grows at a slower pace than that for land under development. Greenbelt land has gone down by 8.9% compared to 2018, as business in this segment has offset the entry of this type of asset on the balance sheet.

The company has put different initiatives into operation for enhancing the value of these assets before they are sold, amongst which drawing up individualised strategies for sale or lease.

Also worthy of mention is the creation of a specific section on the company website to give greater visibility to this type of assets (www.sareb.es/en_US/lands), with the intention of becoming the biggest online showcase for land in Spain.

24. Breakdown of the Sareb portfolio of land

Land

Under development[36]
85.4 M m^2

Serviced development land
14.0 M m^2

Greenbelt land
5,830 ha

[36] The area of Sareb land under development does not include land transferred to Arqura Homes.

Alternative strategies for land development

In 2019, Sareb concluded a project for prioritising and segmenting a total of 6,100 plots of land –with a net book value of €401 M– classified as greenbelt land.

The outcome of this action has enabled a structured analysis to be performed on the assets and to establish uniform criteria for segmenting, prioritising and optimising the enhancement of this portfolio, for which the following steps are contemplated:

- **Engaging a specialist management company:** which will handle issues specific to land of this kind -rights and benefits, establishing a link at local level for the leasing or sale of the assets, follow-up of the plots land under operation, etc.
- **Identification of land with farming potential:** we have looked into the return on four cases of interest for Sareb to operate, that would make it possible to obtain a higher economic benefit than could be obtained from leasing.

With this project Sareb has also made progress in identifying, describing and defining the main spheres of development where its properties are located in the Geographic Information System (GIS), so they can be incorporated into a tool for internal control.

Environmental recovery of soil

The company performs a series of soil analyses on the land in its portfolio that could be contaminated by activities carried out on it prior to being transferred to Sareb. In 2019, work began on the decontamination of surface land affected by hydrocarbons in Malaga, in collaboration with the Town Council –who jointly owns this land with Sareb.

This work has been carried out as a preliminary step required for the future development of this land area, in which Sareb owns two plots with building capacity of around 60,000 m².

Picture: Apartments 'Los Olivos', located in the Hacienda del Álamo Resort, Fuente Álamo (Region of Murcia).

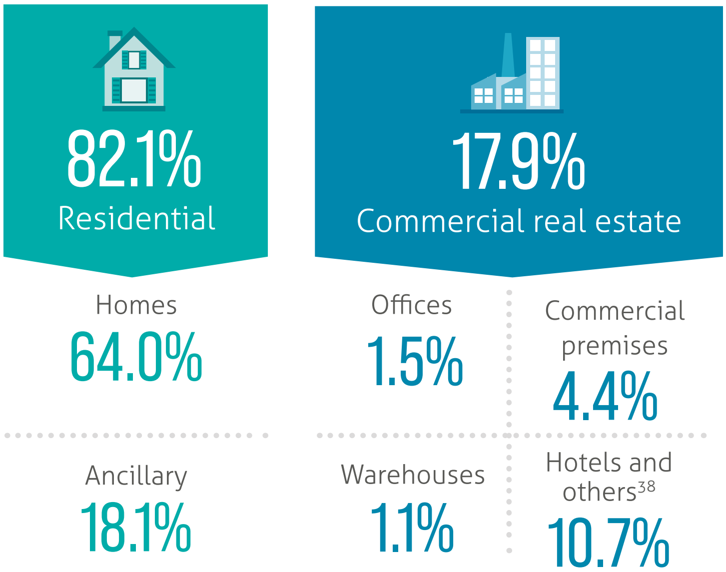
Rentals

- Sareb rental properties have increased by 68.8% compared to 2018

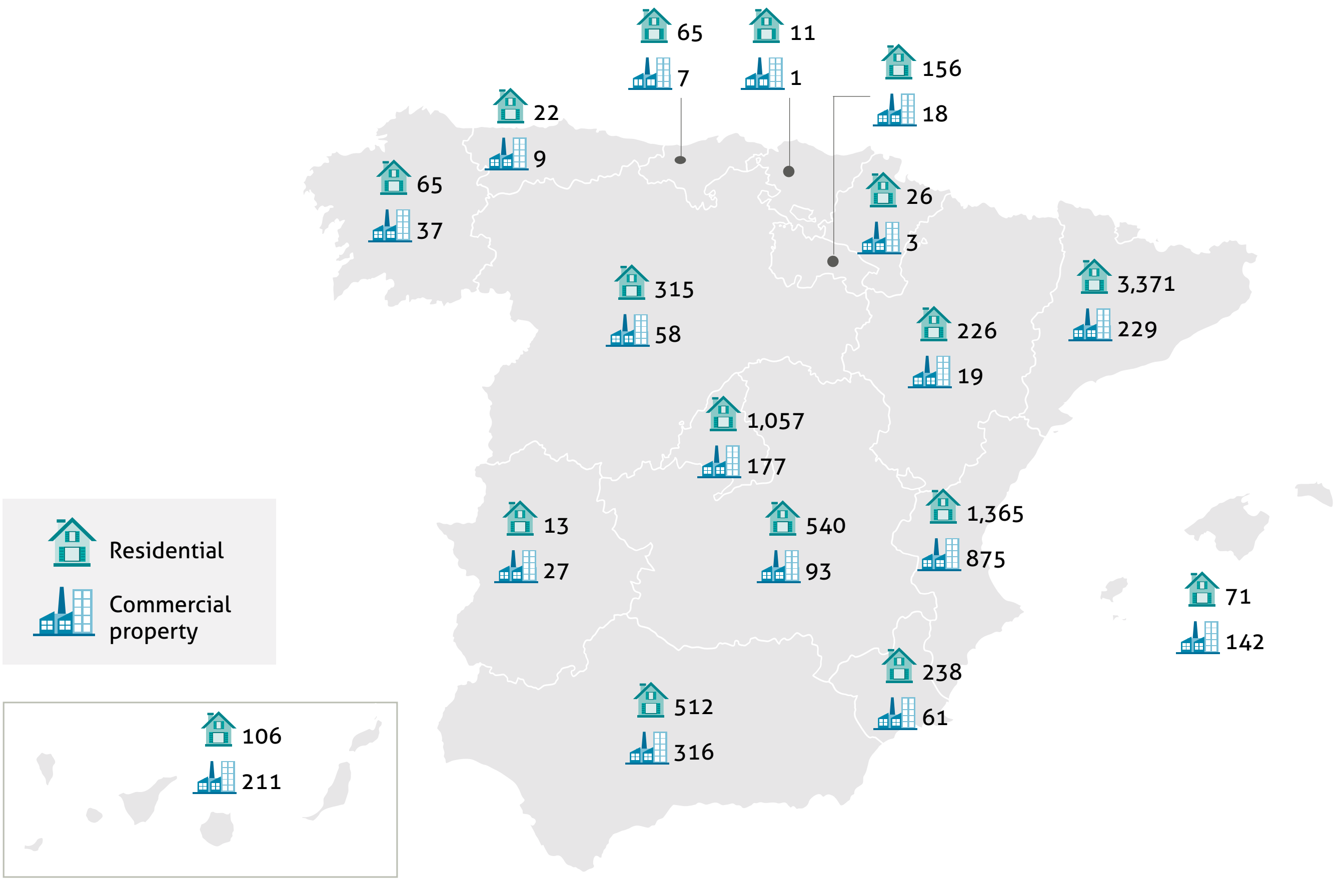
At the end of 2019, Sareb's rental portfolio amounted to 12,745 properties[37] (68.8% more than in the previous year), of which 82.1% are residential real estate assets and the rest are commercial real estate assets.

The rental business enables to optimise the value of the assets making up its real estate portfolio, at the same time as providing income that helps to cover the maintenance expenses associated to the properties.

25. Portfolio of real estate for rental per type of asset (% of the total of units)



26. Geographical breakdown of the number of residential and commercial property for rental (units)



[37] The figure does not include the assets transferred by Sareb to the REIT Témpore Properties or the properties assigned through agreements with Autonomous Regions and Town Councils.

[38] "Others" includes assets such as garage spaces, greenbelt land or leased sites.

During the year, within the framework of the implementation a territorial management model, Sareb has incorporated the rentals unit to its network, commencing with the Geographical Branch Office East (Region of Valencia and Region of Murcia). In turn, under the framework of the Esparta Project, Haya Real Estate has been selected as specialist servicer for managing the rental of 3,300 Sareb-owned properties of which 1,800 are residential.

Amongst the most significant rental transactions concluded in 2019, special mention is made of the rental of an industrial warehouse in San Vicente del Raspeig (Alicante) to a start-up of an international distributor.

Témpore Properties

In 2017, Sareb promoted the creation of a REIT specialising in the rental of residential real estate assets, in order to accelerate the divestment rate of its portfolio.

Témpore Properties commenced operations with a portfolio valued at €175 M. This total reached €339 M by the end of 2018, after acquiring new assets from Sareb. Since April of this year, the REIT is listed on the Alternative Stock Market (MAB).

By the end of 2018, Sareb had already transferred 2,249 homes to Témpore Properties, and was working on a competitive process to sell its stake in the REIT, which in 2019 finalised with the sale of 75% of its shares to the U.S. fund, TPG Real Estate Partners (TREP).

More information on Témpore Properties https://www.temporeproperties.es/

Public-private agreements and the rental of single items of assets for boosting regional economies

The company aspires to contribute to the economy of the regions in which it operates using formulas similar to the one put into operation with the Region of Murcia in 2018.

There is a collaboration agreement in place with the Government of Murcia to promote the economic and social development of the region. Measures designed to attract new investment to the Region include Sareb's commitment to facilitating the locating of real estate for the development of industrial and business projects of common interest, and the provision of promotion and presence at trade fairs and events in the real estate sector.

In this context, in 2019, the company reached an agreement with the *Senator Hotels & Resorts* group for renting the five-star hotel Mar Menor Golf & Spa and 145 holiday apartments in Torre Pacheco (Murcia). Sareb anticipates investing €3 M to reposition and modernise the facilities of the resort, in line with the actions already approved in the past for the Sheraton Hacienda del Álamo Golf & Spa Resort, and which entailed a total investment of almost €19 M.

Commercial activity

During the year, five marketing campaigns have been launched to promote sales of a specific scope of assets, registering sales for the amount of €119 M.

Sareb also is highly active in the social networks for bringing its product and marketing campaigns closer to the public, while also implementing branded content strategies in its blog 'Huellas by Sareb' to connect with its consumers and target public.

All these actions are intended as back-up to the company business.

Sareb Responde

The company's customer service centre attends to sales queries, clarifies doubts and manages complaints related to the assets managed. In 2019, it received a total of 356,143 queries, 1.4% less than in 2018. Sareb Responde has been selected by the consultancy firm *Sotto Tempo Advertising* as 'Customer Service of the year 2020' in the real estate category.

83%
General customer satisfaction in 2019
(75% at the end of 2018)

27. Type of enquiries received (% of the total)

Per type of customer

Individuals	91.3%
Company	4.5%
Administration	4.2%

Per input channel

Online channel	69.0%
Telephone	23.2%
Letter	5.4%
Email	2.4%

Per type of enquiry

Commercial	80.4%
Rental	7.6%
Others	4.2%
Maintenance	2.5%
Homeowner's association	2.4%
General information	1.6%
Legal	1.3%

More information on the Sareb commercial activity https://www.sareb.es/en_US/

Closeness with customers

Sareb works on broadening the knowledge and profile of the potential buyer base through processes of participation and active listening. In 2019, the company has engaged in discussion sessions with customers to identify improvements in the sales process.

Furthermore, the company has analysed the degree of general satisfaction with the sales process, with a result of 83% in the assessments performed in 2019. It is also analysing the times involved in delays or for notarising deeds, amongst other key aspects of the purchasing process.

In 2019, the sales complaints procedure was strengthened by reviewing the management and attention given to each complaint.

Closer contact through the geographical branch offices

By putting the geographical branch offices into operation, Sareb has taken a step further in controlling and monitoring the commercial activity carried out by its servicers.

With this, the overall strategy used with the five branch offices has been implemented through the following parameters:

- Continuous price analysis to adapt to market changes and bring the offer in line with the actual demand.
- Containment of margins, transferring to the rentals market any assets that do not provide a minimum return in a sale –especially in the case of single items and commercial real estate.
- Development of marketing plans, actions and campaigns specific to each product type, market and areas with a higher concentration of assets.

More information on the geographical branch offices in the chapter Business Plan

Picture: Sareb homes in Torre Pacheco, Murcia (Region of Murcia).

Property management and maintenance

Geographical branch offices bring a proactive approach to management based on closely monitoring the conditioning made

Sareb assumes the management and maintenance costs of its real estate assets and carries out conservation work on them until they are sold.

Since it was created, the company allocates funds to identify and keep up to date with the payment for all of the real estate assets forming part of its portfolio, within the framework of a model for comprehensive maintenance which has become consolidated in 2019 and has already been implemented in the portfolio of three servicers, two of which through Ferrovial and the other under the contract signed with Elecnor. Since 2018, the comprehensive maintenance model forms part of the company's Technical Real Estate Management system with ISO 9001 standard certification.

The new geographical structure has resulted in the company being more familiar with the portfolio and leads to better property management and maintenance. In this way, Sareb can supervise even more closely the evolution of the conditioning work. Visiting more frequently the developments that require considerable investment makes it possible to ensure that the work is being carried out properly and try to prevent possible deviations, both in deadlines and budget.

At the same time, the company continues exploring new technologies for having more information on its assets by acquiring computer-aided maintenance management system (GMAO) licences or through the '360º' project for visiting properties on virtual tours.

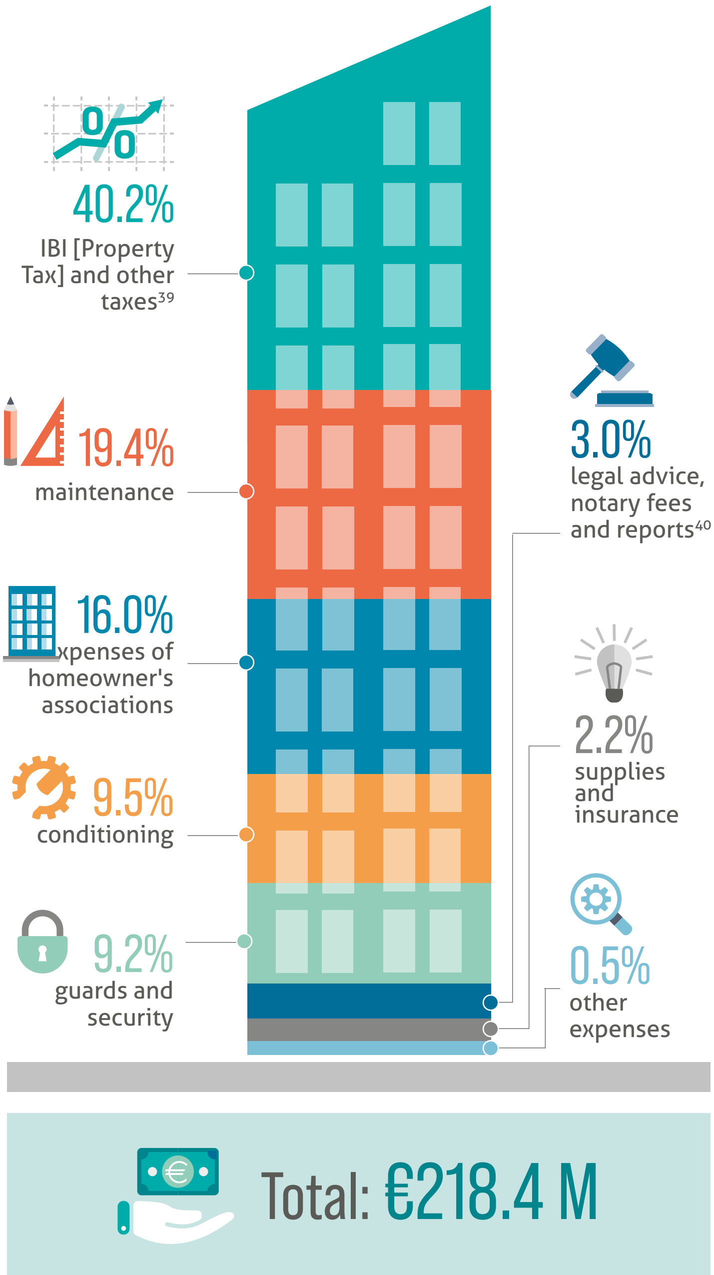
28. GMAO, a tool for promoting efficiency

1. Information on procedures and status of the assets in real time and without filters
2. Full information on the assets and the on-site checks on the inventory
3. Monitoring and automatic planning of visits to be made to the assets
4. Integration of the information on maintenance with the rest of the information on the assets

Picture: Sareb residential property development in Seseña, Toledo (Castile - La Mancha).

In 2019, the expenses associated to real estate management and property maintenance amounted to €218.4 M, of which the main items related to payment of taxes, maintenance and expenses of homeowner's associations (75.6%).

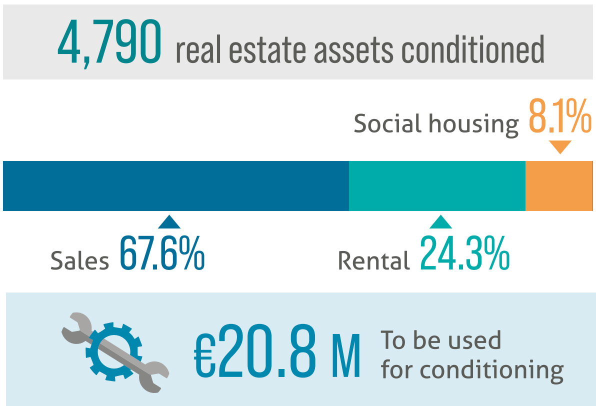
29. Expenses for real estate management and property maintenance (% of €M)



Property conditioning

The conditioning work includes minor repairs but which are necessary for marketing the properties –whether through sale or rental– or for assignment of social housing. In 2019, work was completed for conditioning 4,790 properties –63.8% more than in 2018–, and €20.8 M have been invested in this.

30. Conditioning and investment in real estate for marketing and assignment (% of the number of real estate assets conditioned and total investment in €M)



Picture: Residential property development in Puebla de Farnals (Valencia).

[39] IBI [Property Tax] and other taxes also includes licence/permit costs.

[40] Legal advice and technical reports comprises expenses for lawyers, court representatives and the fees for preparing technical reports.

Insurance cover and claims management

Every year Sareb reviews the map of insurable risks in order to determine which can be insured, and in that way to verify that adequate insurance cover is contracted at all times.

The risk coverage policy requires Sareb to take out ample cover with reduced excesses and to sign policies with companies of recognised capacity and maximum solvency.

Sareb covers any potential damage that could affect its assets by taking out different insurance policies which cover those risks and has internal claims management protocols to ensure smooth, efficient management in the event of any such incident arising. In 2019, the company's Claims Circular has been updated in accordance with the last insurance renewals.

Polices also include civil liability for damage of any nature caused by third parties as a result of the company's activity, including any arising from decisions made by directors and senior management.

In 2019, the company renewed its programme of insurance for civil liability and directors and senior management liability, as well as damage to property, comprehensive construction cover and ten year building insurance.

During the year, Sareb has also continued analysing the cover for the risk events defined in 2018 due to lack of associated insurance –data protection, guarantees amounts paid on account by home buyers and cybersecurity, amongst others– to evaluate any possible tools providing cover for those cases.

More information on risk management in the chapter Good Governance

Picture: Interior of a Sareb apartment building development in the centre of Madrid.

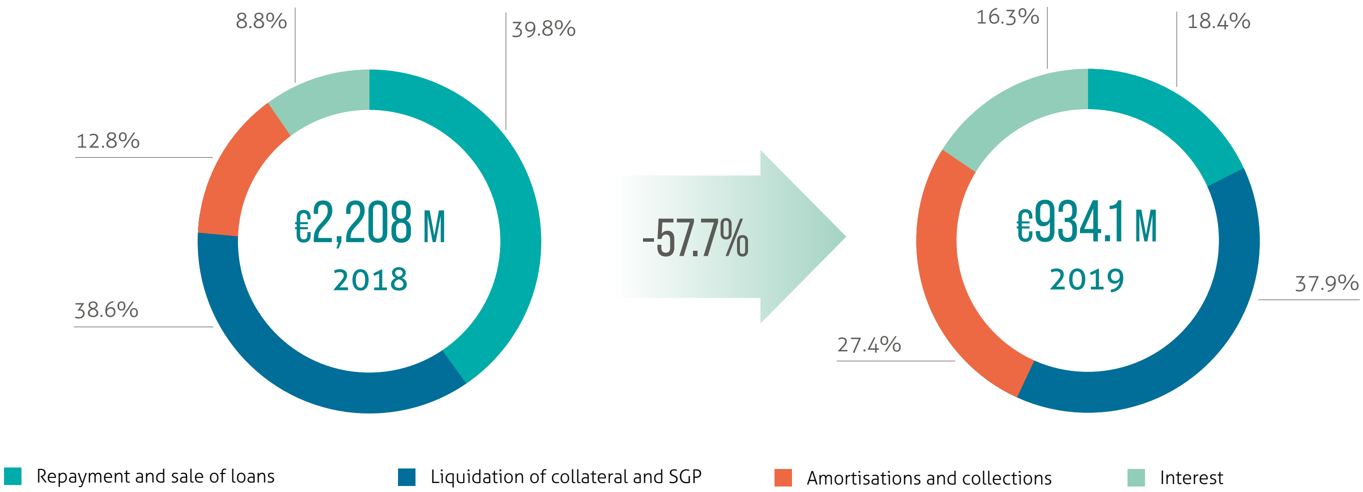
MANAGEMENT AND SALE OF LOANS

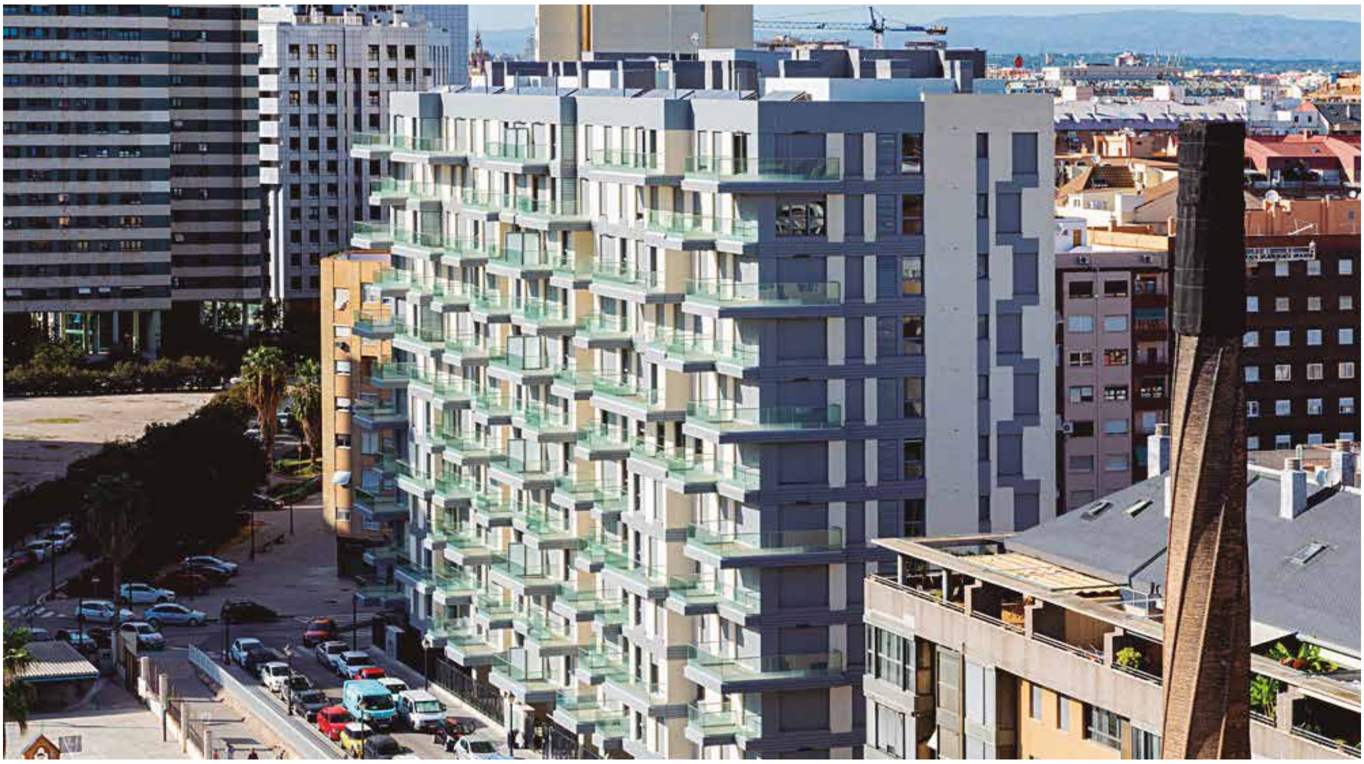
Sareb has reduced its financial asset portfolio by 51% since its inception

The company's loan portfolio went down by 12% in 2019 compared to the end of 2018, to €19,408 M, which represents 59.4% of the total value of its assets.

Since Sareb inception, in 2012, this type of asset has been reduced by 51%.

31. Breakdown of income from management and sale of loans per business line (% of €M)





Picture: Sareb apartment building development in Valencia (Region of Valencia).

The income from the management and sale of loans stood at €934.1 M at the end of 2019, 57.7% less than in the previous year. This decrease is explained by the strategy implemented by the company during the year, which seeks to reduce the sale of loans on the wholesale and institutional market and to intensify their conversion into real estate through dations and foreclosures. With this, the sale of this type of asset has been centred on assets in which the company has less opportunity to adopt the expectations for increasing the value, compared to the contribution that would be entailed in converting and managing them. All these actions are aimed at maximising the margin obtained with the liquidation of each asset and preserving the value of the company portfolio.

As a result of the decisions adopted in 2019, the composition of the figure for income from the management and sale of loans has varied in respect of the previous year. Amortisations and collections have gained prominence, representing 27.4% of the total –14.6 percentage points more than in 2018– due to the decrease in the number of transactions involving a reduction; and interest has been an important item (16.3%), which has also nearly doubled its contribution compared to the previous year.

The contribution to the total income from loans arising from liquidation of collateral properties from the developers' books and the Sales Growth Plans (SGP) continue to be in line with those for the previous year (37.9% in 2019 compared to 38.6% in 2018).

The remaining 18.4% relates to income from the repayment and sale of loans, the line that has shown the largest drop compared to the previous year –when it accounted for 39.8%–, due to less activity on the part of Sareb for avoiding the discounts demanded on the market. Although it is true that the company has managed operations for the sale of loans, it continues giving priority to other alternatives for liquidating debt.

Amortisations and collections, the liquidation of properties held as collateral and the SGP are consolidated as the main strategies in 2019

32. Strategy for the management and sale of loans

Debt recovery

Continued collection of non-performing loans within the deadlines established.

Loan repayment

Paying off debt positions by the agents involved in the loan.

Liquidation of collateral and Sales Growth Plans (SGP)

Sale of real estate collateral from the developers’ books for repayment of the debt.

Dation in payment

Paying off debt through dation of the property held as collateral.

Sale of debt

Sale of debt positions to third parties.

Sales Growth Plans and liquidation of property given as collateral

Following an agreement with the developers, the SGP facilitate the sale of real estate assets –residential property developments or single buildings– which appear as collateral for the loans directly on the debtor balance sheets, thus enabling them to reduce their debts with Sareb. With these operations, the company recovers part of the debt without being involved in the costs and deadlines involved in mortgage foreclosure procedures.

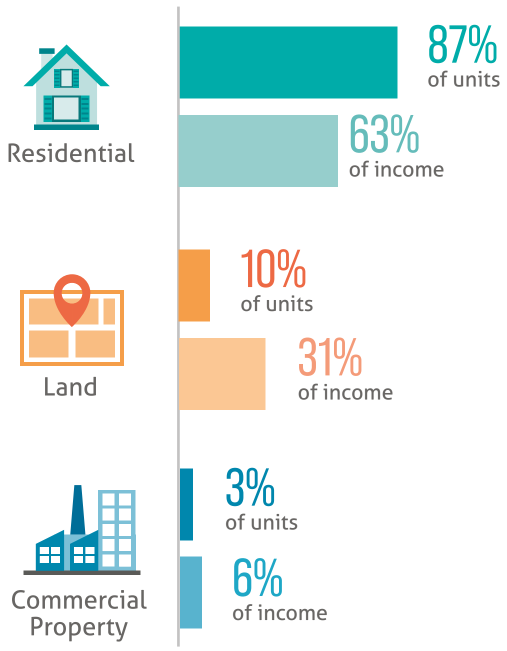
In 2019, 3,673 properties were sold using this formula –53% less than in 2018– generating €354 M of income. This drop is brought about by the reduction in the scope of assets that meet the characteristics for signing an agreement of this type -in terms of cooperation with the debtor, the type and state of the property appearing as collateral and the lack of encumbrances, amongst others- and Sareb's promotion of the conversion of its non-performing financial asset portfolio in order to include the associated properties in the balance sheet.

The litigation process boosts the transformation of the balance sheet

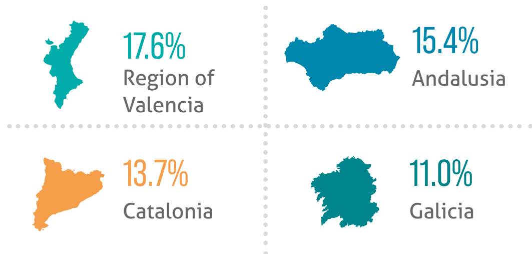
The litigation process contributes to speeding up debt recovery and is applied to those cases in which no repayment agreement was concluded. This channel occasionally makes it possible to resume negotiations with the debtors, reaching an agreement to monetise the loan before the collateral properties are awarded.

The company continuously monitors the procedural milestones of the operations involved in legal action in order to adapt to the scope of action and to improve the effectiveness of its commercial activities. Currently, most of Sareb financial portfolio is undergoing litigation or insolvency proceedings, although the commencement of a mortgage foreclosure does not mean abandoning other ways of managing loans that could lead to an award, either with the debtors themselves or with a third party who agrees to purchase the assets undergoing conversion.

33. SGP and liquidation of collateral properties per type
(% of units sold and income)



34. Autonomous regions in which the most collateral properties have been sold (% of units sold)



The litigation process contributes to speeding up debt recovery and can be applied to those cases in which no repayment agreement was concluded

Management focussed on the features of each financial asset and the situation of the debtors

As the years of mandate advance, the options for an agreement materialising with the debtor are reduced, which implies directing the actions for recovery towards other alternatives

The expectation that the debtor will cooperate is one of the most important variables for Sareb to be able to segment its loan management strategies. The objective is to accelerate the collection of outstanding debt through arranging agreements or by taking over the properties given as collateral for the loans, in order to then sell them on the retail market.

The high number of debtors, the volume of debt and the level of risk concentration require proactive and systematised management of the processes.

From the risk aspect, this model makes it possible to prevent and analyse the cause of possible deviations in order to act accordingly well in advance.

Pillars of the management model

Establishing strategies for divestment to segment the portfolio.

Monitoring management by controlling the evolution of the strategies.

Tactical and operational planning that guarantees flexibility in moving between lines of action

Acceleration of the process of conversion of loans into real estate assets

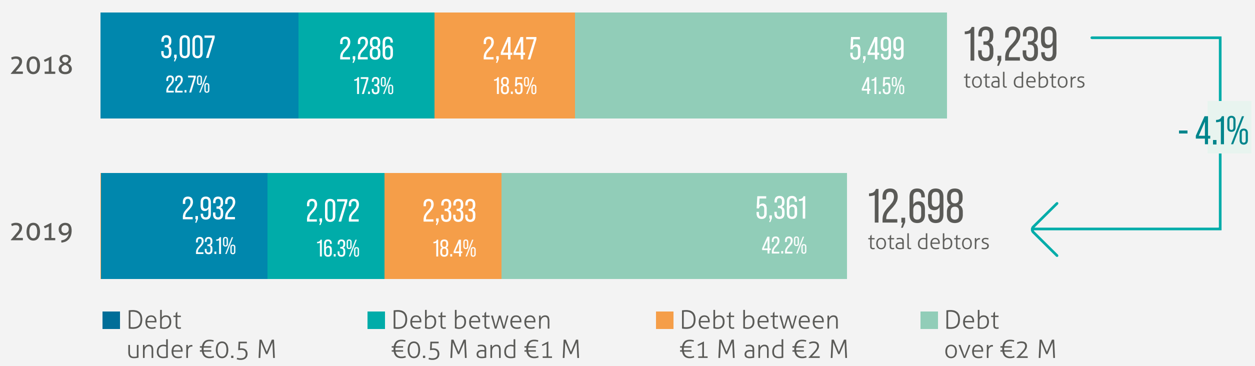
Picture: First development finished by Arqura Homes. The building is situated in Rúa Rosalía de Castro, Vigo (Galicia).

Type of debtor

57.8% of debtors are subject to exposure of less than €2 M and 39.4% to exposure of less than 1 M.

At the end of 2019, Sareb loan portfolio was composed of 12,698 borrowers, 4.1% less than in 2018.

35. Number of debtors per ranking of debt (€M) and proportion of the total



Picture: Building refurbished by Sareb in Granada (Andalusia)

Proposals managed

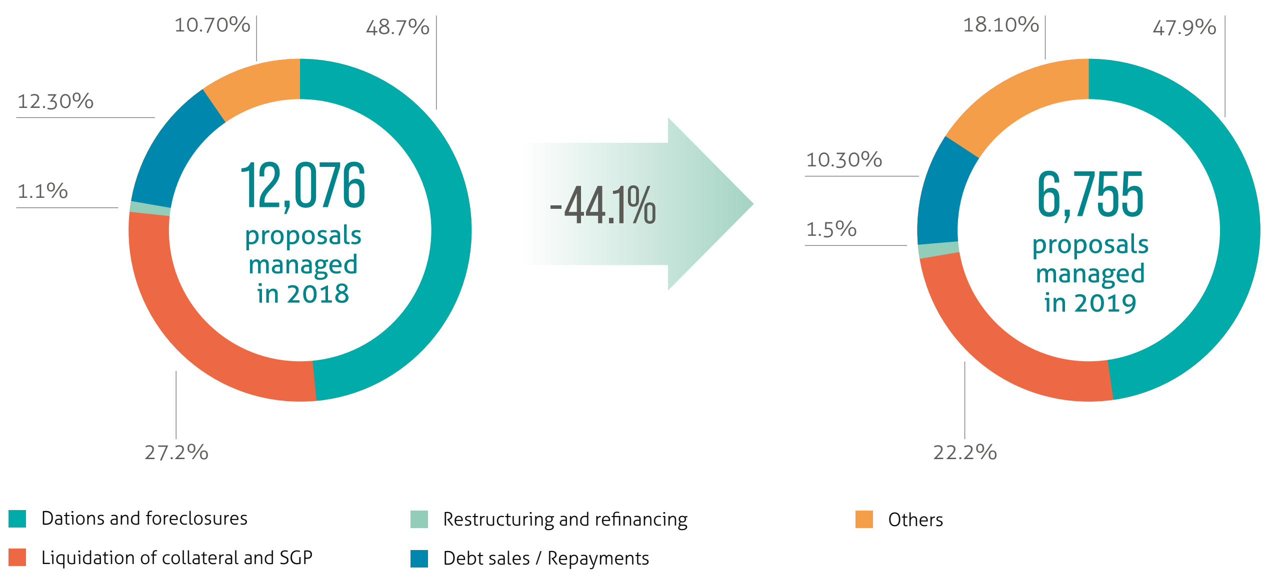
Since it was created, Sareb has managed 70,190 proposals, of which 9.6% were handled in 2019

During the year, Sareb has handled 6,755 proposals, 44.1% less than in 2018 as a result of the reduction in proposals for the repayment and sale of loans and liquidation of collateral properties, and by submitting the loan portfolio to the litigation process.

The work on monitoring the portfolio under litigation does not generate any new proposals until the auction takes place, unless an agreement is reached through an alternative management channel that will enable Sareb to recover the debt.

The slight decrease in the proposals for dation and foreclosure has had an impact on the overall decrease, although they continue to be the main type of proposal, accounting for 47.9% of the total.

36. Breakdown of proposals managed per type (% of the total number of proposals) [41,42]



[41] Sareb handled five proposals in 2018 and two in 2019 related to disposals and disbursements which on the total for each period account for 0.04% and 0.03%, respectively.

[42] The category "Others" includes insolvency proceedings, releases of pledges (related to loan guarantees), bankruptcy-related incidents (agreement and common phase), borrower reports and liquidation plans.

FINANCIAL INFORMATION

- Sareb obtained €2,308 M of revenue in 2019 from the management and sale of its assets

Accounting legislation and implicit losses

Sareb's activity is governed by the accounting framework for the valuation of assets established by the Bank of Spain in its Circular 5/2015 of 30 September, subsequently complemented by Royal Decree-Law 4/2016.

That Circular establishes that the company has to value its portfolio and consider any possible unrealised gains or losses in its assets, consequently recognising any impairment in a value change adjustments account forming part of the company's equity and which is not taken into consideration as grounds for a capital reduction or dissolution of the company.

In 2019, the valuation of the entire portfolio using the method implemented by the Circular revealed the need for an impairment fund to be created by the end of the year for the amount of €6,819 M, of which €6,323 M relate to financial assets and €496 M to real estate assets.

Impairment related to financial assets is €6,323 M -€5,092 M in the previous year-, representing around 24% of their carrying amount and 9% of the contractual debt.

Impairment established in the financial asset portfolio

Type	Debt	Guarantee	VACBE[43]	NBV	Total 2019	2018
Secured by property guarantee	47,760	19,275	13,509	16,968	**-3,459**	-2,485
Without first charges and participating	20,006	444	249	2,367	**-2,118**	-2,322
Awards/Dations			5,796	6,527	**-731**	-274
Total	**67,766**	**19,719**	**19,554**	**25,862**	**-6,308**	**-5,081**
Other adjustments					**-15**	**-11**
IMPAIRMENT OF FINANCIAL ASSETS					**-6,323**	**-5,092**

The increase at the end of the year is mainly explained by changes in the parameters for estimating the future value of the properties serving as loan collateral whose prospects for growth have been reduced. After reassessing the value of half of the financial asset portfolio through appraisal, the new values show stability with a certain increase in residential and a slight drop in other types of assets.

Capital losses in the real estate asset portfolio

For the first time, Sareb real estate asset portfolio, composed of properties originally transferred as such, shows a capital loss in value. The capital loss stands at €496 M -as opposed to the €264 M of capital gains in the previous year- representing 7.6% of its carrying amount.

Continued

[43] VACBE: Value updated according to the Bank of Spain Circular.

This change of sign is largely due to the changes in the parameters along the future growth path of property prices. The valuation of assets by appraisal shows a slight reduction in the reassessment of the values by appraisal, as these are less liquid assets due to the time elapsed since when they were transferred.

Evolution of capital losses of Sareb assets

Impairment established (€M)

Type	2012	2013	2014	2015	2016	2017	2018	2019
Allocations in the year for which accounts are prepared	0	259	719	337	377	840	863	
Allocation restatement CBE 5/2015[44]		1,348	349	0	0	0	0	
Impairment according to Bank of Spain Circular 5/2015	0	1,607	1,068	337	377	840	863	1,727
Cumulative impairment according to Bank of Spain Circular 5/2015	**0**	**1,607**	**2,675**	**3,012**	**3,389**	**4,229**	**5,092**	**6,819**
Net of tax				-682	-100	0	0	
Against profits and losses				**2,330**				
Against value change adjustments in equity					**3,289**	**4,229**	**5,092**	**6,819**

The capital losses in the value of the different portfolios of Sareb assets grows each year due to the business dynamics resulting from the accounting schema to which the company is subject, having received the assets en bloc for average prices, without adjusting to reflect the real underlying value of each one.

It should also be pointed out that in the last years the parameters for future revaluation of assets according to the Business Plan -and in line with the Bank of Spain Circular 5/2015- have been adapted to both the future of the market and to the special nature of the assets that were transferred to Sareb.

Evolution of the value of the hedging swap

In July 2013, Sareb contracted a set of interest rate swaps intended to reduce the high exposure to changes in finance costs of the senior debt issued.

The purpose of those derivatives is therefore to hedge the exposure to interest rate risk for a specific period of time, and on a specific portion of the senior debt. The object of the hedge is to reduce the fluctuation of the floating rates to which the senior debt is indexed, which is why it has been designated as a cash flow hedge. At the end of 2019, Sareb had a total of €35,798 M of senior debt issued (before repayments made in December 2019 and February 2020) of which 42% is hedged until 2023.

In order to eliminate the accounting mismatch generated by having a derivative designated as a hedge on the balance sheet, Sareb uses the hedge accounting established under the accounting legislation for its monitoring and recording.

Continued

[44] Bank of Spain Circular 5/2015 which implements the specific accounting aspects for Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S. A. (Sareb).

Hedge accounting therefore involves careful monitoring until maturity, from both the qualitative and quantitative aspects. In this respect, the degree of effectiveness of hedging derivatives remains high at the close of 2019 (94%), although there is a part that is ineffective due to the present situation of negative interest rates and which is reflected in the income statement, as required under accounting legislation.

As the hedge is partial, in the current interest rate scenario Sareb has reduced the financing cost for the non-hedged portion. It is important to point out that the effectiveness of the hedging is maximum in scenario where the interest rates are positive or high, in such a way that the finance cost given by Sareb comes from the ineffective portion generated by those current negative rates on the hedged portion.

Evolution of turnover

The income statement shown below follows the guidelines of the General Chart of Accounts (GCA) which, for the purposes of turnover does not take into consideration the amount received, but instead the margin generated in transactions under the Sales Growth Plans (SGP), reductions and repayments of principal.

If all collections and accruals are taken into consideration, the total figure for income from Sareb transactions with financial and real estate assets stood in 2019 at €2,308 M, itemised as shown below.

That amount includes, both in income and in margin, an additional amount of €46 M which corresponds to other activities of the company -value adjustments, income from contract termination, receipts from assets under servicing, and also the remainder of the contract ended with Haya Real Estate.

Income statement (€M)

	2019	2018
Turnover	**1,430**	**1,938**
Real estate assets	**1,190**	**1,267**
Sales of real estate assets	1,046	1,226
Income from leases	41	35
Bank Asset Funds (FAB) and others	104	6
Financial assets	**239**	**671**
Sales of financial assets	-90	377
Financial income from loans (margin)	330	294
Sales costs	**-1,020**	**-1,411**
from financial assets	0	-351
from real estate assets	-1,020	-1,059
Gross accounting margin	**410**	**527**
Other operating income	46	23
Management, marketing and maintenance expenses	-670	-697
Amortisations and others	-65	-74
Operating income/(loss)	**-279**	**-221**
Net financial income/(expense)	-586	-658
Profit/(Loss) before taxes	**-864**	**-879**
Corporate Income Tax	-83	1
Net profit/(loss)	**-947**	**-878**

Itemisation of the turnover for the year

2019 is the first year in which real estate represents the main source of income for Sareb, as a result of the business strategy implemented by the company.

This decision by the organisation seeks to reduce the sale of loans on the wholesale and institutional market and to intensify their conversion into real estate assets through dations and foreclosures, which explains the reduced income from financial assets, and to promote residential property development and urban land management.

However, financial assets still account for the majority of Sareb's gross margins from regular amortisations and collections on the low number of loans in normal conditions, and from the specific application of interest accrued in Sareb -based on the future recoverability of the collateral properties. These margin generating lines show a downward trend which will continue in the coming years. In this respect, there is less impact from the divestment of this type of assets through sales and marketing of SGP or single items of collateral, which provide no margin.

Turnover from financial assets in 2019 stood at €934.1 M, 57.7% less than the €2,207.8 M €in 2018.

Breakdown of sales of financial assets (€M)

	Income	Gross margin
Repayment and sale of loans	171.8	-6.7
Amortisations and collections	255.9	86.0
Interest	152.6	152.6
SGP and liquidation of collateral properties	353.8	7.6
Total	**934.1**	**239.4**

In the real estate side, income has grown by 4.5%, reaching €1,327.8 M in 2019, due to greater activity in the residential segment -both in assets originally received and in Sareb developments. Nevertheless, the margins went down by €30 M due to less activity in the land segment, where the previous year there had been significant margins.

In the context of an increasingly more competitive market in which major funds have come into play and have acquired significant numbers of assets at reduced prices, Sareb's evolution in the management and sale of real estate is positive, both in the aspect of property development and promotion and also in the strategy for pushing forward with the conversion of its loans into real estate assets.

Breakdown of sales of real estate assets (€M)

	Income	Gross margin
Residential	1,043.0	101.5
Land and Commercial real estate	244.4	28.7
Rents	40.4	40.4
Total	**1,327.8**	**170.6**

The operating expenses, in real terms, are in line with the figures for the previous year, although there are differences in their breakdown.

Sareb operating expenses in 2019

In 2019, the non-financial expenses of the company went down by 5%, to €663 M, due to the stabilisation of the actual costs and the process of adjustment for provisions -particularly provision for taxes- once Sareb had practically completed the process of monitoring its whole portfolio.

Nearly one third of total expenses, 30%, relates to fees established under contracts with the servicers for management, administration and marketing.

Expenses arising from owning real estate assets –conservation and maintenance, expenses of homeowner's associations, security, Property Tax (IBI) – account for a third of the expenses and have increasingly more impact as a result of Sareb's commitment to reconditioning homes with the aim of maintaining a larger and better pool of properties for sale.

In the tax side, in 2019 (VAT) has again been significant, as the increase in the percentages deductible from the apportionment basis are not sufficient to offset the growing costs of the foreclosures and dations -considered as first transfer-, which continue to be strategic. Local taxes are stabilised, although in this year their accounting cost has been diminished by the above-mentioned monitoring process.

Sareb's structure expenses are stabilised in the framework of a dual effort. The first one to improve the information on the assets of the company –both from the aspect of updating appraisals and of the development of projects of a technological nature which make it possible to centralise all the information in its systems and the associated transactions. The second is related to putting the Esparta Project into operation, which allows for more on-hand management for each of the different types of assets. All these efforts are aimed at more efficient management of the assets which, ultimately, will make it possible to obtain better prices in the transactions.

At the same time, during the year an analysis was made of certain amounts provisioned -booked as an expense in previous years- by the servicers in relation to the management of Sareb assets. In that respect it was decided to make an adjustment for surplus provisions for €59 M.

	2019	2018
Fees for management and marketing	**219.2**	**203.8**
Management	91.2	98.4
Marketing and sales costs	128.0	108.3
Taxes (IBI, VAT, capital gains and others)	**226.1**	**217.5**
IBI, capital gains and others	87.7	93.8
VAT (expenses and foreclosures)	138.4	123.6
Expenses arising from foreclosure and dation procedures	**34.2**	**27.2**
Technical reports - Registration expenses and others	**6.5**	**12.2**
Homeowner's associations and maintenance	**129.9**	**134.3**
Homeowner's associations and security	55.1	68.7
Maintenance and conditioning	63.1	58.0
Other operating expenses	11.7	7.6
Expense for Sareb structure	**106.0**	**101.9**
General expenses	66.0	65.1
Staff expense	40.0	36.8
Provision adjustment	**-59.0**	
Total expenses	**662.9**	**696.9**

All of this leads to an operating loss of €271 M as compared to the €221 M of loss for 2018. In 2019, the finance cost went down to €586 M, from €658 M in 2018, due to less volume of debt and lower accounting impact -which still persists- of the unfavourable outcome of arbitration regarding negative coupons.

The loss before taxes went down to €864 M from €879 M of the previous year. Nevertheless, €83 M must be added to that figure for the deactivation of tax credits -tax losses- that are considered unlikely to be recovered. With this, the final outcome for 2019 is a negative figure of €947 M, placing the company's shareholders' equity at €230 M -to which a total of €1,430 M of subordinated debt could be added as own resources.

Evolution of own resources and equity

At the end of 2019, Sareb's total figure for capital and subordinated debt amounted to €1,660 M, less than the €4,800 M with which it was incorporated. This reduction is due to the accounting losses recorded by the company since it was incorporated.

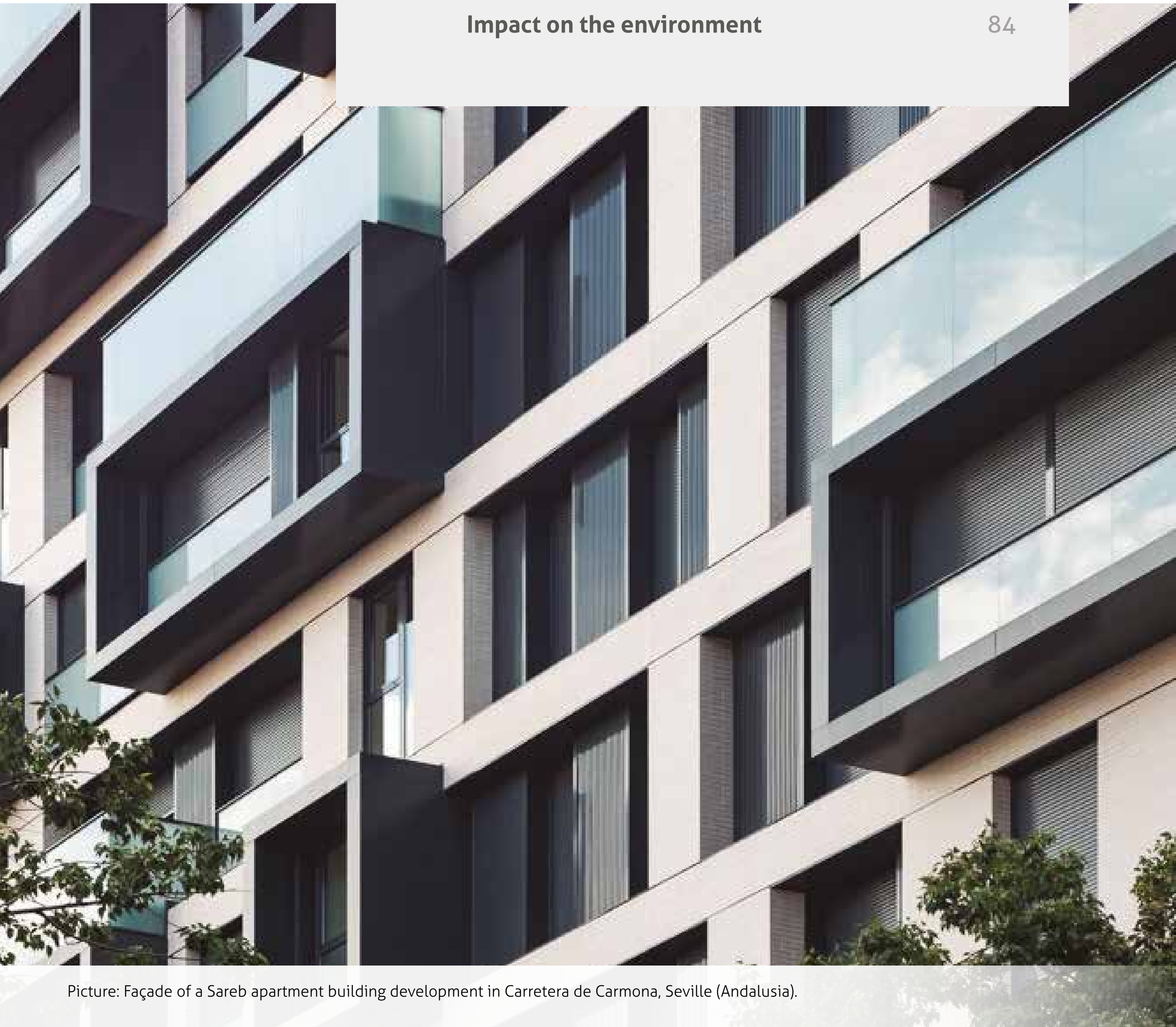
With regard to equity, the above figures for shareholders' equity went down by €7,741 M for value change adjustments.

Breakdown of shareholders' equity and subordinated debt (M€)

	2019		2018	
	Change/PL	Balances	Change/PL	Balances
Equity	**-1,879**	**-7,511**	**-1,429**	**-5,136**
Value change adjustments	**-932**	**-7,741**	**-551**	**-6,313**
Hedging operations	299	-922	312	-1,221
Impairment FA Unit	-1,231	-6,323	-863	-5,092
Impairment REA Unit	-496	-496		
Shareholders' equity for the purposes of the Capital Companies Act[45]	**-947**	**230**	**-878**	**1,177**
Capital		304		304
Issue premium		0		0
Reserves/Losses from previous years	-878	873	-565	1,751
Profit/(Loss) for the year	-947	-947	-878	-878
Subordinated debt	**0**	**1,430**	**0**	**1,430**
Shareholders' equity + Subordinated	**-947**	**1,660**	**-878**	**2,607**

[45] Capital Companies Act: LSC or Ley de sociedades de capital.

4. OUR WAY OF WORKING



Picture: Façade of a Sareb apartment building development in Carretera de Carmona, Seville (Andalusia).

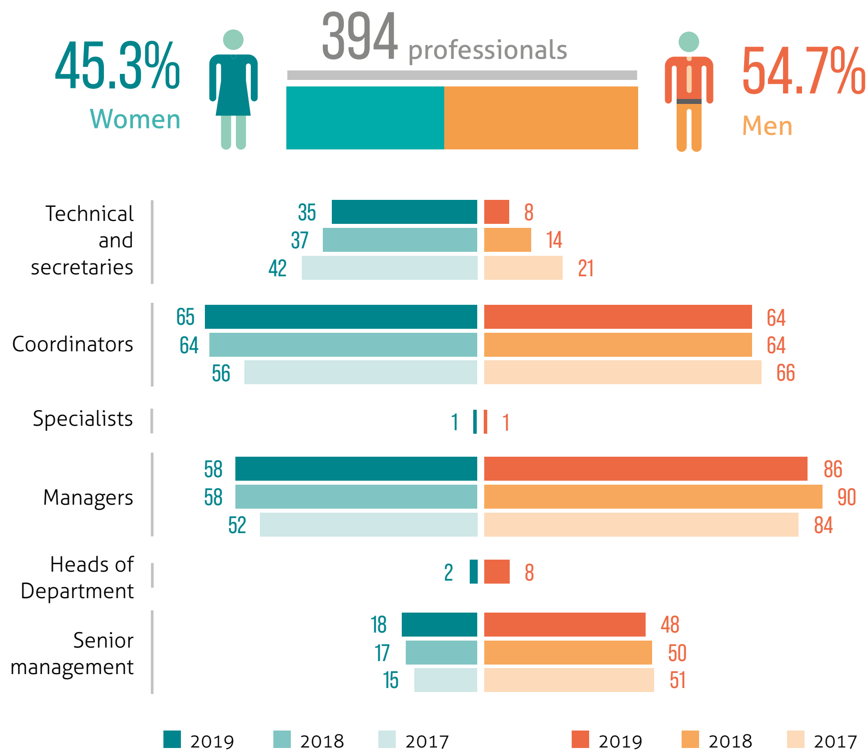
SAREB HUMAN CAPITAL

The conversion of the company balance sheet is accompanied by more specialised professionals in the real estate sector

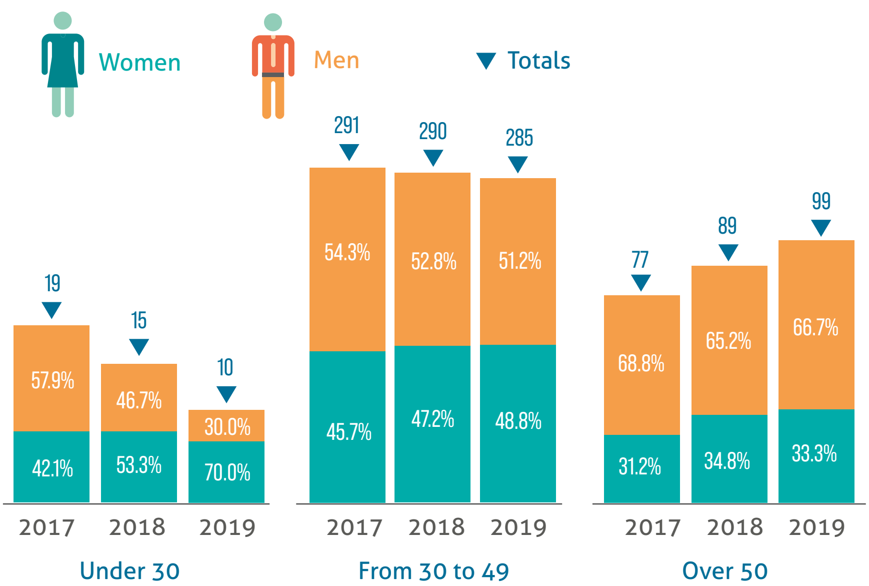
At the end of 2019, the number of Sareb employees totalled 394. This figure remained stable compared to 2018 as a result of staff engaged during the year (34), which offsets the volume of employee turnover in the year.

The company pays attention to the care and development of its professionals, as it is aware that their motivation and "know-how" enable Sareb to advance toward the fulfilment of its mandate.

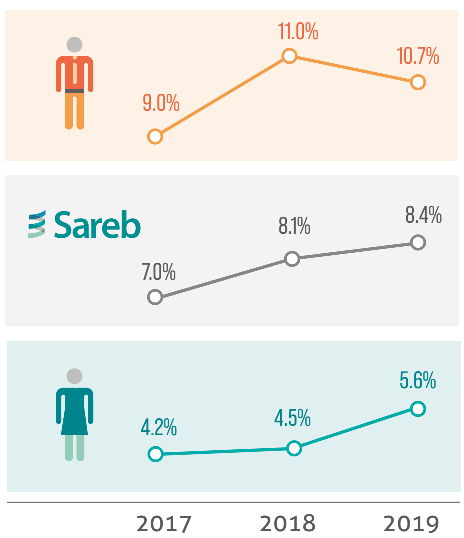
37. Profile of Sareb workers (number per category and % of the total)[46]



38. Breakdown of staff by age and gender (%)



39. Turnover of employees per gender and average (%)



[46] The categories of "Head of Department" and "Specialist" were created in 2019 and therefore there is no historic data for them.

A seal of professional guarantee for the future

Sareb is a unique business project with a limited lifespan that requires a differentiated approach to attract and retain the best talent. Its strategy is based on a strong commitment to the development of its employees beyond Sareb's useful life, and prepares them for taking on new challenges in future working environments.

With this, all actions and programmes are put into effect with the aim of enhancing employee performance and abilities –both from the technical aspect and for mastering skills– so that the time they spend in Sareb will be a positive development and step in their professional career.

The Sareb people management plan reflects this philosophy, and is based on four pillars that contribute to responding to the needs of both sides.

People management plan of Sareb

Attracting, selecting and introduction of employees

For Sareb to comply with its mandate, it needs employees with high professional added value who have the skills necessary at each moment of the useful life of the project.

Leadership and autonomy

Leadership and organisational structure are based on Sareb values and on the commitment to employees' flexibility and autonomy with regard to choosing their own professional development.

Development and training for future challenges

Staff development is the main transmitter of Sareb culture and contributes to heightening the commitment levels of the staff with the company. In addition to the possibility of following training courses offered by the company in its annual programmes, Sareb professionals have various tools available to them for their training, amongst which the possibility of living meaningful experiences -such as joining another department for a period of time to have first-hand experience of its day-to-day functions- or the promoting of self-learning activities using information and materials provided by the company.

In 2019, opportunities arose for internal mobility related to putting the geographical branch offices into operation. In September, the teams for each area were set up, composed of 15 people who will carry out their duties within this new working framework.

Satisfied, motivated employees

The measurement and follow-up of employee satisfaction and motivation makes it possible to develop and implement initiatives for ongoing improvement based on the results.

In 2019, as a result of the action plan following the last climate survey, the company has replaced 'Sareb Escucha' by a new space for consultation under the scope of the 'Kairós Project', following the change of culture toward flexibility and agile methodologies.

Organisational speed and efficiency

The 'Kairós Project', commencing in 2019, establishes an organisational philosophy based on speed and efficiency on the assumption that time is a valuable resource for an organisation like Sareb, with an established end-of-mandate date.

This initiative, which will continue until fully implemented during the following year, attained its objectives in 2019 which included:

1) **Streamline the company:** creating the teams for the geographical branch offices and selecting and implementing four projects under the Esparta framework.

2) **Not lose sight of the business:** communicating successful sales, shared initiatives and staff training in agile methodologies.

3) **Involve all employees:** with the creation of the Kairós mailbox for solving any concerns from Sareb workers, and the launching of a plan for clarifying doubts and answering queries.

8 DECENT WORK AND ECONOMIC GROWTH

Sareb's contribution to the United Nations 2030 Agenda

The commitment of professional guarantee that Sareb offers its employees is a direct driving force of goal 8.5 of the United Nations 2030 Agenda, which seeks to **"achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value"**.

Equality, diversity and conciliation: 'Sareb Contigo'

Since 2017, the company has an Equality, Diversity and Conciliation Plan which was fully implemented in 2018. Already in 2019, the Plan, which is now called 'Sareb Contigo', consolidates Sareb's commitment to a more inclusive and flexible workplace environment that guarantees equal opportunities for all those who form part of the company.

In this respect, 'Sareb Contigo' addresses a wide range of measures for achieving effective diversity, not only between men and women, but also between the different generations that live together in the organisation –in 2019 the average work experience of the workforce is 19 years.

The measures include:

- Promoting intergenerational recruitment.
- Since 2017, 32 women and 38 men have been promoted. Of those professionals, 10% of those women and 13% of those men were promoted to manager.
- Flexibilisation of working hours and implantation of teleworking.
- Launching of a reverse mentoring scheme in collaboration with another firm. In 2019, young Sareb employees and the consultancy firm Accenture mentored more senior professionals from both companies with the aim of obtaining the best of the different generations working side-by-side in the business environment.

Publication of the Sareb Harassment Protocol

Respect and dignity of people are the basic values of the Sareb culture. During the year, the company has implemented and shared its Harassment Protocol with all of its employees so that the workforce is aware of the guidelines to follow if any situation of potential harassment or discrimination is identified.

In this respect, the Whistleblowing Mailbox, at the disposal of employees and third parties, provides for the possibility reporting harassment, discrimination, abuse, intimidation or any other behaviour that could imply any type of aggression.

Visibility of leadership in Sareb women

A total of five women have gone through the Project Promociona, which has been joined by Jaime Echegoyen, Chairman of Sareb, as mentor.

For the past four years, the company has participated in the Project Promociona –Programme for Promoting Women in Senior Management. This initiative includes academic training in collaboration with ESADE Business & Law School, individual mentoring with high-level executives, coaching sessions and networking activities. The ultimate objective is to strengthen and develop the professional capacities and leadership skills of women working in Sareb.

5 GENDER EQUALITY

10 REDUCED INEQUALITIES

Sareb's contribution to the United Nations 2030 Agenda

Sareb's policies, procedures and schemes for guaranteeing equal opportunities and diversity in the company contribute to goals 5.5 and 10.3 of the United Nations 2030 Agenda which aim to **"ensure women's full and effective participation and equal opportunities for leadership at all levels"** and **"ensure equal opportunity and reduce inequalities of outcome"**, respectively.

Wager for quality training

Sareb offers its employees specific practical training adapted to the needs of the company, based on the philosophy of learning by doing. Sareb's professional training and development programmes combine technical knowledge with other necessary skills for management and leadership.

Since it was created, the company has been gradually increasing its efforts in this field, reaching a record of 21,566 training hours in 2019 –11% higher than the target of hours established for the year.

Essential for acquiring or reinforcing the knowledge required to carry out an employee's work

Technical training

Sareb professionals at the heart of the business

Soft Skills

Focus on leadership, team management and orientation toward the achievement of results, from an innovative perspective

40. Sareb employee training in figures

21,566 h. Total training

+ 9.1% compared to 2018

€998 Investment in training per employee

100% of the workforce takes part in training activities

55 h. Training per employee

9/10 Results of satisfaction surveys regarding training

In line with the organisation's need for agility and flexibility, one of the milestones worth pointing out in 2019 is the launch of the agile methodology software, specifically the *Scrum Master* and *Product Owner* certifications and of *Agile* training for users. 112 employees, 28% the workforce, have benefited from it. In the coming months, Sareb will continue advancing to broaden this scope.

In addition, the company has collaboration agreements in place with some business schools so that employees can benefit from the training offered in more competitive conditions. In 2019, Sareb arranged for a collaboration with the Higher Education Centre for Business, Innovation and Technology (IUNIT), attached to the Rey Juan Carlos University in Madrid. This arrangement is very similar to those implemented by the company with other learning centres such as Deusto, IESE, EOI, IE or IEB.

Furthermore, through 'Training for Trainers', any employees with specific technical knowledge can share it with the rest of the company –as in-house trainers–, which in turn strengthens leadership and recognition among colleagues.

Second edition of the 'Real Estate Expert' scheme: a qualification for encouraging the transformation of the balance sheet

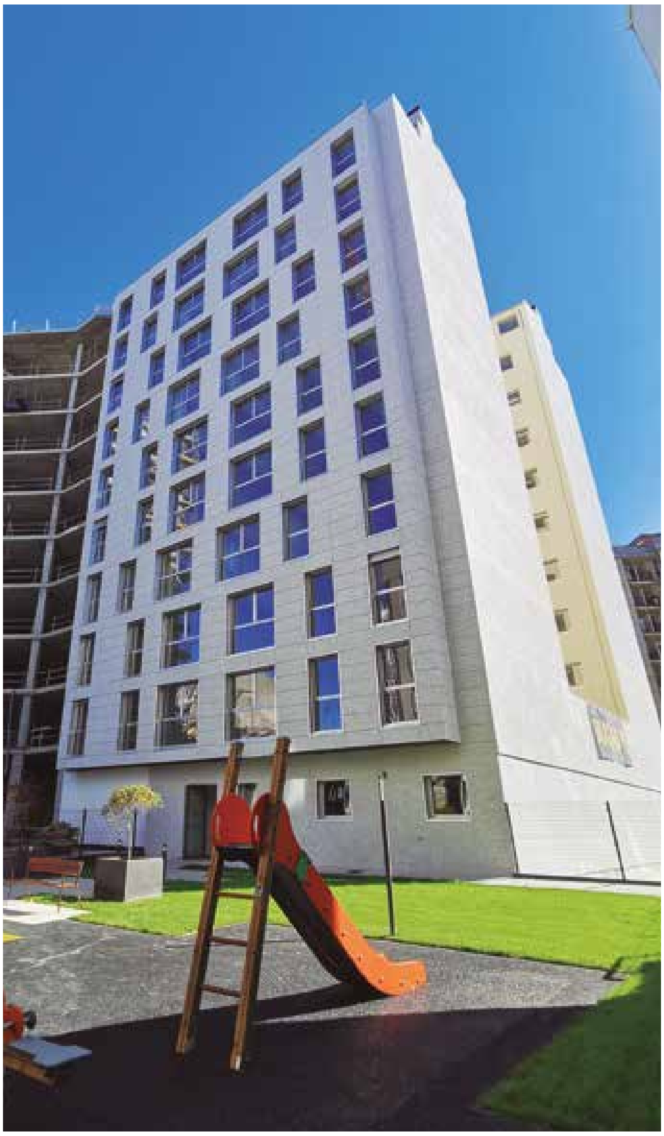
The company places special emphasis on adapting its employees' skills at all times, in line with the transformation of the balance sheet and of the business.

Since 2018, Sareb has implemented the Real Estate Expert scheme in collaboration with the Official Association of Architects of Madrid (COAM).

This initiative came about with the object of helping the company to adapt the profiles of its professionals to the transformation of its balance sheet and business: less financial and more property-based. 2019 saw the second edition of the programme, in which 60 employees participated in two sessions.

Volunteers with values

Sareb professionals exemplify the values of the company and its social commitment. That reality is materialised through the initiatives 'Sareb Ambassadors' and 'Building future: jobs with social value', in which certain volunteer employees share and disseminate Sareb's values and activities with the educational community and help groups at risk of social exclusion to improve their capacity to enter the employment market. In 2019, this last project received the award for Corporate Volunteering from the Integra Foundation.



Picture: Exterior view of the first property development finished by Arqura Homes. The building is situated in Rúa Rosalía de Castro, Vigo (Galicia).

Safe working environment: Assessment of risks and awareness raising

In 2019, the company updated its Environmental Management, Quality and Occupational Hazard Prevention Policy and the associated management system following ISO standard 45001 to include commitments arising from the external audit for this certification.

Since it was implemented, the organisation has focussed on maintaining the system, applying all opportunities for improvement detected for Sareb to advance in issues of employee health and safety.

The principles of the policy include the elimination of hazards and the reduction of risks -mainly musculoskeletal disorders- for health and safety in the workplace, by analysing all accidents/incidents and implementing the measures required for preventing them from repeating. In addition it encourages employee consultation and participation.

In 2019, three accidents were reported which did not lead to any employees requiring time off work.

Picture: Residential building under development in Calle Tetúan, Santander (Cantabria).

More information on the Sareb Environmental Management, Quality and Occupational Hazard Prevention Policy
https://www.sareb.es/file_source/web/contentinstances/documents/files/politica-de-gestion-medioambiental-calidad-prl.pdf

INNOVATION APPLIED TO BUSINESS

Sareb's novel ecosystem is the backbone of the company's business model and way of working

Sareb performs its activity with an innovative approach that aims to develop disruptive projects that contribute not only to the company's fulfilment of its mandate, but also serve to transform and energise the sector.

visítame

`visítame´ is a tool hat enables potential buyers to arrange visits from their mobile phones, to view Sareb real estate assets whenever they wish, and independently.

After coming into operation at the beginning of 2019 with a pilot project in a new apartment building in Alicante, this platform can now be used to visit the properties of 31 company developments distributed among different parts of Spain.

In order to understand the experience of users and improve the functions and use of this tool, Sareb periodically carries out surveys among users. In 2019, 96% of people surveyed said they would use this system again to make independent visits to the properties on sale.

This project is an example of how Sareb develops the initiatives that contribute to fostering innovation on the real estate market.

In figures:

- **2,500** visits to real estate assets
- **75** bookings managed
- **50** residential properties sold

Picture: Exterior view of a Sareb apartment building development in Valencia (Region of Valencia).

In terms of promoting an internal culture of innovation, Sareb puts different initiatives into operation which include events and talks for disseminating the new trends in the sector and the innovative role of the company itself aimed at all levels of the organisation.

In this context, and with the aim of involving senior management and keeping them up-to-date with the trends and technologies affecting or that are going to affect the sector, Sareb has Advisory Councils in which members of the Management Committee, heads of departments, experts in the innovation ecosystem –advisors– participate in quarterly meetings and, depending on the issues to be dealt with, the company invites participants specialising on each issue. In 2019, three sessions were held, mainly to discuss ConTech, PropTech trends and blockchain.

Platform of ideas: solutions from a collaboration perspective

Sareb works to materialise the most innovative ideas generated in the framework of this project.

In 2019, Sareb launched a new initiative for promoting and boosting the innovation culture from the perspective of collaboration.

The 'Platform of Ideas' was created as a forum in which the Sareb workforce has the opportunity to put forward innovative solutions that provide a response to the different challenges of the organisation. In addition to contributing proposals, Sareb's employees can also support any ideas put forward by other colleagues and invest virtual money or give up part of their time to advance in the development of the solution.

Since its was launched, a total of seven challenges have been raised, which were responded to with 51 ideas and 90% of Sareb employees have participated in the platform. As a result of the ideas proposed, at the end of year there are already 10 pilots involving workers from different areas of the company.

Picture: Interior of a home finished by Sareb in Lalín, Pontevedra (Galicia).

RESPONSIBLE MANAGEMENT OF SUPPLIERS

Transparency, competition and no supplier concentration govern how Sareb purchases assets and services.

The purchase of goods and services of Sareb is based on attaining the best value-for-money, in accordance with the principles of transparency, competition and non-concentration of suppliers.

The move toward the Esparta Project, which focusses, amongst other things, on efficiency in the management model and on the specialisation of suppliers, in 2019 has spread to the company's chain of supply.

In this respect, during the year 27 offers for tender were launched to cover the specialist services required by the new model, which has resulted in services being awarded to 75 suppliers, with an estimated turnover of €18 M.

Picture: Sareb apartment building development in the centre of Valencia (Region of Valencia).

In 2019, the Glasgow project was also put into operation, aimed at efficiency in management of suppliers, the main purposes of which are:

- Unification in four sole suppliers of services provided to different departments.
- Simplification of the methodology for implementing certain tasks.
- Application of better economic conditions in the contracts with those four suppliers where operational synergies exist.

An example of this is the centralisation of the maintenance of most of the applications software used by the company. This process has culminated in the engagement of the multinational consultancy firm, Everis, which has assumed the functions that until that time had been carried out by 12 different suppliers.

Among the criteria for choosing suppliers, the company evaluates the degree to which these suppliers have progressed in terms of corporate social responsibility and their willingness to collaborate with Sareb in this field, for suppliers and contracts whose invoicing is over €30,000.

Corporate Social Responsibility (CSR) in selecting suppliers

1. Existence of CSR management systems
2. Environmental policy in force
3. Adherence to the Sareb Code of Conduct
4. Interest expressed in collaborating with Sareb in CSR initiatives

More information on the process for the contracting and standardisation of suppliers on corporate social responsibility issues
https://www.sareb.es/file_source/web/contentInstances/documents/files/Homologacion%20proveedores.PDF

Main figures for the Sareb supply chain in 2019[47]

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Sareb's contribution to the United Nations 2030 Agenda

The criteria established regarding corporate social responsibility when Sareb selects suppliers contribute to goal 12.6 of the United Nations 2030 Agenda, which defends ongoing improvement in company management on social, environmental and economic issues and encourages companies to **"adopt sustainable practices and to integrate sustainability information into their reporting cycle"**.

'O2',a new tool for greater efficiency in the purchasing process

Since 2019, Sareb has been working on introducing a system for receiving and managing supplier invoices electronically. Amongst the main advantages of the system are:

- **Tracking and tracing:** tracking the status of the invoices sent can take place in real time.
- **Agility:** allows invoices to be sent 24/7, which avoids delays and helps to confirm that they have been received.
- **Security:** document wills be kept in a secure environment, which can be accessed with a user name and password provided by Sareb.
- **Saving:** suppliers no longer have to send their invoices by courier service or by post, thus reducing costs and time.
- **Environmental commitment:** the use of paper disappears as no printed bills are received.
- **Electronic signature:** the Sareb electronic signature is valid with the Spanish Tax Authorities and the auditors.
- **Validations:** the tool has invoice validation for rectifying any possible errors, even before being registered.

The percentage of implantation of O2 at the end of 2019 was 60% and the process is expected to be concluded during 2020.

[47] The data provided corresponds to suppliers contracted from Sareb's Purchasing Department. Suppliers contracted by the servicers on behalf and in representation of Sareb, using the powers delegated to them, are excluded.

IMPACT ON THE ENVIRONMENT

The efficiency measures implemented in 2019 have enabled a 10.6% decrease in electricity consumption compared to the previous year

Sareb Environmental Management, Quality and Occupational Hazard Prevention Policy brings together the principles and key aspects to be implemented by the company focussed on the respect and protection of the environment.

Since the integrated environmental management system was implemented last year –in accordance with the ISO 14001 international standard– the company has continued working to develop new initiatives that will enable it to continue advancing in this respect. Amongst the lines of progress, special mention is made of raising awareness in employees and third parties on matters related to minimisation of waste and changing habits, as well as promoting teleworking and holding meetings remotely to reduce CO_2 emissions associated with transport.

Also, the company has introduced new efficiency measures, such as the replacement of equipment with low-consumption technologies, promoting recycling and the provision of containers for batteries.

As a result of these measures, in 2019 there has been a 10.6% decrease in electricity consumption compared to the previous year.

The company has also progressed during the year in paper and cardboard management. This has enabled it to reduce its paper consumption by 33.2% compared to 2018, down to 3,125 Kg. In addition, from the recycling aspect, it has improved its ratio of paper managed[48] by 197%, in line with the different initiatives implemented by Sareb for digitalising documents.

41. Main figures on environmental impact of Sareb's activity

Energy

469,612 KW
energy consumed
▼ -10.6%
(525,139 KW in 2018)

1,171 KW
per employee
▼ -10.7%
(1,312 KW in 2018)

Paper

3,125 Kg
paper consumed
▼ -33.2%
(4,678 kg in 2018)

7.9 kg
per employee
▼ -33.6%
(11.9 kg in 2018)

Toners

95 units
used and subsequently recycled
▲ +72.7%
(55[49] units in 2018)

More information on Environmental Management, Quality and Occupational Hazard Prevention Policy
https://www.sareb.es/file_source/web/contentinstances/documents/files/politica-de-gestion-medioambiental-calidad-prl.pdf

48 Volume of recycled paper as a percentage of paper used.

49 The 2018 figure has been recalculated following an improvement in monitoring and gathering information by the provider responsible for managing it.

Sareb joins the climate emergency declaration

The company has joined the 'Observatory 2030' promoted by the Higher Council of Official Associations of Architects (CSAE) for declaring the climate emergency.

This initiative brings together all agents in Spain involved in city planning: from public administrations to industrial groups and the third sector (foundations, associations, technical colleges and universities).

The statement will serve as leverage to promote the change of model for the sector and acknowledges the importance of transforming and adapting the built-up habitat, to make it more sustainable. The signatories undertake to accelerate the adaptation of cities, to promote a responsible use of natural resources, reduce even further the waste generated by construction and to encourage the use of low impact renewable materials, amongst others.

Sareb's contribution to the United Nations 2030 Agenda

7 AFFORDABLE AND CLEAN ENERGY

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

By establishing energy efficiency measures, Sareb is contributing to goal 7.3 of the United Nations 2030 Agenda: **"double the rate of improvement in energy efficiency"**. The company also works to reduce the consumption of paper and other materials -such as printer toner- and to ensure proper management of the waste generated. This contributes to goals 12.5 and 12.6, which, respectively, aim to: **"substantially reduce waste generation through prevention, reduction, recycling and reuse" and "encourage companies to adopt sustainable practices and to integrate sustainability information into their reporting cycle"**.

Picture: Façade of a Sareb apartment building development in the centre of Valencia (Region of Valencia).

5. GOOD GOVERNANCE

Picture: Homes of the Sareb residential property development in the Municipality of Udías (Cantabria).

COMPOSITION AND FUNCTIONING OF THE BOARD OF DIRECTORS

The experience of its members, the diversity of their profiles and balance in its composition are factors that define the make-up of Sareb's highest governance body

Main features of the Board and milestones

The Sareb Board of Directors is composed of 15 members, of which one third are independent, in compliance with the provisions of Royal Decree 1559/2012, which establishes the legal system governing asset management companies, and following best corporate governance practices.

During the year there have been a number of changes as a result of the expiry of the mandate or the resignation of some directors. The independent directors Isidoro Lora-Tamayo Rodríguez and José Poveda Díaz completed their five-year mandate, while Antonio Cayuela Gil resigned as proprietary director –representing CaixaBank.

In that context, in April 2019, the Shareholders General Meeting approved the appointment of three new directors: Idoya Arteagabeitia González and Carmen Motellón García, as independent directors, and Joaquín Vilar Barrabeig, as proprietary director, representing CaixaBank.

Once the appointments were approved by that General Meeting, the Board of Directors, with the favourable report from the Remuneration and Appointments Committee, also appointed the three candidates as members of the Audit Committee and the Independent Directors as members of the Remuneration and Appointments Committee.

Carmen Motellón was subsequently appointed as chair of the Audit Committee and member of the Executive Committee.

That same Meeting also re-elected Jaime Echegoyen Enríquez de la Orden as CEO of Sareb, with a five-year mandate.

Meanwhile, also in 2019, Pedro Antonio Merino García was appointed as chair of the Remuneration and Appointments Committee to replace Isidoro Lora-Tamayo Rodríguez, following a favourable report from that Committee.

Picture: View of the City of Arts in Valencia, from a Sareb home (Region of Valencia).

GOVERNANCE MODEL

The company develops its activity while meeting the specific requirements for governance required under applicable legislation and acts under strict rules of ethics that safeguard its integrity at all times as well as its transparency, commercial reputation and professionalism.

A clear and specific legislative framework

The incorporation and development of Sareb is defined under the following legislative framework:

- Act 8/2012, of 30 October, on the write-off and sale of real estate assets in the financial sector.
- Act 9/2012, of 14 November, on the restructuring and winding-up of credit institutions.
- Royal Decree 1559/2012, of 15 November, which establishes the legal system governing asset management companies.
- Bank of Spain Circular 5/2015, of 30 September, on the accounting particularities of Sareb.
- Royal Decree-Law 4/2016, of 2 December, on urgent financial measures.
- Royal Decree-Law 6/2020, of 10 March, on adopting certain urgent financial measures.

Supervision

The singularity of its corporate purpose and the public interest associated to Sareb's activity mean it is also subject to supervision by the Bank of Spain, the Spanish National Securities Market Commission (CNMV) and the Monitoring Committee.

Governance

Monitoring of the best governance practices applicable to listed companies and public-interest institutions.

Composition of capital

54.1%	45.9%
Private Capital	Public capital through the FROB [Fund for Orderly Bank Restructuring]

16 PAZ, JUSTICIA E INSTITUCIONES SÓLIDAS

17 ALIANZAS PARA LOGRAR LOS OBJETIVOS

Sareb's contribution to the United Nations 2030 Agenda

Sareb's good corporate governance practices, the internal control mechanisms and systems and transparency in the management and rendering of accounts are consistent with the fulfilment of goals 16.6 and 17.3 of the United Nations 2030 Agenda, which, respectively, aim to: **"create efficient, transparent institutions at all levels that can be held" and "increase global macroeconomic stability including through policy coordination and coherence".**

Compliance and regulation

Strict regulatory regime which helps to ensure that the business is carried out according to legislation, with integrity and ethics, which helps to safeguard its reputation.

Supervisory bodies for ensuring compliance with the corporate targets

Bank of Spain

- Sole objective
- Specific requirements
- Standards of transparency
- Constitution and composition of the governing bodies

Spanish National Securities Market Commission (CNMV)

Issue of fixed income and registration authority for Bank Assets Funds (FAB)

Monitoring Committee

This reviews the compliance of the general objectives. It is formed by:

- Ministry for Economic Affairs and Digital Transformation (General Secretariat for Public Treasury and International Financing)
- Ministry of Finance
- Bank of Spain
- CNMV

Board of Directors

100% attendance of directors at all meetings

15 directors

19 Meetings in 2019

Executive Committee[1]
6 directors > 4 Meetings in 2019

Audit Committee
8 directors > 12 Meetings in 2019

Remuneration and Appointments Committee
8 directors > 8 Meetings in 2019

Support Committees[2] > 3[3] Meetings in 2019

- Management Committee
- Risks Committee
- Investments Committee
- Assets and Liabilities Committee

Management Committee > 61 Meetings in 2019

Assumes the functions of the Support Committees since 27 March 2019.

- Independent Director
- Executive Director
- Proprietary Director

[1] In force until 29 January 2020.
[2] In force until 27 March 2019.
[3] The four committees meet as a single ongoing meeting.

Internal control systems and mechanisms for risk management

Internal control system on governance and strategic processes (SCEG)

Governance and strategic processes:

- Strategy and reputation

Internal control system on ethical standards (SCISNE)

Ethical standards:

- Integrity
- Criminal liability
- Money laundering and the financing of terrorism
- Reputation contagion risk (*servicers*)

Internal control system on processes for managing business risks (SCIR)

Risk management:

- Credit
- Property price
- Liquidity
- Operational
- Interest rate

Internal control system on financial information (SCIIF)

Financial Information:

- Risk of reliability of financial reporting

Royal Decree-Law 6/2020, of 10 March, on adopting certain urgent financial measures

Establishes that the company will not be subject to winding-up if its equity is reduced to an amount less than half of its share capital.

In March 2020, the Council of Ministers passed a Royal Decree-Law which amended the seventh additional provision of the Law on the restructuring and winding-up of credit institutions to adapt the grounds for the dissolution of Sareb to its singular nature, which is the orderly liquidation of its assets.

In accordance with current legislation governing the Capital Companies Act, a reduction in equity is a cause for winding up a company; this cause would not be applied to Sareb on account of its own mission and, according to the RD, of the need for a special legal system to be in place for certain aspects that are essential for Sareb to be able to fulfil its purpose. The company will be able to continue carrying out its activity as normal, allowing it to generate cash for covering its operating expenses and repaying the senior debt arranged when it was incorporated.

Appointment of members of the Board of Directors

All appointments follow the principles established to that effect in the applicable provisions in the Articles of Association and in the Board Regulations.

As set out in articles 8 and 9 of the Board Regulations, when selecting the individuals who are to be proposed for holding office of director, apart from the requirements established by law and the articles of association for that office, consideration will also be given to persons of recognised commercial and professional repute, and who possess adequate knowledge and experience in order to exercise their duties. Proposals for appointment, ratification or re-election of directors presented by the Board of Directors for the consideration of the Shareholders General Meeting, and the decisions taken on appointments by that body under the co-option powers with which its has been legally vested, will be approved by the Board at the proposal of the Remuneration and Appointments Committee in the case of independent directors, and following a favourable report from that Committee in the case of other directors.

Diversity of the Board of Directors

In the light of the best international practices and recommendations on good governance, since 2019, 20% of the members of Sareb's highest governance body are women -40% of the total of independent directors-.

The new incorporations are evidence of the advances made by the company on equality and diversity in its Board of Directors.

More information on the
Board of Directors
https://www.sareb.es/en_US/about-us/corporate-governance/board-of-directors

Profile of Sareb directors

Date of first appointment	Director	Nature	Committees	Profile and competences
05/03/14[50]	Jaime Echegoyen Enríquez de la Orden	Executive Committee	E (Chairman)	Finance, Real Estate Sector, Business management, Legal, International
14/04/2015	FROB (represented by Jaime Ponce Huerta)	(D) FROB	E	Finance, Legal, Public Administrations, International
10/06/2015	Francisca Ortega Hernández-Agero	(D) Banco Santander	A	Finance, Real Estate Sector, Business management, International
10/06/2015	Pedro Antonio Merino García	Independent	E, A, R (Chairman)	Finance, Business management, Public Administrations, International
25/11/2015	Enric Rovira Masachs	(D) Banco Sabadell	R	Finance, Real Estate Sector, Business management
05/05/2016	Javier García-Carranza Benjumea	(D) Banco Santander	E	Finance, Real Estate Sector, Business management, International
28/11/2016	Iñaki Goikoetxeta González	Independent	A, R	Real Estate Sector, Legal, Public Administrations, International
28/11/2016	Javier Bartolomé Delicado	Independent	A, R	Finance, Business management, Legal, International
13/12/2017	Jaime Rodríguez Andrade	(D) Banco Santander	R	Finance, Business management, International
13/12/2017	Jordi Mondéjar López	(D) CaixaBank	E	Finance, Real Estate Sector, Business management
13/12/2017	Eduardo Aguilar Fernández-Hontoria	(D) FROB	A	Finance, Business management, Public Administrations, International
17/05/2018	Juan Ignacio Ruiz de Alda	(D) FROB	R	Finance, Real Estate Sector, Business management, International
30/04/2019	Idoya Arteagabeitia González	Independent	A, R	Finance, Legal, Public Administrations, International
30/04/2019	Carmen Motellón García	Independent	E, A (Chairman), R	Finance, Legal, Public Administrations
30/04/2019	Joaquín Vilar Barrabeig	(D) CaixaBank	A	Finance, Real Estate Sector, Business management

Date of first appointment
XX/XX/XX

Committees to which they belong
- E Executive Committee[51]
- A Audit Committee
- R Remuneration and Appointments Committee
- ○ Chairman of the Committee

Nature
- (D) Proprietary
- Independent

Profile and competences
Finance · Real Estate Sector · Business management · Legal · Public Administrations · International

[50] Jaime Echegoyen Enríquez de la Orden was re-elected by the Shareholders General Meeting in April 2019.

[51] In force until 29 January 2020.

Governing bodies and responsibilities

The governance of Sareb takes place through two main bodies: the Shareholders General Meeting and the Board of Directors, whose functioning is backed up by the Audit Committee, and the Remuneration and Appointments Committee.

At the beginning of 2020, the Board of Directors decided to eliminate the Executive Committee as the main reason for its creation is no longer present, namely to make rapid business decisions because, under the asset management strategy, priority is given to transactions in the retail market and at present there are not so many transactions that require the approval of that body.

Responsibilities and functions of the governing bodies and their committees

Shareholders General Meeting

Composed of Sareb shareholders, it discusses and makes decisions on matters within its competence, according to the articles of association and the Capital Companies Act.

Board of Directors

It is the body holding the representation, administration, management and control of the company.

Audit Committee

- Responsibility for internal control systems, requisite financial information, and associated non-financial information, auditors or auditing firm, and conflict of interests and related transactions.

Remuneration and Appointments Committee

- Amongst its functions are the duty to inform, propose and assess the suitability of the Sareb directors, and to inform on the general policy on remunerations and incentives.

Management Committee (Previously known as 'Support Committees')

- Created in March 2019, the functions of the Management Committee are focussed on providing support to the Board of Directors, in compliance with the provisions of Royal Decree 1559/2012[52] and Sareb's Articles of Association.

More information on the nature, functions and scope of action of the governing bodies:

Board of Directors
https://www.sareb.es/en_US/about-us/corporate-governance/board-of-directors

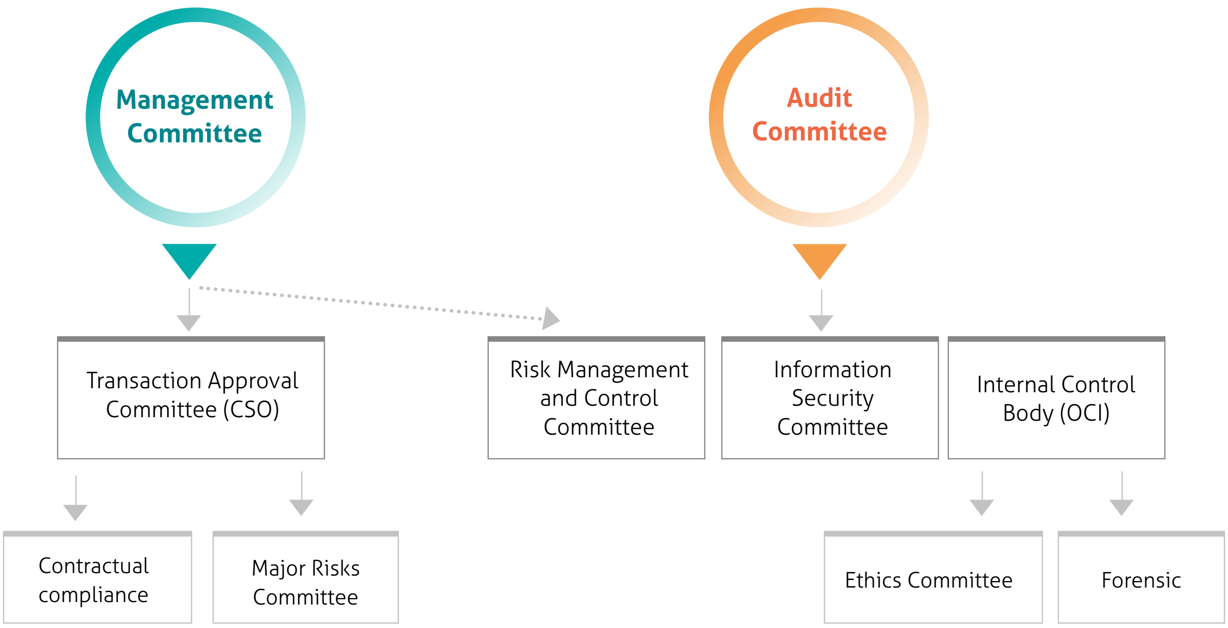
Remuneration and Appointments Committee and Auditing Committee
https://www.sareb.es/en_US/about-us/corporate-governance/committees

[52] Royal Decree 1559/2012, of 15 November, which establishes the legal system governing asset management companies.

Structure of the internal governing bodies

Sareb has an Internal Governance Policy that regulates the development and functions of the internal governing bodies involved in making decisions for exercising their specific powers, and those that have been delegated to them by the Board of Directors. Namely, in addition to the positions existing in the internal organisation, Sareb has an internal governing structure that facilitates decision-making in multifunctional operating environments.

The incorporation of the Support Committees into the Management Committee means that the latter assumes the functions set out in articles 26 to 29 of Sareb's Articles of Association. These state that the Risks Committee, the Investments Committee and the Assets and Liabilities Committee are all sections of the Management Committee.



The Shareholder Forum: point of access to information, for greater transparency

The incorporation of the different Support Committees into the Management Committee in 2019 led to the Board approving the creation of the Shareholder Forum.

Its purpose is to enhance and improve effectiveness in access to information for all shareholders, regardless of their stake in the company, which was previously provided through the Support Committees.

Picture: Sareb corporate headquarters, Madrid (Region of Madrid).

The effectiveness of the Board of Directors

The Board diligently handles the powers of management and supervision attributed to it, encouraging participation and debate in each session, on company strategy and the topics studied within the Committees.

The members of the Sareb Board of Directors perform their duties in strict compliance with ethical and behavioural standards relating to possible conflicts of interest and related operations.

The Conflicts of Interests and Related Operations Policy, approved by the Board of Directors in 2013, with its procedures for identifying such situations, applies more restrictive criteria than those required by applicable legislation.

With this, not only are the affected directors encouraged to not participate in the debate and refrained from voting on resolutions and decisions relating to transactions in which there is a potential conflict[53], but they are also denied information on these matters, and must be absent from the Board while the matter is being discussed. This policy was applied on 24 occasions during 2019.

More information on the Conflicts of Interests and Related Operations Policy
https://www.sareb.es/en_US/whats-new/multimedia-gallery/Conflicts-of-interest-Policy-&-Related%E2%80%93Party-Transactions-(Spanish)

Evaluation of the performance of the Board of Directors

Article 6 of the Regulations of the Sareb Board of Directors establishes the obligation to prepare and approve an annual report on the performance of the members while carrying out their duties.

The assessment made in 2019 results in a positive evaluation of the composition of the Board and its organisation, and also the diversity of the profiles of its members, which allows it to function as efficiently as possible.

Remuneration for members of the Board of Directors

Sareb's remunerations framework is defined in accordance with the terms of the General Policy on Remunerations for members of the Board of Directors.

Each year sees the publication of a report on the manner in which the company has applied the policy in the last ended financial year. This is available for consultation at www.sareb.es

More information on the
Remunerations Policy Report
https://www.sareb.es/es_ES/conoce-sareb/gobierno-corporativo/informes

Picture: Hacienda del Álamo Golf & Resort, Fuente Álamo (Murcia).

[53] According to the provisions of the Capital Companies Act.

ETHICS AND COMPLIANCE

The principles of integrity, transparency and civic engagement mark Sareb's guidelines for behaviour

The Internal Control System on Ethical Standards[54] includes all policies, manuals and procedures that contribute to the performance of the organisation's activity, not only in accordance with current legislation, but also in a full and integrated manner so as to protect its reputation and consolidate a corporate culture based on ethics.

The Compliance, Internal Control and Institutional Relations department is in charge of monitoring compliance with ethical standards aimed at crime prevention, data protection and the detection of other risks, amongst other issues.

Central to this system is the Code of Conduct, which is complemented by a broad set of standards that cover areas including, amongst others, criminal liability, the prevention of money laundering and financing of terrorism, data protection and guarantee of digital rights, information security and relations with third parties. These also apply to the servicers.

Since 2017, Sareb holds the AENOR certifications that accredit and validate that the organisation has the mechanisms in place for preventing, detecting and managing both criminal risks and possible bribery behaviour, in accordance with UNE 19601/2017 and UNE-ISO 37001/2017, respectively. In 2019, Sareb had its second follow-up audit conducted, which verified the implementation of the system according to the specified requirements under those standards.

The Code of Conduct

Inspired by the 10 principles contained in the United Nations Global Compact, the Code of Conduct is the ultimate expression of Sareb's corporate culture and determines the framework to which policies and procedures of the company must adhere.

The Code –approved by the Board of Directors in 2013 and last updated in 2019– expressly includes the commitments and behaviour guidelines that must be observed and followed by the people included in its scope of application.

This framework should form the basis for the behaviour of employees from the moment they start working for Sareb. Accordingly, new employees receive a copy of the Code of Conduct along with their employment contract, and express and signed acceptance of the Code of Conduct is requested as a contractual obligation. With the updating of the Code in 2019, Sareb's employees have adopted the new Code, which came into force on 24 May.

Training on ethical regulations and compliance is compulsory for Sareb employees, who must repeat training every two years. In 2019, the group required to take the courses this year has been invited to participate, and the delivery of the courses has been monitored.

Changes in the Code of Conduct in 2019

- Adaptation to the European General Data Protection Regulation and Organic Act 3/2018 of 5 of December, on Personal Data Protection and Guarantee of Digital Rights, and also internal regulations on Information Security.
- Implementation of changes in the Whistleblowing Mailbox and in the Procedure for Management and Investigation of Complaints.
- It reflects the disappearance of the Support Committees and other organisational changes.

[54] SCISNE, for which the Internal Control Body is responsible, reports to the Audit Committee.

Beyond the employees themselves, compliance with the Code also extends to the servicers -all of them must adhere to the Sareb Code of Conduct- and the main suppliers, through the inclusion of a specific clause in contracts that requires express acceptance prior to the provision of services.

The new Sareb Whistleblowing Mailbox

In 2019, Sareb has adapted its Whistleblowing Mailbox -formerly known as the Whistleblowing Channel- to the changes and amendments in the law and the organisation of the company. In this way the mailbox is used as a tool available to Sareb employees and third parties associated with the company to facilitate the communication of irregularities and other ethically questionable behaviour.

The Whistleblowing Mailbox is managed by an independent third party with expertise in this field. Complaints can be submitted confidentially -known only to the external company- or, since 2019, anonymously, so that neither the third party will know the identity of the complainant.

This mechanism also makes it possible to receive and respond to queries on specific aspects and doubts related to the company's Code of Conduct.

Since its creation, Sareb has regularly been implementing different initiatives for the dissemination of the mailbox amongst employees and servicers. These include on-site and online information sessions, informative posters in areas where Sareb's asset management is performed, and the publication of news on the intranet.

Under the Code of Conduct and the Procedure for Management of Complaints, these can also be submitted to a superior, or by email or telephone to the manager of the department for Compliance, Internal Control and Institutional Relations.

In 2019, it received a total of 3 complaints from employees on work-related issues which were resolved during the year. There was also an investigation open regarding a complaint from suppliers on social issues.

MANAGEMENT OF THE RISKS TO WHICH THE COMPANY IS EXPOSED

The identification and evaluation of the risks are key to proactive management

The risk management and control model allows the company to further improve the identification of potential situations that could lead to the materialisation of risks, as well as the associated procedures that must be carried out to mitigate them. It has been defined based on the recommendations given by an independent expert.

Every year, Sareb has carried out a risk assessment throughout the entire organisation, incorporating a risk tolerance framework –financial and non-financial– which includes specific metrics for each type of identified risk and minimum thresholds that trigger the action plans.

Under the framework of the Risk Management and Control Policy approved by the Board of Directors in 2018, the company has advanced in the consolidation and inclusion of functions and data in its risk management. In this context, special mention is made of the role of the Risk Management and Control Team (GGCR) -made up by different departments of Sareb-, which is responsible for approving the methodological approaches for all risks, in order to then refer them to the Board.

Within the scope of the GGCR's activity in 2019, the following are highlighted:

Integration of the GGCR with the new approach from the Management Committee

In 2019, seven meetings were held in which various topics were dealt with, amongst which mention is made of the approval of the advances in identifying non-financial risks and the launch of an Internal Control System on Non-Financial Information (SCIINF).

Scoreboard for risk tolerance

Quarterly follow-up of the metrics relevant to each type of risk. The information is submitted to the Audit Committee and corrective actions are proposed where considered appropriate. In 2019, a new proposal was made for risk tolerance metrics which has also been referred to and approved in the Audit Committee.

Updating key risk scenarios

For any situations of major impact on Sareb's business and little likelihood of occurring in 2019, the risk scenarios have been updated. The group has also evaluated the risk of illegal occupation and its control environment.

Backup for the reporting system

Strengthening the system for reporting losses as a result of operational risks, for analysis and follow-up.

Coordination with the 'Risk Champions'

The 'Risk Champions' are responsible for the effective implementation of the model, leading operational risk management within its departments.

Operational risk assessment

In 2019, operational risk assessment has been consolidated. At the end of the year, 1,084 risks were assessed, of which:

- 1,065 showed low or very low risk
- 16 showed average risk
- Three showed high or very high residual risk.

For the most critical, key risk indicators have been defined. Monitoring them will allow the associated control environment to be improved.

The Sareb map of risks

The company undertook a review of risk taxonomy and evolution since the creation of Sareb in 2012 to the current state, approved in 2017.

- **Definition of risk**
- **How is it managed?**

Integrity

- Non-compliance with ethical standards or generally accepted principles that result from deficiencies in the standards of conduct established by the Company or the procedures associated with them or improper personal behaviour. This includes risks deriving from legal, criminal and fiscal issues when due to wilful intent.

- The Code of Conduct and its developments ensure the safekeeping of the company's integrity and its proper management.

Financial information

- The consequences of errors in financial information attributable to inadequate accounting policies or failures in the establishment of accounting treatment criteria for transactions or deficiencies in how they are implemented.

- Management comprises a set of controls that provide reasonable assurance about the reliability of the financial information included in the annual accounts.

- Definition of risk
- How is it managed?

Operational

- Failures in the processing of transactions attributable to unintentional human error or inadequate or defective processes or system failures, or as a consequence of external events.

- Management encompasses an exhaustive and complete set of policies, manuals and procedures that ensure the minimisation of operational errors. As far as possible, Sareb automates those risks that are considered critical.

Credit

- Possibility of loss arising from the total or partial failure of our customers or counterparties to meet their financial obligations to the Group, or a deterioration in their creditworthiness.

- Management establishes specific procedures based on the different characteristics of the financial asset units and operations.

Real Estate

- The evolution of the price of real estate assets, whether owned by Sareb or not, indirectly affects this credit exposure and directly affects the portfolio of awarded real estate assets.

- Active risk management covers the analysis of all the variables that affect the evolution of the real estate market, in order to optimise valuation and implement palliative strategies.
- A real estate rating model has been made, which is periodically updated according to the availability of data on social and economic figures and sales of real estate, which makes it possible to improve the real estate assets measurement.

Interest rate

- The magnitude of the interest rate risk is directly linked to the size of the portfolio received in relation to the bonds issued for the acquisition of the company's assets and the payment of a floating interest rate linked to Euribor and the Spanish Treasury spread with respect to market swaps.

- Management is carried out through the daily monitoring of the evolution of interest rate curves and monthly assessment of the impact on Sareb's finance costs, raising awareness of extreme scenarios.

Liquidity

- Impossibility of dealing with debts acquired in respect of third parties and counterparties as a result of not having the necessary resources.

- Management includes continuous analysis and definition of contingency plans, as well as the management of surpluses in accordance with the prudence principle, and an investment policy with counterparty risk limits, established and approved by the Board of Directors.
- The liquidity horizon is also calculated every quarter, that is, Sareb's ability to meet its average payment commitments with the cash available. This point has been taken into account when repaying debt.

Counterparty

- It arises from the possibility of insolvency of any of the banks where Sareb has deposited its liquid assets or with which it has derivative contracts.

- A periodic control is carried out with the different counterparties and the expected loss is calculated based on the evolution of the probability of default on that market. In addition there are contracts for the management of collateral properties.

Strategic

- Consequence of policies, assumption of risks or strategy inconsistent with company mission or the context in which its business and activities would have to be developed.
- This applies to all areas of Sareb, including those directly involved in the activity of divestment of company assets and those involved in activities of internal organisation, given their capacity to influence compliance with the company mandate.

- Management is carried out through the monitoring and annual update of the Sareb Business Plan.

Reputational

- This is derived from the set of perceptions that the stakeholders have about Sareb as a result of its behaviour and actions over time.
- There is reputational risk when Sareb projects a message/concept to its internal and external stakeholders that does not conform to its values.

- Sareb has a Policy on Reputation Risk "by contagion", which allows the ordering of different risk situations the company may face, such as those derived from the parties involvement in criminal procedures related to assets received by Sareb.
- The company also has Communication and Institutional Relations Policies, which ensure transparency, and a Corporate Social Responsibility Policy which details the company's commitments to carry out its mandate in a sustainable manner.

Efficiency in the processes for managing risks

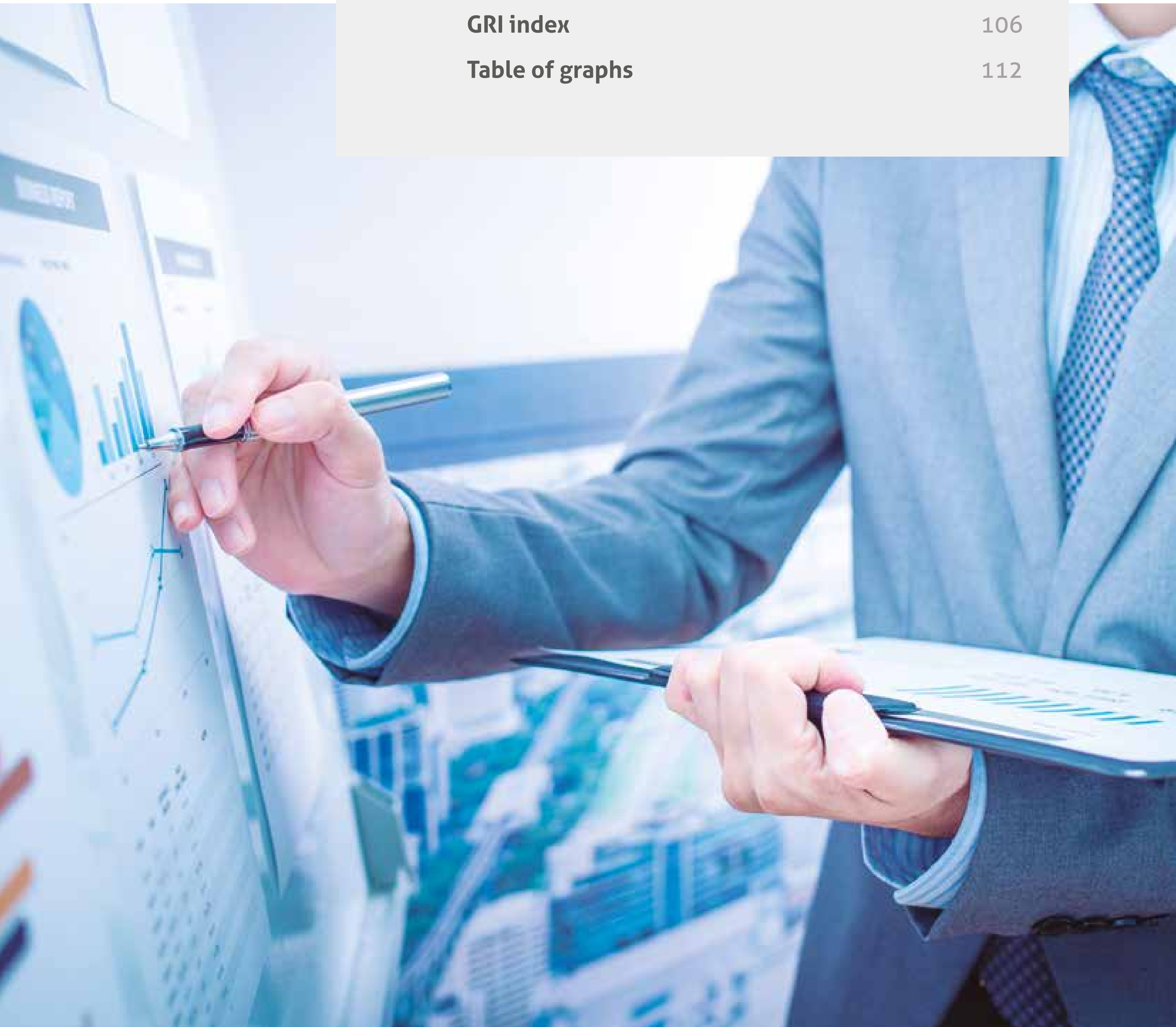
In 2019, Sareb has exceeded the threshold of counterparty exposure with one of the banks, although no losses materialised as it had not gone into suspension of payments.

Sareb has actively implemented measures to not exceed either the individual limit with each bank or the concentration, and the structure has been adapted according to the level of capitalisation, the public solvency indicators and the creditworthiness of each bank.

Along that line, Sareb has carried out diversified management on its cash situation, both by counterparty and by investment horizon, in order to minimise the impact on the negative interest rate scenario.

Picture: Residential property development refurbished by Sareb, Lalín (Pontevedra).

6. APPENDICES



ABOUT THIS REPORT

For the third consecutive year, Sareb has prepared and presented its Annual Activity Report in accordance with the guidelines of the International Integrated Reporting Framework (IIRC) and in line with the reporting principles of the Global Reporting Initiative (GRI).

The company complies with its duty to report annually on the evolution of its activity, and is working towards the implementation of the provisions of Act 11/2018[55], which extends the obligation to present a non-financial information statement to companies with more than 250 employees within a maximum period of three years, which will apply to Sareb from 2021. This report has also been prepared in accordance with the Essential option of the GRI Standards.

The content of this report is supplemented with the other publications and information available on Sareb's corporate website, which can be accessed following the links placed throughout this document for expanding on the information.

Scope of the information

The information and quantitative data in this report correspond to 2019. However, and with the aim of making it easier for the reader to understand the evolution of the business from the outset, the figures and facts relating to previous years are also included.

Also, throughout the report prospective information is provided, based on the analysis of the current context and its expected evolution, without compromising those objectives for achieving it.

[55] Arising from RD-Law 18/2017 and which transposes the 2014/95/EU directive into Spanish Law.

SAREB STAKEHOLDERS

102-40 102-42 102-43 102-44

Sareb identifies stakeholders on the basis of their influence and impact on the activity of the company. Taking these criteria into account, and bearing in mind the assumption that the identification of stakeholders is an ongoing process, the company's main stakeholders are its employees, its shareholders, the supervisor and public administrations, its customers, its suppliers and the Society.

Mechanisms for closeness and communication with stakeholders

102-43

Since its creation, Sareb has maintained a firm commitment to transparency and the ready availability of information to its stakeholders. With this in mind, the company has designed various online and face-to-face mechanisms for each of its major stakeholders, in order to manage the relationship between the parties and provide useful information when taking decisions relating to the organisation.

Sareb has also created bidirectional listening and dialogue channels, designed to promote a deeper understanding and awareness of the perceptions and expectations of the most important stakeholder groups.

Channels worthy of mention

Employees

- Sareb conducts staff surveys to identify employees' concerns and possible improvements. The company then develops action plans to respond to the issues raised.
- The Sareb intranet functions as an interactive platform where employees receive information about company initiatives and achievements, and share their own thoughts on the subject.

Shareholders

- Shareholders receive invitations to participate in meetings and video conferences on the evolution of the company.
- Since 2019, the company has a Shareholder Forum to facilitate access to information for all shareholders -regardless of their stake in Sareb-to reinforce transparency and bring dynamism to the relations and communications with them.

Supervisor and public administration

- Sareb maintains fluid and transparent communication with supervisors and public administrations, meeting on a regular basis to share information about the evolution of the company and the fulfilment of its objectives.
- Sareb also works closely with the autonomous regions and town councils with which it has agreements for the assignment of housing for social purposes, and promotes dialogue with other organisations that are interested in entering into similar agreements with the company.

The Sareb website (www.sareb.es) is the main portal for obtaining information about the company. It is also active on the social networks, through its profiles in Twitter (@Sareb) and Facebook (@Sareb_Oficial) -which complement Sareb's activity on its LinkedIn account. Since 2018, the company has a space for reflection on social changes and its relationship with the real estate sector: its blog 'Huellas'.

More information on Huellas https://www.huellasbysareb.es/

Customers

- The Sareb Responde channel allows the company to address any questions or concerns that may arise from potential customers and buyers.

Suppliers

- Sareb establishes stable relationships with suppliers, based on proactive communication designed to ensure continuous improvement and mutual benefit.

Company

- In addition to the Sareb Responde channel, the company conducts regular surveys to gain a deeper understanding and awareness of the general public's perceptions and expectations in relation to the organisation.
- Sareb also maintains bidirectional communication with the media, in order to provide Society with useful and reliable information about the evolution of the company.

MATERIALITY ASSESSMENT

102-46

Methodological development

The identification of issues and their prioritisation was addressed from two perspectives: internal, as a starting point to define and prioritise those issues relevant to the business; and external, which allows Sareb to know which of these issues concern its stakeholders or that could have an impact on them, considering the context and trends for the sector.

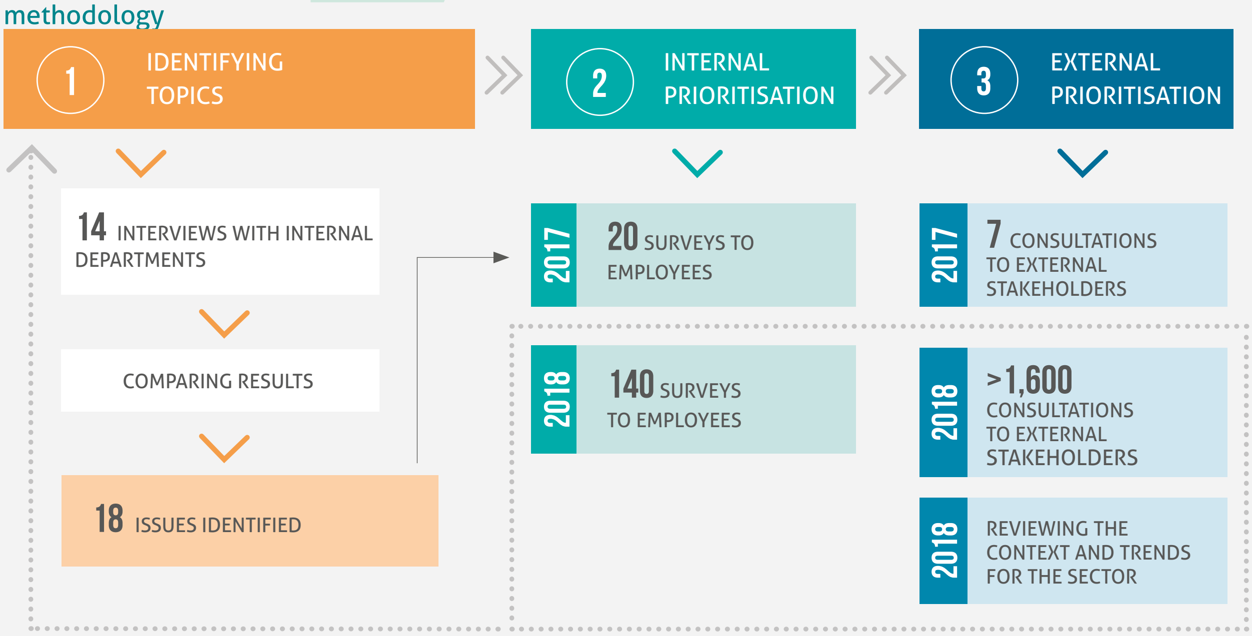
In the 2018 review, the company took into account the following aspects to enhance both perspectives:

INTERNAL PRIORITISATION	140 employees were surveyed to reflect on, review and update the results obtained in the previous materiality assessment.
EXTERNAL PRIORITISATION	In addition to the interviews carried out in 2017 with the various external stakeholders, in 2018 it was also taken into account the reputation survey that Sareb conducted during the year. This quantitative and qualitative analysis, which was based on over 1,600 surveys of company stakeholders[56], gathered information about stakeholder concerns and priorities in relation to Sareb. A review of the sector context and trends that affect Sareb and potentially influence stakeholder assessments and decisions was also taken into account.

In the first quarter of 2020, the company is working on updating those surveys.

Assessment methodology

102-46



[56] The reputation survey includes consultations with experts from the real estate, financial and public administration sectors, customers, opinion leaders, employees and the Society in general. Consultations with opinion leaders do not have quantitative assessments. Employees are not taken into account for the external perspective, as they are part of the internal dimension, where ad hoc consultation has been conducted with 140 people.

List of issues

102-44 102-47

The prioritisation of issues is made on the basis of internal and external assessments and is expressed as three thresholds: low priority, medium priority and high priority.

HIGH PRIORITY

1. Efficient and responsible management of the asset portfolio received
2. Transparency in the activity carried out
3. Payment of the debt without cost to the taxpayer
4. Integrity, prevention of corruption and conflicts of interest
5. Creation of value to improve the commercial viability of the portfolio

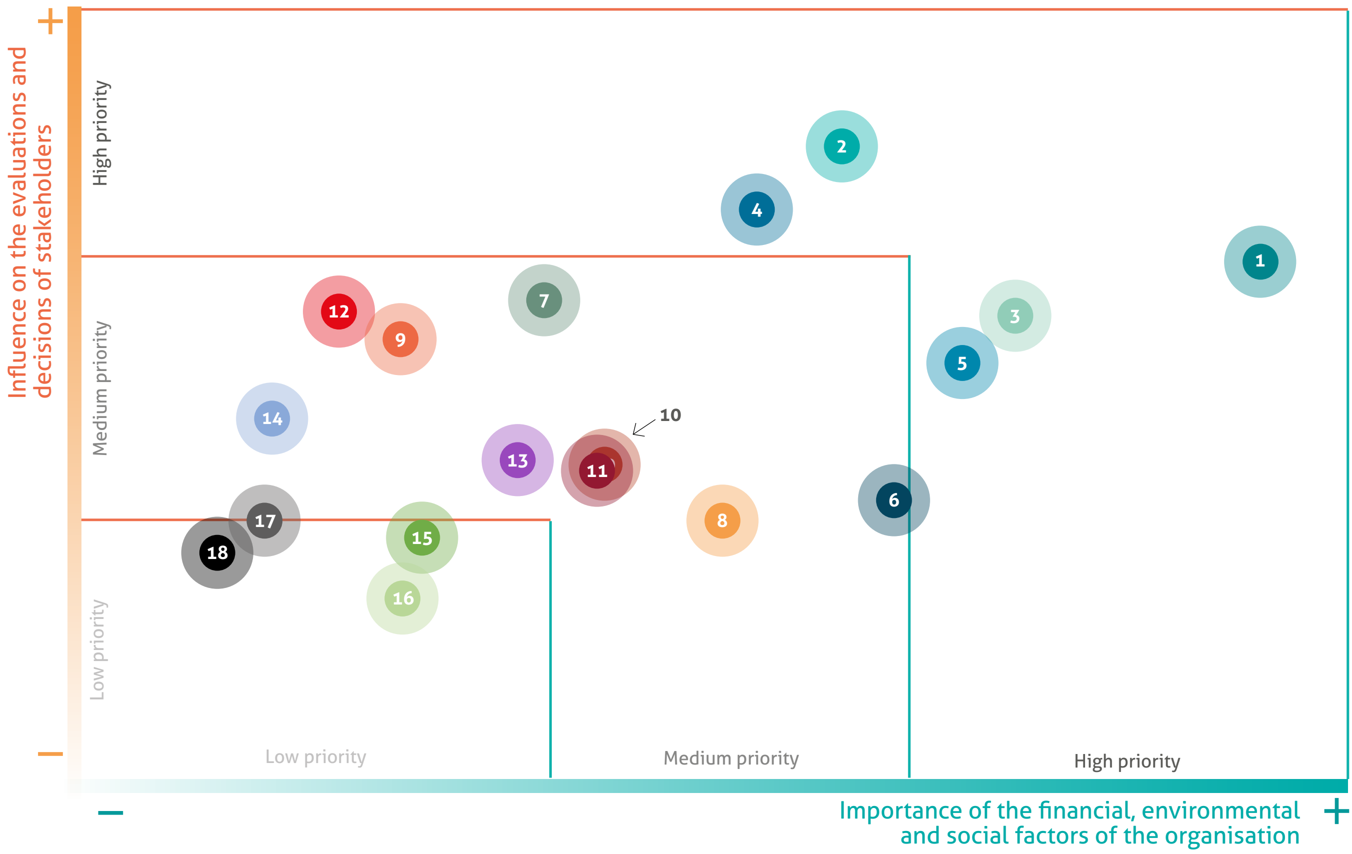
MEDIUM PRIORITY

6. Commercial viability of real estate assets
7. Systems for the control, supervision and monitoring of activity
8. Flexibility to adapt to the market
9. Relationship with counterparties: public administrations, suppliers, etc.
10. Expected return for shareholders
11. Talent management and the professional development of employees
12. Respect for free competition and the free market
13. The company's role in providing impetus to the real estate sector
14. Closeness and communication with stakeholders

LOW PRIORITY

15. Respect for equality, diversity and non-discrimination
16. Applied innovation: efficiencies and development of new products and services
17. Impact of construction work on the environment
18. Social action initiatives related to housing

Materiality matrix



GRI CONTENT INDEX

For the Materiality Disclosures Service, GRI Services have checked that the list of GRI contents is clear, and that the references to Contents 102-40 to 102-49 correspond with the indicated sections of the report. The service was performed on the Spanish version of the report.

Contents	Description of the content	Reference / Response
GRI 101: Foundation 2016		
GRI 102: General Disclosures 2016		
Profile of the organisation		
102-1	Name of the organisation	Sareb, Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.
102-2	Activities, brands, products and services	14, 15
102-3	Location of headquarters	Paseo de la Castellana, 89, Madrid 28046
102-4	Location of operations	Spain
102-5	Ownership and legal form	Public Limited Company
102-6	Markets served	Spain
102-7	Scale of the organisation	25, 26, 73
102-8	Information on employees and other workers	73-78
102-9	Supply chain	82, 83
102-10	Significant changes to the organisation and its supply chain	27-33, 82, 83
102-11	Precautionary Principle or approach	Not applicable
102-12	External initiatives	United Nations Global Compact
102-13	Membership of Associations	Association of Professionals in Regulatory Compliance
Strategy		
102-14	Statement from senior decision-maker	6-10
102-15	Key impacts, risks and opportunities	9, 31, 96-99
Ethics and integrity		
102-16	Values, principles, standards and norms of behaviour	11, 95, 96
102-17	Mechanisms for advice and concerns about ethics	95, 96
Governance		
102-18	Structure of governance	The Board of Directors is responsible for approving the Corporate Responsibility Policy –as part of its function of drawing up the strategy and policy guidelines of the Company–, drafting programmes and setting targets for the performance of all the activities included in the corporate purposes, as well as the Medium-Term Social Housing Programme, for providing rental properties at affordable prices through the autonomous regions and other public institutions.

Contents	Description of the content	Reference / Response
102-21	Consulting stakeholders on economic, environmental, and social topics	102-103
102-22	Composition of the highest governance body and its committees	87-92
102-23	Chair of the highest governance body	91
102-24	Nominating and selecting the highest governance body	90
102-25	Conflict of interest	94
102-26	Function of the highest governance body in setting purpose, values, and strategy	92, 93
102-27	Collective knowledge of the highest governance body	91
102-28	Evaluating the highest governance body's performance	94
102-35	Remuneration policies	94
Stakeholder engagement		
102-40	List of stakeholder groups	102
102-41	Collective bargaining agreements	All employees are covered by collective bargaining agreements.
102-42	Identifying and selecting stakeholders	102
102-43	Approach to stakeholder engagement	102
102-44	Key topics and concerns raised	102, 105
102-45	Entities included in the consolidated financial statements	At 31 December 2019, the only FABs set up that have not been deconsolidated are the 2013 Bull and Arqura Homes FABs.
Reporting practice		
102-46	Defining report content and topic Boundaries	104
102-47	List of material topics	105
102-48	Restatements of information	Some data has been reviewed following the improvement of the data collection processes and this restatement is shown in the corresponding sections of the report.
102-49	Changes in reporting	The list of material topics is kept in respect of 2018.
102-50	Reporting period	2019
102-51	Date of most recent report	2019
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	Tel.: (+34) 915 563 700 www.sareb.es
102-54	Claims of reporting in accordance with the GRI standards	101
102-55	GRI content index	106
102-56	External assurance	Not applicable

Contents	Description of the content	Reference / Response
MATERIAL TOPICS		
Efficient and responsible management of the asset portfolio received		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	14, 15, 36-40
103-2	The management approach and its components	14, 15, 36-40
103-3	Evaluation of the management approach	14, 15, 36-40
GRI 201: Economic performance 2016		
201-1	Direct economic value generated and distributed	12-15
Transparency in the activity carried out		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	11, 101
103-2	The management approach and its components	11, 101
103-3	Evaluation of the management approach	11, 101
Payment of the debt without cost to the taxpayer		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	41.42
103-2	The management approach and its components	41.42
103-3	Evaluation of the management approach	41.42
GRI 203: Indirect economic impacts 2016		
203-2	Significant indirect economic impacts	12, 14, 15, 25
Integrity, prevention of corruption and conflicts of interest		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	11, 95, 96
103-2	The management approach and its components	11, 95, 96
103-3	Evaluation of the management approach	11, 95, 96
GRI 205: Anti-corruption 2016		
205-2	Communication and training about anti-corruption policies and procedures	95
Creation of value to improve the viability of the portfolio		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	18, 19
103-2	The management approach and its components	18, 19
103-3	Evaluation of the management approach	18, 19
Commercial viability of real estate assets		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	29-31, 47-54
103-2	The management approach and its components	29-31, 47-54
103-3	Evaluation of the management approach	29-31, 47-54

Contents	Description of the content	Reference / Response
Systems for the control, supervision and monitoring of activity		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	88, 89, 95, 96
103-2	The management approach and its components	88, 89, 95, 96
103-3	Evaluation of the management approach	88, 89, 95, 96
Flexibility to adapt to the market		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	27-31
103-2	The management approach and its components	27-31
103-3	Evaluation of the management approach	27-31
Relationship with counterparties: public administrations, suppliers, etc.		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	19, 20-22, 82-83
103-2	The management approach and its components	19, 20-22, 82-83
103-3	Evaluation of the management approach	19, 20-22, 82-83
GRI 204: Procurement practices 2016		
204-1	Proportion of spending on local suppliers	83
GRI 308: Supplier Environmental Assessment 2016		
308-1	New suppliers that were screened using environmental criteria	Environmental criteria have been taken into account in the assessment of 113 suppliers.
GRI 414: Supplier Social Assessment 2016		
414-1	New suppliers that were screened using social criteria	Social criteria have been taken into account in the assessment of 113 suppliers.
Expected return for shareholders		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	11, 14-15
103-2	The management approach and its components	11, 14-15
103-3	Evaluation of the management approach	11, 14-15
GRI 201: Economic performance 2016		
201-1	Direct economic value generated and distributed	14-15
Talent management and the professional development of employees		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	73-78
103-2	The management approach and its components	73-78
103-3	Evaluation of the management approach	73-78
GRI 401: Employment 2016		
401-1	New employee hires and employee turnover	73

Contents	Description of the content	Reference / Response
GRI 404: Training and education 2016		
404-1	Average hours of training per year per employee	77
404-2	Programmes for upgrading employee skills and transition assistance programmes	77
404-3	Percentage of employees receiving regular performance and career development reviews	74
Respect for free competition and market		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	88, 89
103-2	The management approach and its components	88, 89
103-3	Evaluation of the management approach	88, 89
GRI 206: Anti-competitive behaviour 2016		
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	No cases have been notified of non-compliance related to unfair competition and other similar practices in the reporting period.
The company's role in providing impetus to the real estate sector		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	11, 14, 15, 18, 19
103-2	The management approach and its components	11, 14, 15, 18, 19
103-3	Evaluation of the management approach	11, 14, 15, 18, 19
GRI 203: Indirect economic impacts 2016		
203-2	Significant indirect economic impacts	12-13
Closeness and communication with stakeholders		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	55, 56, 74, 102, 103
103-2	The management approach and its components	55, 56, 74, 102, 103
103-3	Evaluation of the management approach	55, 56, 74, 102, 103
Respect for equality, diversity and non-discrimination		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	73, 75, 76
103-2	The management approach and its components	73, 75, 76
103-3	Evaluation of the management approach	73, 75, 76
GRI 405: Diversity and equal opportunity 2016		
405-1	Diversity of governance bodies and employees	73, 90, 91
GRI 406: Non-discrimination 2016		
406-1	Incidents of discrimination and corrective actions taken	No incidents of discrimination have been identified during the reporting period.

Contents	Description of the content	Reference / Response
Applied innovation: efficiencies and development of new products and services		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	19, 80, 81
103-2	The management approach and its components	19, 80, 81
103-3	Evaluation of the management approach	19, 80, 81
Impact of construction work on the environment		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	52, 84, 85
103-2	The management approach and its components	52, 84, 85
103-3	Evaluation of the management approach	52, 84, 85
GRI 302: Energy 2016		
302-1	Energy consumption within the organisation	84
302-3	Energy intensity	84
GRI 307: Environmental compliance 2016		
307-1	Non-compliance with environmental laws and regulations	No cases have been notified of non-compliance of environmental legislation during the reporting period.
Social action initiatives related to housing		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	14, 15, 20-22
103-2	The management approach and its components	14, 15, 20-22
103-3	Evaluation of the management approach	14, 15, 20-22
GRI 201: Economic performance 2016		
201-1	Direct economic value generated and distributed	14, 15, 20-22

TABLE OF GRAPHS

7.

FINANCIAL STATEMENTS

Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.

Annual accounts at 31 December 2019
and Directors' Report

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This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

Independent auditor´s report on the annual accounts

To the shareholders of Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.:

Report on the annual accounts

Opinion

We have audited the annual accounts of Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (the Company), which comprise the balance sheet as at December 31, 2019, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at December 31, 2019, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note 2 of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

Basis for opinion

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

We are independent of the Company in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

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

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Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.

Emphasis of matter

We draw attention to Notes 2.1 and 2.4. of the annual accounts, which describes that on March 11, 2020, it has been published the Real Decreto-ley 6/2020 ("Royal Decree"), that, by its first article, modifies the Seventh Additional Provision of Act 9/2012, of November 14, on restructuring and resolution of credit institutions for the purpose for the practical non-application of Article 363.1.e) of Capital Companies Act ("Ley de Sociedades de Capital"), approved by Real Decreto Legislativo ("Royal Decree") 1/2010 of July 2, regarding dissolution causes due to losses that lead to net equity amount to be below than half of the share capital, unless the share capital increases or decreases sufficiently, and when there is no need to declare insolvency. As a result, the Directors have prepared the accompanying annual accounts for the year 2019 on a going-concern basis, according with the circumstances described on Note 2.4. aforementioned. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters 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 matters.

Key audit matter

Valuation of the units of financial assets and real estate assets

At the year end, the Company assesses the need to execute valuation adjustments relating to financial and property assets impairment. This evaluation was carried out on individual basis, offsetting gains against losses for assets within the same "assets unit", in accordance with the Bank of Spain Circular 5/2015, of September 30.

The valuation adjustments relating to financial assets and real estate assets impairment, is one of the most significant and complex estimation for the accompanying annual accounts, therefore was consider a key audit matter.

According to the Bank of Spain Circular 5/2015, the Company has classified its assets in two different assets units as follows:

- Financial assets unit: credit rights transferred to the Company, mortgage foreclosures and acquired in payment after the transfer date.

- Real estate asset unit: properties with that nature at the transfer date.

In accordance with the regulation set by the Circular as well as based on the criteria established in it, the Company has developed a assets' methodology for estimating the impairment adjustments.

How our audit addressed the key audit matter

Our audit work regarding the estimation of the impairment adjustments to financial assets and real estate assets value has focused, among others, on the analysis, evaluation and verification of the internal control system, as well as the performance of detailed tests on the estimates made by the Company.

With respect to the internal control environment, we have evaluated the design and tested the controls operational effectiveness in the following areas:

- Verifying the IT general controls of the systems used to produce the financial information. Verification of the main aspects of the security environment of the information systems that include the calculation of impairment adjustments.

- Verifying the adequacy of the policies and procedures, internal methodology approval to the relevant regulatory requirements applied, as well as obtaining, understanding and analysing the interpretations of the Company in relation to the specific applicable rules.

Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.

Key audit matter	How our audit addressed the key audit matter
The process to estimate the possible impairment adjustments of the assets carried out by the Company is as follows: • As regards to the property assets unit, the evaluation was carried out individually, according to the Bank of Spain Circular 5/2015, taking into account the following criteria: - Generally, the Company estimates the value of property assets based on their mortgage value, calculated from valuation reports (full individual appraisals) made in accordance with the criteria set out in Order ECO/805/2013, of 27 March. Appraisal companies registered in the Official Registry of Appraisal Companies of the Bank of Spain made these valuation reports. - The company has the possibility to choose to perform full individual valuations or making valuation by using automatic valuations, with the objective to estimate the value of finished houses and annexes to them as well as commercial premises located in towns where there is a representative market for comparable properties, and if exists a valuation report prepared in accordance with regulation mentioned above and which seniority is less than three years. Appraisal companies registered in the Official Registry of Appraisal Companies of the Bank of Spain made these valuation reports. - For those assets of the property assets unit, different from categories mentioned in the previous paragraph, the Company uses its best estimate based on an internal valuation model evaluated by an independent expert. Additionally, to the valuation obtained according to the criteria described in the previous paragraphs, the methodology developed by the Company mainly considers the following aspects in the final valuation of the assets: - Adjustments to reflect the evolution of market prices and the horizons of the Company's business plan.	• Understanding of the internal control environment regarding the internal valuation methodology, identifying and validating the main key controls. In addition, we have carried out, among others, the following substantive procedures: • Reviewing the sample of the operations for the data quality testing purposes of the information contained in the systems, which was used as a basis for the assets' value estimation as well as for the calculation of possible impairment adjustment of the asset units' value. • Reviewing overall data consistency by executing a review of inputs used in the valuation model in accordance to the Circular 5/2015 inputs. • We evaluated the competence, independence and integrity of the appraisal companies whose reports had been used for the valuation of the financial and property assets of the Company. • For a selected sample of valuation reports, we have verified, in collaboration with our experts in this matter, the assumptions used by the appraisal companies in the realization of their valuations in order to evaluate the reasonableness of them, as well as comparing with market data relevant and attending to the current situation of the buildings. • In cases of use of automatic valuation models, we have verified, in collaboration with our experts in this matter, the adequacy of the valuation methodologies applied by the appraisal companies which are considered by the Company. • We have carried out verifications regarding to the adjustments applied by the Company on the values of the appraisals received from third parties in relation to: i) the reflection of the evolution of market prices and the horizons of the Company's business plan; ii) the estimated maintenance and marketing costs and iii) the update to present value of the values obtained after applying the above mentioned adjustments.

Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.

Key audit matter	How our audit addressed the key audit matter
- Estimation of maintenance and marketing costs, which were deducted from the result applying the criteria described above. - Discount or update rate. The valuation obtained after the application of the above adjustments was update to present value by applying an estimated discount rate taking into account the cost of financing the Company and the inherent risks in the assets. In relation with the adjustments made to the appraisals, should be taken into account that business plan hypotheses evaluation is a complex process that requires a high degree of judgment and estimations, based on the circumstances, applicable regulations and the existing data at each moment. The business plan is updated and approved by the Company's Board of Directors on an annual basis. Regarding to the financial assets, the evaluation was carried out on individual basis, according to the capacity of payment of their debtors, considering the existence of guarantors with demonstrated payment capacity. For those financial assets for which it was estimated that the recovery of the amounts owed would be make through the foreclosure of the guarantees, the valuation of the financial assets are made by taking into account the property valuation of the guarantees. The evaluation was carried out in a similar way as the real estate assets described above, including in the estimation of costs not only those of maintenance and commercialization until the subsequent sale of the collateral, but also those necessary for the execution of the guarantees (procedural, legal and fiscal). Financial assets without property asset collateral that presents delays in contractual obligations exceeding eighteen months from the date of transfer of the assets to the Company, or from the date of the first default if this is later, are considered, except for evidence against, with null value.	• We have obtained and analysed the assessment made by the Company regarding the contrast between the evolution of the appraisals (revaluations made in the year) and the evolution of the price curves used by type of assets (land, residential, other assets) and respective analysis of the sales during the period. • We have reperformed calculation of the impairment adjustments for each asset units basing on the estimation of assets' value. • We have evaluated, in collaboration with our experts, the methodology used by the Company, sensitivity analysis and hypotheses contracts checks used in the asset units valuation process. • We have verified the correct accounting registration of the impairment adjustments estimated by the Company in accordance with the Bank of Spain Circular 5/2015. Based on the procedures described above and in the context of our audit report of the accompanying annual accounts, we consider that the methodology used by the Company, as well as the impairment estimation of its asset units, according with the Circular 5/2015 are within a reasonable range in the context of the applicable accounting framework and the circumstances that were considered in the process of preparation of accompanying annual accounts.

Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.

Key audit matter	How our audit addressed the key audit matter
According to the criteria described above and the value of each asset calculated, the Company estimates the value of each asset, compensating for losses and gains of assets within the same assets unit. As indicated in notes 4.7, 4.7.1 and 4.7.2., in estimating the value of the assets, a series of assumptions based on the business plan of the Company had been apply. In notes 4.7.1 and 4.7.2, the Company had included a sensitivity analysis on the key assumptions considered more volatile. In accordance with the RD 4/2016, of December 2, on urgent financial measures, which modifies Act 9/2012, of November 14, on restructuring and resolution of credit institutions, the Company recognizes the valuation adjustments of the unit asset in the balance sheet, net of their tax effect, charged to "Value Change Adjustments - Impairment of financial assets" and “Value Change Adjustments – Impairment of real estate asset”, within equity. As established in the aforementioned RD 4/2016, the aforementioned adjustments would not be considered equity for the purposes of the distribution of profits, the mandatory reduction of share capital and the mandatory dissolution for losses established in the Capital Companies Act (LSC). See notes 2.4. Critical aspects of the valuation and estimation of the uncertainty, 4.7 Impairment of financial assets, property investments and other accounts receivable, 4.7.1. Impairment of the property assets unit, 4.7.2. Impairment of loans and credits receivable and property assets received in payment of debts, 5. 5. Property Investments, 7.1.1. Long and short-term third-party loans, 8. Inventories, 11.4. Value change adjustments and 11.5 Equity Situation of the Company.	

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Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.

Key audit matter	How our audit addressed the key audit matter
Aspects associated with the generation of financial information	
The Company has four external managing companies (hereinafter, servicers) who manage the portfolios of financial and property assets assigned to them, as well as, the non-unconsolidated Banks Asset Funds (FAB). Within its functions, each servicer registers and prepares the financial and accounting information of their own portfolios and the managed FABs, reporting this information to the Company on a monthly basis. Based on this information, the Company carries out a process of accounting aggregation and generation of the financial information as a whole. Among the accounting entries that are recorded by each servicer as part of the Company's accounting records, the most important are those that originate in the operation of sales of financial and property assets, mortgage foreclosures and dations in payment, leases of real estate, maintenance expenses of real estate and ordinary management of loans, among others. For an adequate control of the operations managed in each servicer, the Company has a communication platform. This platform was use in order to gather information and documentation about the operations and verify that they are within the framework of functions delegated to each servicer or, in its case, to be able to authorize the transaction before its formalization and its subsequent accounting registration. Consequently, the financial and accounting information associated with the operations managed at the headquarters of each servicer, resides in the computer systems of each of them, this way each and one of them is responsible for monthly and year end information submission to the Company. Therefore, an adequate control over the information systems in the main offices of each servicer is fundamental to guarantee the correct processing of the accounting information. Some of those systems are managed directly by external technology providers, under the supervision of the Company.	Below are described the main procedures carried out at the headquarters of each servicer, regarding the generation of the Company's financial and accounting information: • Verifying the IT general controls of the applications, where financial and real estate asset´s information sit in, for each servicer. In the framework of our work, certain aspects of improvement were detected in relation to access controls in some applications. This aspect has led to an increase in the work to be done by our side over the mitigating controls identified by the Company and an increase in the work done regarding certain substantive testing. • Evaluation of the internal control related to the IT migration projects occurred during this year, considering the pre-migration activities, data transformation, test plans and implementation. • Reconciliation between the financial information contained in the origin and the destination systems at migration date. • Identifying automatic controls and key manual controls established by each servicer, on the financial and accounting information sent to the Company, and verification. • Reviewing the sample of the operations, executed by each servicer with supporting documentation, verifying the proper accounting treatment and classification. Likewise, we have verified whether the framework of delegated functions was fulfilled or, where appropriate, the existence of authorization of the operation by the Company when it is required. • Likewise, we have identified the automatic controls and key manual controls established by the Company, regarding the integrity of the financial and accounting data submitted by the servicers and we have evaluated their effectiveness.

Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.

Key audit matter	How our audit addressed the key audit matter
Also, during the year were carried out an IT migration project for financial assets and property assets portfolio. In this context, the knowledge, evaluation and verification of controls established by the Company, related to the applications´ maintenance and development, physical and logic security and the use of the systems, including those cases with dependence on external technology providers, to ensure the integrity of financial information, as well as the execution of certain substantive verification tests at the servicers' headquarters, were consider a key audit matter. See note 1, 4.6.1 and 7.2.1. of the report of the attached annual accounts.	• Verifying the reconciliation of accounting inventories generated by each servicer with the financial information provided by the Company. • Understanding and analysis, on a sample basis, of the manual adjustments posted to the system where financial information is registered. • Reviewing the data quality testing, on a sample basis, verifying the information accounted in the Company´s systems with the supporting documentation and verifying consistency between the information in the in the servicers' systems and the Company´s one. Our procedures, in the context of our audit report of the accompanying annual accounts, allow us to obtain sufficient and adequate audit evidence in relation to the accounting aggregation process and the generation of financial information by the Company. We have not identified relevant aspects that could significantly affect the financial information included in the accompanying annual accounts.

Other information: Management report

Other information comprises only the management report for the 2019 financial year, the formulation of which is the responsibility of the Company´s directors, and does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the management report. Our responsibility regarding the management report, in accordance with legislation governing the audit practice, is to evaluate and report on the consistency between the management report and the annual accounts as a result of our knowledge of the Company obtained during the audit of the aforementioned financial statements, and does not include information different to that obtained as evidence during our audit. Likewise, our responsibility is to evaluate and report on whether the content and presentation of the management report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described in the previous paragraph, the information contained in the management report is consistent with that contained in the annual accounts for the 2019 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the audit committee for the annual accounts

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

In preparing the annual accounts, the Company´s directors are responsible for assessing the Company´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the process of preparation and presentation of the annual accounts.

Auditor's responsibilities for the audit of the annual accounts

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

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

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company´s directors.

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

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

Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.

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

We also provide the Company´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Company´s audit committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor´s report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Report to the audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit committee dated on March 27, 2020.

Appointment period

The General Ordinary Shareholders' Meeting held on April 30, 2019 appointed us as auditors for a period of three years, as from the year ended December 31, 2019.

Previously, we were appointed by resolution of the General Shareholders' Meeting for a period of 3 years and we have audited the accounts continuously since the year ended December 31, 2012.

Services provided

PricewaterhouseCoopers Auditores, S.L. provided to the Company non-audit services during the period ended December 31, 2019. See details in the note 16.4 of the accompanying annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by:
Julián González Gómez (20179)
March 27, 2020

SOCIEDAD DE GESTIÓN DE ACTIVOS PROCEDENTES DE LA REESTRUCTURACIÓN BANCARIA, S.A. (SAREB)

BALANCE SHEETS AT 31 DECEMBER 2019 AND 31 DECEMBER 2018

(Thousands of Euros)

ASSETS	Notes in Report	31/12/19	31/12/18
NON-CURRENT ASSETS		25,152,950	30,385,201
Intangible assets	Note 4.1	**37,939**	**18,610**
Administrative concessions		453	453
Industrial property		33	39
Computer software		37,453	18,117
Property, plant and equipment	Note 4.2	**2,491**	**12,409**
Fixtures		150	181
Technical installations and other property, plant and equipment		2,311	12,135
IT equipment		30	94
Property investments	Note 5	**11,905,685**	**11,893,908**
Land		5,264,448	5,461,173
Completed properties		6,154,504	6,121,713
Advances on property investments		486,733	311,022
Long-term investments in group companies and associate		**58,908**	**324,588**
Equity instruments	Note 7.2.1	38,036	324,244
Loans to companies	Note 7.2.2	20,872	344
Long-term financial investments	Note 7.1	12,824,106	17,628,535
Loans to third and related parties		11,740,698	15,257,553
Other financial assets		1,083,408	2,370,982
Deferred tax assets	Note 15.3	**323,821**	**507,152**
CURRENT ASSETS		6,316,788	4,938,644
Inventories	Note 8	**906,556**	**308,570**
Products in progress		801,541	269,052
Finished products		52,695	19,387
Advances to suppliers		52,320	20,131
Trade and other accounts receivable	Note 9	**280,280**	**208,703**
Customer receivables from sales and services rendered		249,323	186,861
Sundry debtors		13,574	14,721
Staff		12	2
Current tax assets	Note 15.1	5,104	2,832
Other receivables from the Public Administrations	Note 15.1	12,267	4,287
Short-term investments in Group companies and associates		**4,138**	-
Loans to companies		4,138	-
Short-term financial investments	Note 7.1	**2,008,597**	**1,592,072**
Loans to companies		1,344,299	1,587,479
Other financial assets		664,298	4,593
Short-term accrual accounts		**1,927**	**1,907**
Cash and other cash equivalents	Note 10	**3,115,290**	**2,827,392**
Cash		2,553,988	2,692,538
Other cash equivalents		561,302	134,854
TOTAL ASSETS		31,469,738	35,323,846

Notes 1 to 19 described in the attached report form an integral part of the Balance Sheet at 31 December 2019.

SOCIEDAD DE GESTIÓN DE ACTIVOS PROCEDENTES DE LA REESTRUCTURACIÓN BANCARIA, S.A. (SAREB)

BALANCE SHEETS AT 31 DECEMBER 2019 AND 31 DECEMBER 2018

(Thousands of Euros)

LIABILITIES	Notes in Report	31/12/19	31/12/18
EQUITY	Note 11	(7,511,562)	(5,135,891)
SHAREHOLDERS' EQUITY-		229,773	1,177,018
Capital			
Subscribed capital		303,862	303,862
Issue premium		-	-
Legal reserve		19,174	19,174
Other reserves		853,983	1,732,331
Profit/(Loss) for the year		(947,246)	(878,348)
VALUE CHANGE ADJUSTMENTS-	Note 13.3	(7,741,335)	(6,312,909)
- Hedging operations		(922,322)	(1,221,223)
- Impairment of financial assets		(6,322,635)	(5,091,686)
- Impairment real estate assets		(496,378)	-
NON-CURRENT LIABILITIES		37,361,843	38,459,441
Long-term provisions	Note 12	3,662	7,862
Long-term debts	Note 13	37,358,181	38,451,579
Debentures and other negotiable securities		35,773,230	36,403,198
Derivatives		1,342,399	1,710,260
Other financial liabilities		242,552	338,121
CURRENT LIABILITIES		1,619,457	2,000,296
Short-term provisions		4,600	3,930
Short-term debts	Note 13	1,080,432	1,477,649
Amounts owed to credit institutions		15,301	15,963
Debentures and other negotiable securities		1,064,930	1,461,245
Other financial liabilities		201	441
Trade and other accounts payable	Note 14	530,426	518,086
Suppliers		430,658	409,374
Staff		4,628	7,728
Current tax liabilities		-	-
Other payables to the Public Administrations	Note 15.1	75,634	72,095
Customer advances		19,506	28,889
Income collected in advance		3,999	631
TOTAL EQUITY AND LIABILITIES		31,469,738	35,323,846

Notes 1 to 19 described in the attached report form an integral part of the Balance Sheet at 31 December 2019.

SOCIEDAD DE GESTIÓN DE ACTIVOS PROCEDENTES DE LA REESTRUCTURACIÓN BANCARIA, S.A. (SAREB)

INCOME STATEMENT FOR THE YEARS 2019 AND 2018

(Thousands of Euros)

	Notes in Report	2019	2018
ONGOING OPERATIONS			
Turnover	Note 16.1	**1,430,157**	**1,937,584**
Sales of inventories		87,839	70,872
Income from sales of property investments		958,155	1,154,950
Income from leases		40,553	34,831
Income from sales of loans and credits		465	376,569
Financial income from loans and credits		329,652	532,685
Margin of recovery of loans and credits		(90,778)	(238,296)
Income from remuneration of FABs		1,193	3,506
Income from sale and liquidation of FABs and other Group companies	Note 7.2.1	103,078	2,467
Changes in inventories of finished products and work in progress	Note 16.2	**(61,962)**	**(46,571)**
Sales costs	Note 16.2	**(957,995)**	**(1,363,940)**
Sales costs of property investments		(861,711)	(1,009,977)
Sales costs of financial assets		(399)	(351,164)
Sales costs of FABs and other Group companies		(95,885)	(2,799)
Other operating income		**46,427**	**23,164**
Non-core and other current operating income		46,427	23,164
Staff expense	Note 16.3	**(39,969)**	**(36,793)**
Wages, salaries and similar		(33,300)	(30,504)
Social Security		(6,669)	(6,289)
Other operating expenses		**(638,630)**	**(669,657)**
External services	Note 16.4	**(427,837)**	**(435,582)**
Taxes	Note 16.4	(198,452)	(217,511)
Losses, impairment and changes in provisions for trade transactions	Notes 9 y 12	(7,810)	(9,629)
Other current operating expense		(4,531)	(6,935)
Amortisation/Depreciation of fixed assets	Notes 4.1, 4.2 and 4.3	**(62,441)**	**(59,846)**
Overprovisions	Note 12	**7,914**	**2,615**
Impairment and profit/(loss) from sales of property, plant and equipment		**(4)**	**-**
- Profit/(Loss) from sales and others		(4)	-
Impairment and profit/(loss) from sales of financial instruments		**(2,203)**	**(7,522)**
Impairment and losses		(2,203)	(7,522)
Profit/(Loss) from sales and others		-	-
OPERATING PROFIT/(LOSS)		(278,706)	(220,968)

Continue

Notes 1 to 19 described in the attached report form an integral part of the Income Statement for 2019.

Financial income	**Note 16,6**	**3,160**	**3,751**
From negotiable securities and other financial instruments			
- In third parties		3,160	3,751
Financial expense	**Note 16,5**	**(588,695)**	**(661,775)**
For debts with third parties		(576,603)	(644,926)
Other financial expense		(12,092)	(16,849)
Exchange rate differences	**Note 4,12**	**(6)**	**(10)**
FINANCIAL INCOME/(EXPENSE)		(585,541)	(658,034)
PROFIT/(LOSS) BEFORE TAXES		(864,247)	(879,002)
Income tax	**Note 15**	**(82,999)**	**654**
PROFIT/(LOSS) FOR THE YEAR FROM ONGOING OPERATIONS		(947,246)	(878,348)
PROFIT/(LOSS) FOR THE YEAR		(947,246)	(878,348)

Notes 1 to 19 described in the attached report form an integral part of the Income Statement for 2019.

SOCIEDAD DE GESTIÓN DE ACTIVOS PROCEDENTES DE LA REESTRUCTURACIÓN BANCARIA, S.A. (SAREB)

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2019 AND 2018
STATEMENT OF RECOGNISED INCOME AND EXPENSE
(Thousands of Euros)

	Notes in Report	Year 2019	Year 2018
BALANCE OF THE INCOME STATEMENT	Note 3	(947,246)	(878,348)
Income and expense recognised directly in equity			
- For cash flow hedges	Note 15.2	(177,787)	(224,401)
- For impairment of financial assets	Note 7.1	(1,230,949)	(862,134)
- For impairment of real estate assets		(496,378)	-
- Tax effect	Note 15.2	44,447	56,100
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY (II)		(1,860,667)	(1,030,434)
Income and expense recognised in the income statement			
- For cash flow hedges	Note 13.3	576,322	640,162
- Tax effect		(144,081)	(160,041)
TOTAL TRANSFERS TO THE INCOME STATEMENT (III)		432,241	480,122
TOTAL RECOGNISED INCOME AND EXPENSE (I+II+III)		(2,375,671)	(1,428,661)

Notes 1 to 19 in the attached report form an integral part of the statement of recognised income and expense for 2019

SOCIEDAD DE GESTIÓN DE ACTIVOS PROCEDENTES DE LA REESTRUCTURACIÓN BANCARIA, S.A. (SAREB)

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2019 AND 2018
TOTAL STATEMENT OF CHANGES IN EQUITY
(Thousands of Euros)

	Capital	Legal reserve	Restricted reserve
OPENING BALANCE 2018	303,862	19,174	629,428
Total recognised income and expense	-	-	-
Transactions with shareholders	-	-	-
Other changes in equity (Note 2.5)	-	-	-
CLOSING BALANCE 2018 (Note 11)	303,862	19,174	629,428
Total recognised income and expense	-	-	-
Transactions with shareholders			
Other changes in equity - Distribution of profit/(loss)	-	-	-
CLOSING BALANCE 2019 (Note 11)	303,862	19,174	629,428

Notes 1 to 19 of the attached report form an integral part of the statement of total changes in equity for 2019

Voluntary reserves for application RD 4/2016	Loss from previous years	Profit/(Loss) for the year	Value change adjustments - Financial deriva-tives	Value change adjustments - Impairment financial assets	Value change adjustments - Impairment real estate assets	TOTAL
2,330,270	(662,791)	(564,576)	(1,533,045)	(4,229,552)	-	(3,707,230)
-	-	(878,348)	311,822	(862,134)	-	(1,428,661)
-	-	-	-	-	-	-
-	(564,576)	564,576	-	-	-	-
2,330,270	(1,227,367)	(878,348)	(1,221,223)	(5,091,686)	-	(5,135,891)
-	-	(947,246)	298,901	(1,230,949)	(496,378)	(2,375,671)
-	-	-	-	-	-	-
-	(878,348)	878,348	-	-		-
2,330,270	(2,105,715)	(947,246)	(922,322)	(6,322,635)	(496,378)	(7,511,562)

Notes 1 to 19 of the attached report form an integral part of the statement of total changes in equity for 2019

SOCIEDAD DE GESTIÓN DE ACTIVOS PROCEDENTES DE LA REESTRUCTURACIÓN BANCARIA, S.A. (SAREB)

CASH FLOW STATEMENTS FOR THE YEARS 2019 AND 2018

(Thousands of Euros)

		Year 2019	Year 2018
A)	CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES (1 + 2 + 3 + 4)	705,446	1,922,071
1.	**Profit/(Loss) before taxes**	**(864,247)**	**(879,002)**
2.	**Adjustments to profit/(loss):**	**284,310**	**199,722**
(+/-)	Amortisation/Depreciation of fixed assets	62,441	59,846
(+/-)	Financial expense	588,695	661,775
(+/-)	Financial income	(3,160)	(3,751)
(+/-)	Financial income from interest on loans and credits	(329,652)	(532,685)
(+/-)	Other adjustments to profit/(loss)	(44,031)	(2,615)
(+/-)	Loss, impairment and variation in provisions for trade operations	7,810	9,629
(+/-)	Impairment of financial instruments and property, plant and equipment	2,207	7,522
2.a	**Tax payments (-)**	**(5,104)**	**(2,832)**
3.	**Increase / (Decrease) of assets and liabilities**	**1,471,424**	**2,845,247**
	Increase / (Decrease) of inventories (+/-)	(11,628)	9,350
	Increase / (Decrease) of accounts receivable (+/-)	(69,305)	(32,813)
	Increase / (Decrease) of other current financial assets (+/-)	(1,521)	3,340
	Increase / (Decrease) of accounts payable (+/-)	12,340	27,790
	Increase / (Decrease) of other current liabilities (+/-)	3,128	(461)
	Increase / (Decrease) of loans and credits to third parties	707,731	1,875,816
	Increase / (Decrease) of property investments	830,679	962,225
4.	**Other cash flows from/(used in) operating activities:**	**(180,937)**	**(241,065)**
(-)	Interest payable	(558,723)	(595,961)
(+)	Dividends receivable	190,618	-
(+)	Interest receivable	3,160	3,751
(+/-)	Interest receivable from loans and credits	184,008	350,401
(+/-)	Other receivables/(payables) from operating activities	-	744

Continue

Notes 1 to 19 described in the attached report form an integral part of the cash flow statement for 2019

		Year 2019	Year 2018
B)	CASH FLOWS FROM/(USED IN) INVESTMENT ACTIVITIES (1 + 2)	650,034	(166,047)
1.	**Payments on investments:**	**(75,323)**	**(532,411)**
(-)	Property, plant and equipment, intangible assets	(18,416)	(4,837)
(-)	Credit and holdings in associates	(56,907)	(325)
(-)	Other financial assets	-	(527,249)
2.	**Receivables from divestments:**	**725,357**	**366,364**
(+)	Credit and holdings in associates	95,968	2,467
(+)	Other financial assets	629,390	363,897
C)	CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES (1 + 2 + 3)	(1,067,582)	(3,066,256)
1.	**Receivables from/(Payables for) equity instruments:**	**-**	**-**
(+)	Issue	-	-
(-)	Amortisation/Depreciation	-	-
(-)	Acquisition	-	-
(+)	Sale of own shares	-	-
2.	**Net obtained from new financing with third parties**	**(1,067,582)**	**(3,066,256)**
(+)	Other current and non-current financial liabilities	(42,682)	(125,372)
(-)	Drawdowns / (Amortisations) credit accounts	-	(6,984)
(-)	Repayment and amortisation	(1,024,900)	(2,933,900)
3.	**Net receivables for issue own securities**	**-**	**-**
D)	EFFECT OF CHANGES IN EXCHANGE RATES	-	-
E)	INCREASE/(DECREASE) NET OF CASH AND CASH EQUIVALENTS (A + B + C + D)	287,898	(1,310,233)
F)	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,827,392	4,137,625
G)	CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (E + F)	3,115,290	2,827,392
	COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
(+)	Cash and banks	2,553,988	2,692,538
(+)	Other financial assets	561,302	134,854
(-)	Less: Bank overdrafts repayable on demand	-	-
	TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3,115,290	2,827,392

Notes 1 to 19 described in the attached report form an integral part of the cash flow statement for 2019

Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A.

Report at 31 December 2019

1. Company Activity

The company Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A. (hereinafter, the "Company" or "Sareb") was incorporated for an indefinite term in Madrid, on 28 November 2012, in accordance with the provisions of Act 9/2012, of 14 November, on the restructuring and winding-up of credit institutions, with the name Sociedad Promotora de la Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A., as a single-member public limited company; its purpose is to carry out all the preparatory measures necessary for putting Sareb into operation. It is registered in the Companies Registry of Madrid in volume 30,521, Sheet 1, Section 8, Page M-549,293, 1st entry.

On 12 December 2012, it changed its term and name under the deed which places on public record the company resolutions adopted on that date in the presence of the Madrid Notary Mr José María García Collantes under number 1624 of his official record, limiting its duration until 28 November 2027 and assuming its current name.

At 31 December 2019, the Company has its registered and tax address at Paseo de la Castellana, 89, Madrid.

The Company is governed by its Articles of Association and by legislation in force that is applicable to it, i.e. the current Capital Companies Act, except for the provisions of articles 537 and 348 bis thereof, in accordance with the terms of Act 9/2012, of 14 November, on the restructuring and winding-up of credit institutions, with the specific terms necessary for ensuring that the accounting principles applicable to it are consistent with the mandate and general objectives of the company as established in the Act of reference and which are set out by law (see Note 2.1).

Its corporate purpose consists of holding, managing and directly or indirectly administering, buying and selling the assets and, where appropriate, liabilities, transferred to it by the credit institutions referred to in the Ninth Additional Provision of the Act 9/2012, (or any legislation that replaces, implements or supplements it) which appear in their balance sheets or in those of any company over which it exercises control in the sense of article 42 of the Code of Commerce (and also any others that it might acquire in the future as a result of the mentioned activity involving the management and administration of such assets).

Notwithstanding the above-described corporate purpose, in accordance with the legislation regulating it, the Company has to contribute to the correct implementation of the processes for the restructuring or winding-up of credit institutions, making it possible to meet the objectives set out in article 3 of Royal Decree 1559/2012 in accordance with the general principles of transparency and professional management, namely:

a) Contribute to the recovery of the financial sector by acquiring the related assets in such a manner that the risks associated with these assets are effectively transferred from the time of their transfer.

b) Minimise public funding.

c) Settle debts and meet obligations it assumes in the course of its transactions.

d) Minimise any possible distortions in the markets that might arise from its actions.

e) Sell the assets received, enhancing their value within the time period established and for which the company was incorporated.

Background to the incorporation of the Company and transfer of assets

In 2012: Acquisition of assets from banks in Group 1

On 21 December 2012, Sareb and the banks making up the mentioned Group 1 concluded the corresponding asset transfer contracts which, in accordance with the terms thereof, did not come into full effect until 31 December 2012. Those assets were transferred free of any charges by the assigning banks as a whole and at a fixed price which was for the amount of €36,695,308 thousand, and were acquired by Sareb through the issue of senior bonds for a total of €36,694,100 thousand, which were subscribed by the assigning banks, deferring the payment of the difference between the transfer price and the value of the bonds issued for a period of 36 months, which may be offset by the Company with any amount owed to it by the assigning banks under the terms set out in the asset transfer contracts. Those amounts were paid in full in 2013.

Below is the breakdown of the assets that were transferred by the banks in Group 1 according to their nature on that date:

	€ thousand
Financial assets	28,298,902
Real estate assets	8,396,406
Total	36,695,308

The breakdown of the financial assets that were transferred by the Group 1 banks, according to the type of guarantee on each, was as follows:

€ thousand	No. of assets	Total transfer price
Loans	62,435	26,493,181
Normal	28,047	8,368,902
Sub-standard	11,877	6,646,904
Doubtful	22,511	11,477,375
Credits	5,714	1,805,721
Normal	1,810	537,427
Sub-standard	870	495,392
Doubtful	3,029	557,025
Others	5	215,877
Total	68,149	28,298,902

For its part, the breakdown of the real estate assets that were transferred by the banks in Group 1 was as follows:

€ thousand	No. of assets	Total transfer price
Land	10,322	2,812,430
Completed properties for sale	30,158	2,426,138
Properties for rental	5,822	927,620
Total property investments	46,302	6,166,188
Works in progress	3,050	470,124
Completed properties	27,682	1,760,094
Total inventories	30,732	2,230,218
Total	77,034	8,396,406

Below is a summary of the main features of the senior bonds issued by the Company and subscribed by the Group 1 banks on 21 December 2012 in payment of the mentioned assets:

ISIN Code	Description	Issue date	Maturity date (**)	Applicable rate in force	Nominal (€ thousand) (*)
ES0352506002	SAREB/VAR BO 20131231 2012-1	31/12/2012	31/12/2013	2.374%	11,008,100
ES0352506010	SAREB/VAR BO 20141231 2012-2	31/12/2012	31/12/2014	2.747%	16,512,500
ES0352506028	SAREB/VAR BO 20151231 2012-3	31/12/2012	31/12/2015	3.149%	9,173,500
					36,694,100

(*) Those bonds carry an irrevocable guarantee from the Kingdom of Spain (see Note 13.2).
(**) There is an option to renew at the Company's discretion, as described in Note 13.

Those bonds were subscribed by the assigning banks in accordance with the following distribution:

	€ thousand
Bankia, S.A./Banco Financiero y de Ahorros, S.A.	22,317,600
Catalunya Banc, S.A.	6,708,300
Banco Gallego, S.A.	609,700
NovaGalicia Banco, S.A.	5,096,800
Banco de Valencia, S.A.	1,961,700
Total	36,694,100

In 2013: Acquisition of assets from banks in Group 2

On 20 December 2012, the European Commission approved the plans for the restructuring of the banks falling under Group 2 (Banco Grupo Cajatres, S.A., Banco Mare Nostrum, S.A., Banco Caja España de Inversiones, Salamanca y Soria, S.A. -CEISS- and Liberbank, S.A.) after they had been approved by the Bank of Spain.

On 28 February 2013, Sareb and the banks making up Group 2 concluded the corresponding asset transfer contracts; the assets were transferred free of charges by the assigning banks of Group 2 to Sareb as a whole and at a fixed price for the amount of €14,087,157 thousand, and were acquired by Sareb through the issue of senior bonds at a nominal value of €100 thousand, for a total of €14,086,700 thousand, that were subscribed by the assigning banks, deferring the payment of the difference between the transfer price and the value of the bonds issued for a period of 36 months, which may be offset by the Company for any amount owed to it by the assigning banks under the terms set out in the asset transfer contracts. At 31 December 2013, that amount had been settled, with no amounts appearing for that item on the balance sheet at that date.

The breakdown of those assets that were transferred by the Group 2 banks, according to their nature, was as follows on that date:

	€ thousand
Financial assets	11,139,891
Real estate assets	2,947,266
Total	14,087,157

The breakdown of the financial assets that were transferred by the Group 2 banks, according to the type of guarantee on each, was as follows:

€ thousand	No. of assets	Total transfer price
Loans	21,889	10,855,331
Normal	9,337	4,642,163
Sub-standard	1,800	1,872,775
Doubtful	10,752	4,340,393
Credits	727	284,560
Normal	270	125,758
Sub-standard	137	44,161
Doubtful	230	110,643
Others	90	3,998
Total	22,616	11,139,891

For its part, the breakdown of the real estate assets that were transferred by the Group 2 banks was as follows on that date:

€ thousand	No. of assets	Total transfer price
Land	4,630	1,062,531
Halted building sites	1,445	163,505
Completed properties for sale	23,404	1,619,800
Properties for rental	906	98,140
Total property investments	30,385	2,943,976
	27	3,290
Works in progress	27	3,290
Total inventories	30,412	2,947,266

Below is a summary of the main features of the senior bonds subscribed on 28 February 2013 in payment of the mentioned assets:

ISIN Code	Description	Issue date	Maturity date (**)	Applicable rate in force	Nominal balance (€ thousand) (*)
ES0352506036	SAREB/VAR BO 20140228 2013-1	28/02/2013	28/02/2014	1.451%	4,225,900
ES0352506044	SAREB/VAR BO 20150228 2013-2	28/02/2013	28/02/2015	2.233%	6,339,200
ES0352506051	SAREB/VAR BO 20160228 2013-3	28/02/2013	28/02/2016	2.674%	3,521,600
					14,086,700

(*) Those bonds carry an irrevocable guarantee from the Kingdom of Spain (see Note 13.2).

(**) There is an option to renew at the Company's discretion, as described in Note 13.

Those bonds were subscribed by the assigning banks in accordance with the following distribution:

	€ thousand
Banco Mare Nostrum, S.A.	5,819,600
Banco Caja España de Inversiones, Salamanca y Soria, S.A.	3,137,300
Liberbank, S.A.	2,917,800
Banco Grupo Cajatres, S.A.	2,212,000
Total	14,086,700

Rectification of the deeds for asset purchases concluded in 2019 and 2018

Subsequent to the transfer, and in application of the provisions of the mentioned Royal Decree 1559/2012 and in the asset transfer contracts themselves, the loan and credit portfolios and the portfolios of real estate assets acquired from the banks in Groups 1 and 2 were reviewed in order to identify any inappropriate classification of assets, changes in perimeter and errors or variations in the valuation estimated on the date of transfer.

In 2019, and as a result of the analysis made by the Company as described above, rectifications were made for the overall amount of €1,229 thousand by making a price adjustment of €1,229 thousand, reducing the amount of loans and credits initially transferred by €1 M. Nevertheless, in 2018 no rectifications were made to the original deeds for transferring assets, and the deeds were concluded during that year.

In return, the assigning banks have handed Sareb part of the bonds issued in payment of the above-mentioned portfolios of transferred property for an amount equivalent to the assets returned, and also the cash equivalent of the coupons received by the banks corresponding to the bonds handed over. Furthermore, according to the transfer contract, the banks applied a compensatory interest rate of 1% per year on the total amount of coupons paid by the Company, which were for €3 thousand in 2019, in relation to the bonds returned.

The summary of the rectifications made in 2019 was as follows:

€ thousand	Real estate assets rectified (Note 5)	Financial assets rectified (Note 7) (**)	Total rectifications	Bonds returned (Note 13.2)	Cash adjustment (*)
Bankia, S.A.	-	1,299	1,299	(1,100)	199
Total	-	1,299	1,299	(1,100)	199

(*) Corresponds to the difference, paid in cash, between the total amount of the rectification and the amount of the bonds returned.

(**) Out of the amount of Financial assets rectified, €218 thousand corresponded to loans sold prior to rectification.

Furthermore, during the years 2014 to 2017 the Company concluded different settlement agreements with all of the assigning banks under which the parties have agreed to waive demanding further price adjustments and also the 36-month period granted in the asset transfer contract for making claims. The Company may exercise any rights and take any actions to which it is entitled by law or under contract, whether for latent defects, damages or losses. That agreement does not prevent making future perimeter adjustments with those banks for assets incorrectly transferred due to not meeting the specifications of art. 48 of RD 1559/2012 or of the Fund for Orderly Bank Restructuring (FROB) Resolution on transfer conditions dated 14 December 2012 as it has done during the past years.

Íbero Project

In 2014 the Company launched what was known as the "Íbero Project". That project consisted of substituting the management and administration contracts concluded on the date of transferring the assets, by way of a bidding process in which it sought:

- To group together the management of the nine portfolios initially provided by the banks in Groups 1 and 2 into new managers, in order to simplify and facilitate the management of the assets transferred.
- To achieve professionalisation and improvement in the quality of the service at market prices which would enable the Company to fulfil its commitments and the tasks with which it is entrusted, that is, to be able to achieve the divestment of the assets acquired within the period established and maximise their value.

During the months of November and December of 2014 the new administration and management contracts were formally awarded and signed, with the following new managers (servicers) being appointed:

- Solvia Servicios Inmobiliarios, S.L. was awarded the real estate portfolio of Bankia, S.A. and the entire portfolios of Banco Gallego, S.A. and Banco Caja España de Inversiones Salamanca y Soria, S.A.
- Altamira Asset Management, S.L. was awarded all of the portfolios up until then managed by Catalunya Caixa, S.A., Banco Mare Nostrum, S.A. and Banco Caja 3, S.A.
- Haya Real Estate, S.L.U. was awarded the loan portfolio originally transferred by Bankia, S.A. and Banco Financiero y de Ahorros, S.A.
- Lastly, Servihabitat Servicios Inmobiliarios, S.L. was awarded the portfolios initially transferred by NovaGalicia Banco, S.A. (Abanca, S.A.), Liberbank, S.A. and Banco de Valencia, S.A.

The term established under the contracts ranges from 5 to 7 years from when each one comes into force, and can be automatically renewed for a further year unless any of the parties informs the other giving 6 months advance notice that it does not wish to renew. Furthermore, the contract provides for the possibility of early cancellation by Sareb at any time by giving a minimum of 3 months advance notice and paying compensation to the managers calculated in accordance with the terms of the contract.

In any case, the contracts for the services to be provided by the managers include:

- Migration: services necessary for developing, implementing and concluding the migration of the asset management and administration. The last portfolio to migrate was the portfolio of financial assets originally transferred by Bankia, S.A. which migrated in 2018.
- Administration and management of the portfolios awarded: Management is performed by the four managers listed above, who handle and manage the portfolios of financial assets and real estate assets assigned to them. As part of their functions, each Servicer records and prepares the financial and accounting information for their portfolios, reporting to the Company.
- Legal advice in relation to the administration and management of the assets migrated.

In consideration for the above services the contract establishes fees for management and administration and sale, which are calculated on the basis of the volume of assets held for management by each of the managers, and for sales, which are calculated on the basis of the revenue and cash generated in the divestment of the assets managed. In 2019 and 2018, fees for management and administration were accrued for the amount of €89,763 and 84,810 thousand, and sales commissions for the amount of €109,754 and 119,015 thousand, respectively (see Note 16.4).

In consideration for the above services the contract establishes fees for management and administration and sale, which are calculated on the basis of the volume of assets held for management by each of the managers, and for sales, which are calculated on the basis of the revenue and cash generated in the divestment of the assets managed. In 2019 and 2018, fees for management and administration were accrued for the amount of €89,763 and 84,810 thousand, and sales commissions for the amount of €109,754 and 119,015 thousand, respectively (see Note 16.4).

Furthermore, and with the aim of guaranteeing a certain level of service and performance in the tasks entrusted, and also to bring their objectives in line with those of the Company, in 2014 the awardees set up performance guarantees for an initial amount of €588,600 thousand, of which €235,642 thousand of nominal value are currently pending return, this being recorded under the caption "Other financial liabilities" in non-current liabilities on the accompanying balance sheet (see Note 13.4).

Regarding the above guarantees, it is worth pointing out that they were calculated based on an estimation of the assets that will be managed, adjusted to the final figure once the various migrations of the portfolios have been completed.

The return of those guarantees is considered a contingent item and is associated to the adequate trading performance of the managers. The Company considers it likely that, according to current estimations, those guarantees will be returned and that the return will take place as the fees arranged between the Company and its new managers become due and are paid. This contract provides for measuring the degree of the managers' fulfilment of the various performance indicators applicable to the services agreed upon, establishing a scale of penalties to be applied on the invoiced amounts and also the circumstances for early termination (for example if the managers' failure to fulfil extends over a period of 12 months with the highest level of materiality and degree of divergence from the target value established in the contract). On the basis of the fees accrued in 2019 and 2018, the Company has returned €59,349 and 83,241 thousand of guarantees provided by the managers, respectively (see Note 13.4).

Furthermore, as a result of the contract for the portfolio managed by Haya Real Estate, S.L.U. expiring on 31 December 2019, the Company has regularised as income the guarantee initially posted by that Servicer and which has not been returned, as the conditions set out in the contract for its return were not met. The amount of that guarantee is €36,117 thousand which were recognised under the caption "Other operating income" on the accompanying income statement for the year 2019.

Esparta Project

In 2019, and in view of the foreseeable expiry of the Íbero contract on 31 December 2019 relating to the portfolio managed by Haya Real Estate, S.L.U. the "Esparta Project" was put into operation. That project centres on defining the desired management model once the management contracts signed with "Íbero" have concluded. The central guidelines for the Esparta Project are as follows:

For the portion of Financial Assets:

a) The management of major debtors is centralised and internalised in Sareb, who will be responsible for the marketing and management of those debt portfolios. The intention is to make the management of those assets more efficient and standard.

b) The portion of retail financial assets, that is, debtors with debt positions of less than €30 M, is outsourced, for which a suitable, professionalised manager is sought. That contract -for the portfolio initially managed by Haya Real Estate S.L.U., was offered for tender and was awarded to Haya Real Estate, S.L.U. thus bringing continuity to the management carried out during recent years.

For the portion of Real Estate Assets:

a) The marketing of single items of assets and works in progress takes place through Servicers and specialist managers; with this, the intention is to streamline and maximise the margin obtained in each business line. In those cases the selection of providers was made through open tenders, having selected a high number, and in this way also seeking to diversify the risk.

b) For the portion of rentals we looked for a Servicer specialising in rentals to handle the overall management, that is, marketing, invoicing and debt management. The service provider selected, following the tender, was Haya Real Estate, S.L.U.

c) For its part, minority assets will be marketed by Haya Real Estate, and same as for the Financial Asset portfolio, the aim is to bring continuity to the management and knowledge of the portfolio acquired by Haya over the last 5 years.

On another note, the work for maintenance, technical renovation of assets, legal conversion, legal backup and administration of the real estate and financial assets will be carried out by Sareb with the support of different specialist providers. This will allow the Servicers to focus on the marketing aspect, carrying out management and administration with specialist providers, making it possible to streamline the cost of the services provided.

Other information

At 31 December 2019, the Company's annual accounts were not included in the consolidated financial statements of any Shareholder using the full consolidation method as none held more than 50% of the Company's share capital and none were considered to control the Company or to have the power to govern its financial and operating policies so as to obtain benefits from its activities, or to hold a majority of voting rights or to have the power to appoint or remove the majority of members of its Board of Directors (see Note 11).

In turn, at 31 December 2019, the Company had no majority holdings in the capital of other Companies. At 31 December 2018, the Company had a majority holding in Tempore Properties Socimi, S.A., although the directors consider that, given the figures for the assets, equity and turnover of that subsidiary, it is not of any relevant size in terms of the Group. Therefore, it is released from filing consolidated accounts under the terms of article 43 of the Code of Commerce.

As for holdings in Bank Assets Funds ("FAB") (Note 4.6.1), they do not require the deconsolidation of the assets and liabilities involved, does not have any significant effect on the true and fair view of the equity, the financial position and the profit/(loss) of the Company, having included all assets, liabilities and profit or loss generated by those funds in these separate annual accounts. Consequently, in accordance with article 43 of the Code of Commerce, the Company is not required to prepare consolidated annual accounts.

2. Bases for the presentation of the Annual accounts

2.1 Regulatory framework for financial information applicable to the Company

These annual accounts have been drawn up by the Directors in accordance with regulatory framework for financial information applicable to the Company which is that set out in:

a) Code of Commerce and other commercial legislation, with the specific aspects set out in sub-section 10 of the Seventh Additional Provision of Act 9/2012 which, where appropriate, were implemented in 2015 through a Bank of Spain Circular and amended under article 2 of RD 4/2016 (see point c). On 11 March 2020, RDL 6/2020 was published, in which article 1 amends sub-section 3 of the seventh additional provision (referring to Sareb) of Act 9/2012, establishing that, given the particular features of the Company, it will not be subject to the provisions of articles 348 bis and 363.1 e) of the Capital Companies Act (see Note 2.4).

b) The Spanish General Chart of Accounts approved by Royal Decree 1514/2007 and its subsequent amendments, except for the specific aspects included under Act 9/2012 and amendments thereto included in article 2 of RD 4/2016.

c) Similarly, due to the nature of its business, in the preparation of these annual accounts, the Ministry of Economy and Finance Order of 28 December 1994 which approved the adaptation of the 1990 General Chart of Accounts to Real Estate Companies was taken into consideration, and applicable in all issues not contrary to the provisions of the Code of Commerce, the Capital Companies Act, Act 9/2012 and the General Chart of Accounts approved under Royal Decree 1514/2007.

d) In addition, the Company has to comply with the general requirements for transparency, and for the preparation of annual accounts as established in RD 1559/2012.

e) In accordance with the provisions of sub-section 10 of the Seventh Additional Provision of Act 9/2012, in 2015 the Bank of Spain issued Circular 5/2015, of 30 September, under which it implemented the specific accounting aspects for Sareb (hereinafter, "Circular 5/2015"). Subsequently, on 3 December 2016, an amendment was made to letter c) of sub-section 10 of that Seventh Additional Provision by way of article 2 of RD 4/2016 of 2 December, on urgent financial measures, later included in the Circular 5/2015 by publication of Circular 2/2017.

f) The mandatory rules approved by the Institute of Accounting and Account Audits in order to implement the General Chart of Accounts and relevant secondary legislation.

g) All other Spanish accounting legislation that is applicable.

2.2 True and fair view

The accompanying annual accounts have been obtained from the Company's accounting records and are presented in accordance with the regulatory framework for financial information applicable to the Company and in particular with the principles and criteria contained therein, in such a way as to show the true and fair view of the equity, the financial position of the Company at 31 December 2019, the profit/(loss) of the Company and the cash flows during the year ended on that date.

The annual accounts of Sareb for 2018 were approved by its Shareholders General Meeting on 30 April 2019 and those for 2019, which were drawn up by the Board of Directors of Sareb in its meeting on 25 March 2020, will be submitted for the approval of the Shareholders General Meeting, and are expected to be approved without amendments.

2.3 Non-mandatory accounting principles applied

No non-mandatory accounting principles were applied in the preparation of these annual accounts. In addition, the Directors have drawn up these annual accounts taking into consideration the whole set of accounting principles and standards of mandatory application that have any significant effect on said annual accounts (see Note 4). There is no accounting principle that is mandatory and has a significant effect on these annual accounts which has not been applied.

2.4 Critical aspects of the assessment and estimation of uncertainty

In the preparation of the accompanying annual accounts, estimates were made by the Directors of the Company in order to measure certain of the assets, liabilities, income, expense and obligations reported therein. Basically these estimates refer to:

- The assessment of impairment of certain assets (see Notes 4.7, 5, 7 and 8).
- The useful life of intangible assets, property, plant and equipment and property investments (see Notes 4.1, 4.2, 4.3 and 5).
- The market value of certain financial instruments (see Note 7).
- The recoverability of prepaid tax and tax credits and the deductibility of impairment losses on the Financial Assets and Real Estate Assets units (see Note 15).
- The calculation of provisions (see Note 12).
- The estimation of the bonds and other short-term negotiable securities (see Note 13.2).
- The classification of the balance sheet amounts between the long term and the short term based on the estimated future cash flows (see Notes 7 and 13).

In 2014 the Company ended reviewing the assets transferred (Due Diligence). That analysis was intended to establish that the estimations and the mechanisms for calculating prices (correct application of the transfer pricing, confirmation of the features of the assets acquired and the accuracy of the information provided by the assigning banks) are reasonable.

Based on the outcome obtained from that analysis, in 2019 the Company concluded the rectifications specified in Note 1. Except for those rectifications, with the current information, the estimation of any possible differences that might come to light regarding the transfer pricing is not relevant for the purposes of these annual accounts.

Although, in accordance with applicable legislation, these estimations have been made on the basis of the best information available at the end of the year 2019 and at the date of preparing these annual accounts, it is possible that events that might take place in the future could mean modifying them (increasing or decreasing) in the coming years, which would, if the case arises, be carried out prospectively, with a balancing entry in the income statement of the year affected in the future.

Going concern principle

At 31 December 2019, the situation of the equity of the Company is as follows:

	€ thousand
Equity in the annual accounts of Sareb, S.A. at 31/12/2019	(7,511,562)
Less:	
Value change adjustments for cash flow hedge	922,322
Value change adjustments for impairment of Financial Assets	6,322,635
Value change adjustments for impairment of Real Estate Assets	496,378
Equity for the purposes of reduction and dissolution at 31/12/2019	229,773

It should be mentioned that under accounting legislation in force, any changes in the value of hedging derivatives are recognised in equity until they are allocated to profit or loss in the corresponding year. The total fair value of this interest rate risk derivative, net of its tax effect, is recognised under the caption "Value change adjustments – Hedging operations" (see Note 13.3). However, from a business perspective and according to the provisions of article 36 of the Code of Commerce, these value changes in the hedging derivative yet to be allocated to the income statement are not considered as equity for the purposes of profit distribution, mandatory reduction of share capital and mandatory dissolution for losses.

In turn, as established by article 2 of RD-Law 4/2016, the Company has recorded the value adjustments of the units of assets established in Circular 5/2015 allocating them to the caption "Value change adjustments – Impairment of financial assets -and- Impairment of real estate assets" net of taxes. As established in that RD-Law the adjustments referred to above will not be considered as equity for the purposes of profit distribution, mandatory reduction of share capital and mandatory dissolution for losses (see Note 11.5).

At 31 December 2019, the Company shows positive working capital for the amount of €4,697,331 thousand as a result of classifying the senior debt as long term, because although €27,879,900 thousand of senior debt contractually matures in 2020, the Company has the option of unilaterally renewing the maturity term of those bonds, meaning that a good part of the debt has been classified as long term taking the current estimates of the Company into consideration.

At 31 December 2019, the amount of cash and other cash equivalents was €3,115,290 thousand.

The Company has sustained significant losses during 2019, €947,246 thousand, which, together with those incurred in preceding years, has resulted in a reduction of its equity to €229,773 thousand, meaning it now stands at less than the €303,862 thousand of its share capital. Accordingly, at 31 December 2019, the circumstances contained in article 327 of the Capital Companies Act, for a compulsory capital reduction when losses have brought a company's equity to less than two thirds of its share capital, are not applicable to Sareb; nor is it subject to the cause for dissolution due to losses resulting in its equity being an amount less than half of the share capital, as established in article 363.1.e) of the same Act.

Sareb is required to update its Business Plan every year for all of its remaining life and to apply the accounting principles and standards in force in its financial reporting. The most recent updating of the Business Plan, approved by the Board of Directors of the Company, reflects a change that emphasises the company's strategy regarding the preservation of the financial value of its assets, in accordance with its mandate. It must be considered that the assumptions used and the long-term nature of the projections involve a high degree of uncertainty based on the actual evolution of the market and of the Company's own ability to divest in accordance with that forecasting. However, according to that recent updating, the shareholders' equity of the Company shown at the end of the year would be depleted in the short term. In that respect, at the time of preparing these annual accounts, the Company had a total of €1,430 M of subordinated convertible debt, which it could convert to capital to restore the equity balance of the company in accordance with the terms and conditions established in the debt contracts (see Note 13).

It is important to highlight that, on 11 March 2020, Royal Decree-Law 6/2020 was published which, in article 1 amends sub-section 3 of the seventh additional provision (referring to Sareb) of Act 9/2012 (on the restructuring and winding-up of credit institutions) with the following text:

> *3. This company will be incorporated for a limited period of time to be established by law, and it will not be subject to the provisions of articles 348 bis and 363.1 e) of the Capital Companies Act. The law will also establish or, where appropriate, attribute to the FROB [Fund for Orderly Bank Restructuring] the authority to determine the initial amount of share capital and issue premium.*

As this new regulation is essential for the purposes of eliminating uncertainties regarding legal aspects and its day-to-day operation as an undertaking which could arise in respect of the amount of its shareholders' equity, the motives set out under that regulation are relevant:

> *Act 9/2012 of 14 November is also amended, referring to the legal system governing Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (SAREB) (...). SAREB is incorporated as a Public Limited Company having certain special features arising from its specific corporate purpose, which is essentially to sell off the portfolio of assets transferred to it, in the best conditions possible, and the public interest resulting from its activity. Both purposes mean that*

SAREB, while being governed by legislation generally applicable to business companies, necessarily follows a legal system that is special in certain aspects which are essential for the fulfilment of its social purpose.

In order to continue striving to achieve its aims and for SAREB to pursue its basic task of selling off assets on a normal basis, the legal system provided for this company (...) needs to be urgently supplemented in respect of not applying the provisions of article 363.1.e) of the Consolidated Text of the Capital Companies Act, (...). Article 363.1.e) regulates dissolution on the grounds of a company's equity being reduced to an amount less than half of its share capital. The necessity of SAREB not being subject to this ground for dissolution arises from its legal mandate to divest assets, maximising their recovery value, within a specific time period, in respect of all the assets that have been transferred to it and which form part of its equity. This particularity makes it essential to adapt the grounds for dissolution established in general for business companies to its special legal system; as opposed to the purpose of SAREB, other companies engage in business for an indefinite period of time, which therefore does not relate to the ultimate purpose of SAREB which is to s ell off assets.

Esta modificación legal viene a refrendar, por tanto, la continuidad de la actividad liquidadora de Sareb con normalidad con independencia de la situación de sus fondos propios y el supuesto recogido en el artículo 363.1e) de la Ley de Sociedades de Capital. Si bien el supuesto de reducción obligatoria de capital social recogido en el artículo 327 de la citada Ley no se ha incluido en la modificación normativa, los Administradores consideran que dicha obligación, en el caso de que se considerase aplicable, extremo en estudio, se pondría de manifiesto con la formulación de cuentas del ejercicio 2020, que abriría el plazo de un año para su subsanación. Siendo que en todo caso Sareb contaría con la salvaguarda de la exención establecida en el artículo 363 antecitado.

This legal amendment therefore endorses the continuity of the divestment activity of Sareb on a normal basis, regardless of the situation of its shareholders' equity and the circumstance contained in article 363.1e) of the Capital Companies Act. While the circumstances for the mandatory reduction of share capital contained in article 327 of that Act has not been included in the regulatory amendment, the Directors consider that this obligation, if it were to be considered applicable, a point under study, would become evident in the preparation of the accounts for 2020, which would open a one-year period for the situation to be rectified. In any case Sareb would have the safeguard of the exemption established in article 363 quoted above.

It should also be pointed out that Sareb's financial design makes it possible to guarantee that, despite its situation in terms of shareholders' equity, the Company will be able to continue fulfilling all payment obligations with third parties arising from the performance of its mandate and its operations for liquidation of assets with complete normality, as it has been doing up until now. In fact, the level of liquidity with which Sareb was set up has remained almost intact, and even in a scenario under the pressure of no cash generation, the Company's liquidity would enable it to cover more than 3 years of ordinary expense (mainly the maintenance of the assets transferred to it). Regarding senior debt obligations, which constitute the main liability of the Company, under the senior debt contracts, Sareb applies, and will continue to apply, the right of renewal by re-issue which replaces those that have matured, except for the amount that can be paid off with the liquidity surplus, after deducting all Sareb's payment obligations from its income. Renewing senior debt in the terms indicated and only paying off the mentioned liquidity surplus will guarantee the Company's liquidity for meeting its obligations until the statutory deadline for its existence has expired.

The Company therefore continues responding to the corporate purpose for which it was incorporated under Act 9/2012: a process of orderly liquidation of the assets transferred to it under the principle of optimising the outcome of the assets fund making up its balance sheet. In that respect, the Company has opened numerous business lines for creation of value. Those lines are in addition to those of social interest in the framework of the current real estate market.

In consequence, based on the above, as they have done in previous years, the Directors of the Company have drawn up these annual accounts on the principle of the company as a going concern (see Note 19).

2.5 Changes in accounting policies

In 2019 there have been no significant additional changes in accounting policies with regard to the policies applied in 2018.

2.6 Comparison of the information

The information contained in this report referring to 2018 is presented solely for comparison with the information for 2019, in accordance with the provisions of current legislation.

2.7 Grouping of items

To enhance comprehension of the balance sheet, income statement, statement of changes in equity and cash flow statement, certain items are presented in grouped form, and the necessary breakdown is given in the corresponding notes, wherever it is relevant

2.8 Correction of errors and changes in estimations

No significant errors have been detected in the preparation of the accompanying annual accounts that would involve the restatement of the amounts included in the 2018 annual accounts.

2.9 Environmental Impact

Given the business in which the Sareb is engaged, it has no responsibilities, expenses, assets, provisions or contingencies of an environmental nature which could be significant in respect of its equity, financial position and profit or loss.

For this reason, in the Company's annual accounts for 2019 no information is given relating to this issue.

2.10 Presentation of the annual accounts

Unless indicated otherwise, the figures reflected in these annual accounts are stated in € thousand.

3. 3. Distribution of profit or loss

The proposals put forward by the Board of Directors for the distribution of the profit/(loss) obtained in 2019, to be submitted for the approval of the Shareholders General Meeting and the proposal for 2018 which was approved by the Shareholders General Meeting held on 30 April 2019 are as shown below:

€ thousand	2019	2018
Balance of the income statement	(947,246)	(878,348)
Distribution:		
To legal reserves	-	-
To voluntary reserves	-	-
To accumulated loss from previous years	(947,246)	(878,348)

4.4. Principles for accounting and measurement

The main principles for accounting and measurement used by the Company in the preparation of the Annual accounts for 2019, in accordance with the regulatory framework applicable were as follows:

4.1 Intangible assets

Intangible assets are initially valued for their acquisition price or production cost. Subsequently, they are valued at cost decreased by the relevant accumulated amortisation and, where appropriate, by any impairment losses they may have undergone. These assets are amortised over their useful life.

Industrial property

The amounts recognised by the Company under the caption Industrial property correspond to the expenses capitalised by obtaining the corresponding patents, or similar, including costs for registering and formalising the industrial property, notwithstanding any amounts that can also be included in the accounts for purchasing the corresponding rights from third parties. The Company amortises the amounts capitalised under the caption "Industrial property" on a straight-line basis over 10 years.

Administrative concession

Under the caption of Administrative concessions, the Company records the rights of use it has on several berths in the port of Santa Pola (Alicante). The useful life of those berths is 17 years from when they were acquired by the Company, and they are depreciated on a straight-line basis over that useful life.

Computer software

Computer software acquired or designed by the Company is recognised at acquisition or production cost, as the case may be, amortised on a straight-line basis over 5 years. The costs for maintaining computer software are recognised in the income statement in the year incurred. At 31 December 2019 and 2018, that caption mainly includes the gross cost of the computer software acquired by the Company, for the amount of €63,593 and 35,734 thousand, respectively.

The provision for the amortisation of the intangible assets in 2019 and 2018 was €8,519 and 6,447 thousand, respectively, having been recognised with a charge to the caption "Amortisation/Depreciation" on the accompanying income statement. The balance of the cumulative amortisation at 31 December 2019 and 2018 was €26,170 and 17,648 thousand, respectively. Additions in 2019 mainly relate to the development and evolution of various computer software used by the Company for managing its financial and real estate assets.

The work the Company performs on its own fixed assets is reflected at the accumulated cost resulting from adding the internal costs determined according to the actual consumption of materials and manufacturing expenses to the external costs, applied using the same principles as those used for measuring inventories. In 2019 and 2018, the Company has not capitalised any cost for these items in its intangible assets.

Impairment of intangible assets

Whenever there are indications of impairment of intangible assets with a finite useful life, that classification being applicable to all of the Company's intangible assets, it performs "impairment testing" to assess whether there is any indication of impairment that reduces the recoverable amount of such assets to below their carrying amount.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in previous years. That reversal of an impairment loss is recognised as income.

In 2019 and 2018, the Company has not recognised impairment for its intangible assets.

Furthermore, at the end of 2019 and 2018 the Company has no firm commitments for the purchase and/or sale of any items of intangible assets for any significant amount.

4.2 Property, plant and equipment

Initial measurement

Property, plant and equipment is initially measured at acquisition or production cost, to which are added the amounts of additional or complementary investments made, and subsequently reduced by the relevant accumulated depreciation and the impairment losses if any, pursuant to the criteria mentioned in this Note.

Costs of expanding, upgrading or improving property, plant and equipment that increase its productivity, capacity or efficiency, or prolong its useful life are capitalised as an increase in the cost of the asset.

Repair and maintenance costs for the year are recognised as "External services" in the accompanying Income Statements.

In 2019 and 2018, the Company has not capitalised any financial interest as an increase in the value of its property, plant and equipment.

The work the Company performs on its own fixed assets is reflected at the accumulated cost resulting from adding the internal costs determined according to the actual consumption of materials and manufacturing expenses to the external costs, applied using the same principles as those used for measuring inventories. In 2019 and 2018, the Company has not capitalised any cost for these items in its property, plant and equipment.

Depreciation

The depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the assets. The annual depreciation percentages for the respective current cost value, where relevant, and the estimated years of useful life are the following:

Caption	Annual percentage	Years of estimated useful life
Straight-line depreciation method:		
Other facilities	10	10
Fixtures	10	10
Data processing equipment	20	5
Other property, plant and equipment	12,5	8

The provision for the depreciation of property, plant and equipment at 31 December 2019 and 2018 was €486 and 296 thousand, respectively, having been recognised with a charge to the caption "Amortisation/Depreciation of fixed assets" on the accompanying income statement. The balance of the cumulative depreciation at 31 December 2019 and 2018 was €1,777 and 1,291 thousand, respectively.

The assets in progress do not begin to depreciate until they are fully operational, which is when they are transferred to their corresponding account in property, plant and equipment, depending on their nature.

Impairment of property, plant and equipment

Whenever there are indications of impairment of property, plant and equipment, that classification being applicable to all of the Company's property, plant and equipment, it performs "impairment testing" to assess whether there is any indication of impairment that reduces the recoverable amount of such assets to below their carrying amount.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in previous years. That reversal of an impairment loss is recognised as income.

In 2019 and 2018, the Company has not recognised impairment for its property, plant and equipment.

Furthermore, at the end of 2019 and 2018 the Company has no firm commitments for the purchase and/or sale of any items of property, plant and equipment for any significant amount.

4.3 Property investments

The caption property investments on the balance sheet includes the values for land, buildings and other constructions that are held, either to earn rentals or for capital gains when sold as a result of future increases on the respective market prices.

Initial measurement

Property investments are initially measured at acquisition or production cost, to which are added the amounts of additional or complementary investments made, and subsequently reduced by the relevant accumulated depreciation and the impairment losses if any, pursuant to the criteria mentioned in this Note.

According to the provisions of letter a) of sub-section 10 of the Seventh Additional Provision of Act 9/2012, the acquisition cost of the assets received from the assigning banks in Group 1 and Group 2 was established applying the transfer prices for each type of assets that were fixed by resolution of the Bank of Spain according to the principles established in RD 1559/2012.

Under the provisions of Rule 3 of Circular 5/2015, in the case of real estate assets allocated or acquired in payment of debts, the amount for which they are initially recognised is the carrying amount of the financial assets cancelled on the date of foreclosure or dation in payment. The legal and registry expenses, and taxes paid are added to the initial value provided that by doing so the estimated fair value of that initial value is not exceeded.

Costs of expanding, upgrading or improving these assets that increase their productivity, capacity or efficiency, or prolong their useful life are capitalised as an increase in the cost of the assets.

The Company recognises any properties acquired under mortgage foreclosure procedures having a court ruling under the caption "Advances on property investments". Those properties are transferred to the caption of "Land" or "Completed properties" once that ruling becomes final.

Repair and maintenance costs for the year are recognised as "External services" in the accompanying Income Statement.

The work the Company performs on its own fixed assets is reflected at the accumulated cost resulting from adding the internal costs determined according to the actual consumption of materials and manufacturing expenses to the external costs, applied using the same principles as those used for measuring inventories. In 2019 and 2018, the Company has not capitalised any cost for these items in its property investments.

In 2019 and 2018, the Company has not capitalised any financial interest or charges as an increase in the cost of property investments.

Subsequent measurement and evaluation of impairment

The impairment of those assets is assessed as described in Note 4.7.

Depreciation

The depreciation of property investments is calculated on a straight-line basis over the estimated useful life of the assets. The annual depreciation percentages for the respective cost values, where relevant, and the estimated years of useful life are the following:

	Annual percentage	Years of estimated useful life
Straight-line depreciation method:		
Constructions	2	50
Other facilities	10	10
Fixtures	10	10
Data processing equipment	20	5
Other property, plant and equipment	12.5	8

The provision for the depreciation of property investments in 2019 and 2018 was €53,436 and 53,103 thousand (see Note 5) having been recognised with a charge to the caption "Amortisation/Depreciation of fixed assets" on the accompanying income statement.

4.4 Asset exchanges and awards

"Asset exchanges" are taken to be the acquisition of property, plant and equipment or intangible assets in exchange for other non-monetary assets or for a combination of these and monetary assets.

As a general rule, the asset received in an asset exchange transaction with commercial substance is recognised at the fair value of the asset given up, plus, where appropriate, any monetary consideration paid. The valuation differences that arise on derecognition of the asset given up in the exchange are recognised in the income statement.

Assets received in an exchange that lacks commercial substance are measured at the carrying amount of the asset given up plus, where appropriate, any monetary consideration paid, up to the limit of the fair value of the asset received if this is lower.

In the specific case of assets awarded as payment of debt, depending on their nature and the purpose for which they are to be used, they are classified as property investments and inventories and recognised in accordance with the terms of Notes 4.3. and 4.11, respectively.

4.5 Leases

The Company considers as operating leases those originating from an agreement under which the lessor arranges with the lessee the right to use an asset for a certain period of time, in return for a one-off payment or a series of payments, without involving a lease which, under the provisions of current legislation, could be considered as a financial lease.

The Company charges to the income statement the income and expense arising from the operating leases agreements in which it acts as lessor in the year to which they relate. Likewise, the acquisition cost of the asset is presented on the balance sheet according to its nature, increased by the amount of the costs of the contract directly attributable, which are recognised as an expense during the term of the contract, applying the same method used to report income from the lease.

For its part, the Company treats any amount collected or paid that could be made through an operational lease agreement as an advance collection or payment and takes it to the income statement throughout the term of the lease as the profits from the leased assets are transferred or received.

In 2019 and 2018, the Company has not entered into any financial lease agreement.

4.6 Investments in associates and Financial assets - Categories of financial assets

4.6.1 Investments in Group companies and associates

Associates are entities over which significant influence can be exercised. Significant influence is understood to be when the Company has a holding in another company and has the power to participate in the financial and operating policy decisions of the investee, but without having control or joint control over them. Usually, this influence is evidenced by a direct or indirect holding of 20% or more of the investee's voting rights.

They are valued for their cost less, if the case, the accumulated amount for adjustments related to impairment. However, if there is an investment prior to its status as a Group company, jointly controlled entity or associate, its carrying amount before acquiring that status is considered as the cost of the investment. Any previous adjustments in value recorded directly against equity are maintained there until they are derecognised.

If there is objective evidence that the carrying amount is not recoverable, the appropriate value adjustments are made for the difference between the carrying amount and the recoverable amount, this being understood as the higher amount between the fair value less the sales value and the present value of future cash flows derived from the investment. Unless there is better evidence of the recoverable amount, the impairment of these investments is estimated based on the value of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement. Value adjustments and, where applicable, their reversal, are recognised in the income statement in the year they arise.

Holdings in associates are entered under the caption "Long-term investments in associates – Equity instruments" on the balance sheet and measured for their acquisition cost, net of any impairments that might have been sustained by those holdings (see Note 4.7.3).

When the remuneration arising from these holdings does not originate unequivocally from earnings generated before the acquisition date, they are recognised under the caption "Turnover" on the income statement (see Note 16.1).

Bank Assets Funds (FABs)

Article 20 of Royal Decree 1559/2012, of 15 November, authorises the Company to create separate equity compartments in what are known as "Bank Assets Funds" (hereinafter, FABs).

The corporate purpose of the FABs, fund-based entities without legal personality, will be to liquidate the portfolio of assets and liabilities provided by Sareb, for which their duration will be the term for which they were created.

In its accounting of the investments in FABs the Company distinguishes between:

- FABs whose creation does not transfer substantially all the risks and rewards incidental to ownership of the assets and liabilities transferred to third party investors. As a general rule, such funds are those in which the Company has control and holds over 50% of the sum of the liabilities and equity of the Fund. In those cases, the Company does not derecognise the assets and liabilities (that is, it does not recognise any sales income nor the corresponding costs) and it measures them using the same criteria applicable before the transfer; it does however recognise a liability for an amount equal to the consideration received which it measures at amortised cost, where appropriate netting and recognising both the income from the assets transferred and not derecognised as costs of the new financial liability when it is effectively sold to third parties. At 31 December 2019, the only FABs set up that have not been deconsolidated are the 2013 Bull and Arqura Homes FABs. Those FABs have their own accounting and tax rules.

- FABs whose creation does transfer substantially all the risks and rewards incidental to ownership of the assets and liabilities transferred to third party investors. As a general rule, such funds are those in which the Company does not hold more than 50% of the total liabilities and equity of the Fund. In these cases, and given that control of the assets sold has usually been transferred to the investor, the Company records the cost of the amounts equivalent to the share capital subscribed by the Company under the caption "Long-term investments in associates – Equity instruments". Those equity instruments are measured in accordance with the terms of Note 4.7.3 (Impairment of equity instruments issued by FABs). Furthermore, if any financing has been granted by the Company, it is recognised under the caption

"Long-term investments in associates - Loans to companies". At 31 December 2019, the only FABs set up that have been deconsolidated are the Teide 2013 and Esla FABs.

Below is a summary of the main transactions carried out with FABs in 2019 and 2018:

2019

Arqura Homes Bank Assets Fund

On 5 June 2019, the Company created the "Árqura Homes Bank Assets Fund" through the contribution of a portfolio of land, works in progress, and certain monetary rights associated to different Sareb assets, whose overall accounting costs amounted to €727,831 thousand, for an aggregate price of €811,389 thousand.

The sales price was paid by the fund through the issue of 5,000 securities, each with a par value of €162,277.8.

At 31 December 2019, the Company is the holder of 100% of the equity securities of that Fund.

Simultaneously with the creation of the fund, the Company granted it the following financing facilities:

- A loan used for funding the payment of VAT and IGIC charged on transferring the assets. The total amount of that loan was €115,140 thousand, of which €1,390 thousand are still repayable at the end of the year, corresponding to the IGIC charged on the transfer of assets.
- A credit facility used for funding the initial expenses of the fund. That credit facility has an amount available of €75,000 thousand, of which €10,714 thousand, have been drawn down at 31 December 2019.
- A credit facility used for funding the future urban development expenses for all the sites transferred. The available amount under that credit facility was €100,000 thousand, of which no drawdowns have been made at 31 December 2019.
- Lastly, 50 developer loan contracts have been signed for a total aggregate amount of €374,349 thousand used for financing the works in all property development projects to be started by the Fund. The amount drawn down under those loans at 31 December 2019 was €295 thousand.

All the above-mentioned contracts have an interest rate indexed to 12-month Euribor and a 2.5% spread.

Esla Bank Assets Funds

On 23 October 2019, the Company created "Esla Bank Assets Funds" through the contribution of land and construction work in progress that had been halted, whose overall accounting costs amounted to €50,199 thousand, for an aggregate price of €52,180 thousand.

The sales price was paid by the fund through the issue of 300 securities, each with a par value of €104,360. Furthermore, 40% of the price was deferred by granting a senior loan, which will mature on 23 October 2024. The total amount of senior financing was €20,872 thousand.

In addition to the above, the Company has granted the following financing facilities:

- loan used for funding the payment of VAT and IGIC charged on transferring the assets. The total amount of that loan was €2,777 thousand, of which the entire amount is pending repayment at 31 December 2019. That financing facility is recognised under the caption "Short-term investments in Group companies and associates" on the accompanying balance sheet.
- A credit facility used for funding the initial expenses of the fund. That credit facility has an amount available of €2,780 thousand, of which €1,000 thousand, have been drawn down at 31 December 2019. That financing facility is recognised under the caption "Short-term investments in Group companies and associates" on the accompanying balance sheet.
- Lastly, a loan was granted to be used for funding the CAPEX incurred on the assets acquired. The limit of that financing has been set at €44,380 thousand. At 31 December no amount has been drawn down. That financing contract expires on 31 December 2024.

The above financing facilities have a fixed interest rate of 3%.

On 31 December 2019, the Company sold 95% of the securities in that fund, that is, 285 securities, which were sold at their par value amounting to €29,743 thousand. The sales price was received in full on the date of sale.

2018

In 2018 the Company had no significant transactions in place with any FAB.

4.6.2 Loans and receivables

This category of financial instruments includes debt instruments originating in the services provided by the Company and those which, while not originating in those services, represent fixed or determinable collection rights and are not traded in an active market.

Loans and receivables are recognised on the balance sheet at 31 December 2019 under the captions "Long-term investments in Group companies and associates - Loans to companies", Long-term and short-term financial investments corresponding to "Loans to third and related parties", "Loans to companies" and "Other financial assets" and the captions "Trade and other accounts receivable" and "Cash and other cash equivalents" on the asset side of the balance sheet on those dates.

The Company follows the policy of transferring to the caption of doubtful assets any loans and credits having interest and/or capital payments due and outstanding for more than 90 days.

Initial measurement

In general, loans and receivables are initially measured at fair value, which is the transfer/acquisition price, which is equivalent to the fair value of the consideration paid plus the transaction costs directly attributable to them. In 2013 the Company capitalised those costs necessary for taking control of the assets as their increased value, which amounted to €17,561 thousand. At 31 December 2019 and 2018, the amount capitalised for the expense amounted to €10,910 and 11,376 thousand, respectively (Note 7.1.1.).

According to the provisions of letter a) of sub-section 10 of the Seventh Additional Provision of Act 9/2012, the acquisition cost of the assets received from the assigning banks in Group 1 and Group 2 was established applying the transfer prices for each type of assets that were fixed by resolution of the Bank of Spain according to the principles established in RD 1559/2012.

Subsequent measurement

The assets included in this category are measured at their amortised cost, net of any impairment. The interest generated by these assets is recorded in the income statement, applying the effective interest rate method. According to the reply to the consultation made to the Bank of Spain and to the earlier pronouncements from the Institute of Accounting and Account Audits (ICAC), the estimation of the future cash flows for the purposes of establishing the effective interest rate takes into account, where appropriate, the value of the collateral on transactions.

Notwithstanding the above, certain items established in applicable legislation, maturing in less than one year, are booked initially at their nominal value if the effect of not discounting their cash flows is insignificant, and are later measured for the same amount.

Any impairment losses existing on these assets are booked in accordance with the terms of Note 4.7.2.

At 31 December 2019 and 2018, Sareb did not hold or have any financial assets of the type provided for in applicable legislation, other than those outlined in this note.

4.7 Impairment of financial assets, property investments and other accounts receivable

As stated in Note 2.1, pursuant to the provisions set out in sub-section 10 of the Seventh Additional Provision of Act 9/2012, in 2015 the Bank of Spain published Accounting Circular 5/2015 which implemented the specific accounting aspects of the Company.

The publication of that Circular 5/2015 regulated the principles which were to be the basis of the method that the Company was to use for estimating the value of the assets transferred by the banks in Group 1 and 2. According to the terms set out in the Circular, the calculation of that value has to be made in a way that is consistent with the one originally used for establishing the transfer pricing to the Company taking into account the evolution of market prices and the time horizons forecast in the Company's business plan, which is updated and approved by the Board of Directors every year.

To comply with the provisions of the Circular, the Company has implemented and approved the method for estimating the adjustments related to impairment based on the criteria established in the Circular.

The recognition of the impairment arising as a result of measuring the assets should be made per asset unit. The Circular establishes the offsetting of losses with capital gains on assets within the same «asset unit». The asset units set forth in the Circular are as follows:

a) Properties foreclosed or acquired in payment of debts, regardless of their origin, provided that they appear on the individual balance sheets of the assigning banks or in their consolidated balance sheets at the time of the transfer.

b) The following credit rights:

   i. Loans or credits for financing land for development in Spain or for financing property construction or development in Spain, whether in progress or completed, regardless of their age and accounting classification.

   ii. Participating loans granted to companies in the real estate sector or to companies related to them, regardless of their age and accounting classification.

   iii. Other loans or credits granted to the holders of credits or loans included in sub-section 1 above, if the Fund for Orderly Bank Restructuring (FROB) considers the transfer to be suitable, so that the Sareb can properly manage the assets transferred.

c) The properties and credit rights that meet the requirements set out in the foregoing letter coming from companies in the real estate sector, or from companies related to them, over which the bank exercises control as set forth in article 42 of the Code of Commerce.

d) Instruments representing the capital of companies in the real estate sector or of companies related to them which directly or indirectly enable the bank or any other company in its group to exercise joint control or significant influence over them, if the Fund for Orderly Bank Restructuring (FROB) considers the transfer to be suitable as they hold a considerable volume of assets referred to under letter a), or serve as an effective channel for the company to engage in property construction or development in Spain.

e) Consumer loans or credits or loans to small and medium businesses, loans or credits guaranteed by mortgage or by any other assets not included in those sub-sections, whenever those assets are especially impaired or if their continuation on the balance sheet would be considered detrimental to the viability of the company. The consideration of the presence of these circumstances will require a prior report from the Bank of Spain.

Notwithstanding the definition given in Circular 5/2015 for 5 asset units, only the first two are applicable to Sareb: the one relating to the properties awarded originally transferred to Sareb and the one created by the original credit rights.

It is worth mentioning that the Circular establishes that the assets awarded or received in payment of debts subsequent to the transfer dates will remain in the asset unit in which they were initially included.

At the end of the year, or whenever the Company publicly provides information on its financial position, it should assess the need to make adjustments related to impairment of each of the asset units. To this end, with the best information available at all times, it will assess whether the carrying amount of the asset unit is higher than the value estimated for the asset unit as a whole using the method implemented by the Company, according to the criteria established in Rule 4 of Circular 5/2015. If that is so, an impairment will be recognised net of taxes, with a charge to the caption "Value change adjustments" within the Company Equity, in compliance with the provisions of article 2 of RD 4/2016 (see Note 2.1).

The debit balance of that account will be taken to the income statement only in those years in which the Company shows a profit. For this purpose the profit before taxes will be taken into account without considering any possible accrual of interest on the subordinated debt.

Impairment of each «asset unit» can be reversed when there is evidence that the value of the assets in the «asset unit» has been recovered using the method implemented by the Company and regulated under Circular 5/2015, with the limit being the value that the «asset unit» would have had if no impairment had been recognised.

In each «asset unit», the amount of the losses in the impaired assets can be offset against the capital gains on the unimpaired assets included in the same «asset unit», estimated according to the criteria of Rule 4 four of Circular 5/2015.

Assets shall remain in their corresponding «asset unit» as long as they meet the requirements set out in letter a) of sub-section 1 of article 36 of the Code of Commerce, namely that there are sufficient objective factors confirming that the likelihood of recovering the value of the asset recognised is not remote. In 2019 and 2018 no assets were derecognised in their corresponding asset units.

In compliance with the Bank of Spain Circular 5/2015, the Company has measured its entire portfolio of Financial and Real Estate Assets. However, considering the large volume of assets and collateral subject to being measured, and the complexity of that process, there is a small percentage of the portfolio that has not obtained a qualifying appraisal in accordance with Rule 4 of the Circular.

In relation to 3.8% of the portfolio, 5.1% in terms of the carrying amount (3.5% and 3.6% respectively in 2018) of the assets recognised under the captions "Financial investments - Loans to third and related parties", "Property investments" and "Inventories"- (on which there are no qualifying appraisals in accordance with Rule 4 of the Circular), the Company, the same as in 2018, has updated the latest appraisals available using correction indices calculated on the basis of information obtained from the updating carried out on the 96.2% of the portfolio (96.4% in 2018) that does meet the qualifying requirements described in the mentioned Rule 4. At 31 December 2019, this block includes 0.15% of appraisals (0.10% in respect of the carrying amount) which, having been eligible in the measurement process for the previous year and fulfilling the technical requirements of the Circular, exceeded the 3-year period for updating. The calculation of this estimation takes into consideration the type of asset, its location and the age of the appraisals available. According to the Directors, the criteria followed provide the best estimation of the value of the assets in this portfolio, and will not differ significantly from the values that would result from an updated appraisal that is eligible under Rule 4 of the Circular.

Furthermore, it is worth mentioning that for the case of appraisals in which the appraiser has indicated any kind of conditioning factors, the Company has applied correction indices according to each type, whether due to being unable to have access to the property, due to checking the urban land development, or checking with registries. Those correction indices range from 7% to 30% and have been drawn up internally on the basis of the best understanding and professional judgement of the Company.

Assets will be derecognised from the balance sheet for their carrying amount, without taking into consideration any adjustments related to impairment estimated per «asset unit» as a result of applying the provisions of Rule 4.

Below are the principles applied by the Company for establishing the existence of impairment losses in each of the different asset units identified, and also the method employed for calculating the hedges accounted and recognised for that impairment.

4.7.1. Impairment of the real estate assets unit

This asset unit includes the amounts booked under the captions "Property investments" and "Inventories" except for €6,527 and 5,163 M in 2019 and 2018 respectively of real estate assets received by the Company in payment of debts subsequent to the date of transferring the financial assets and which have been measured within the asset unit itemised in Note 4.7.2.

To determine the value of its real estate assets the Company takes into account the features that a properly informed buyer would use for deciding to buy it, such as its geographical location, available infrastructure, legal status, terms of sale or operation, demand and offer for similar properties, its most likely use, as well as aspects related to urban development, demographical evolution and prices of utility supplies. For the purposes of considering the legal status of the property and its urban development issues, for the measurement of the land the Company has used the development levels defined in article 4 of Order ECO/805/2003, of 27 March on the rules for measuring real estate assets and defining the rights for certain financial purposes.

Estimation of the value of Property investments for rental

In those property investments that the Company keeps for rental, the value has been calculated on the basis of discounting future cash flows, considering the level of occupation corresponding to the date when measured, the likelihood of future occupation of the properties and current market rents.

Estimation of the value by making individual appraisals

The Company has estimated the individual value of its real estate assets according to measurement reports from independent experts with proven experience in the area and type of properties being appraised. The valuation of the assets has been specifically carried out by appraisal companies registered in the Registry of Licensed Appraisal Companies held by the Bank of Spain, in accordance with the criteria established in Order ECO/805/2003, of 27 March, on the rules for measurement of real estate assets. In accordance with the provisions of Rule 4 of the Bank of Spain Circular 5/2015, those appraisals were performed by independent experts who took into account the following methods depending on the type of assets:

- Residual dynamic method for land.
- Discounting future cash flows for assets used for obtaining income, considering the expected occupation levels and current market rents.

At least every three years, the Company shall review the mortgage appraisals made on its real estate assets by changing the independent expert. If the market conditions and circumstances demonstrate the need to perform appraisals more frequently, the Company will reduce that period.

Estimation of the value of completed properties, ancillary and commercial premises.

In the case of completed properties and their ancillary (such as garages or storerooms) as set out in Rule 4 of Bank of Spain Circular 5/2015, they may be measured using automated valuation methods by independent experts (appraisal companies registered in the Registry of Licensed Appraisal Companies held by the Bank of Spain). Those methods can be used to determine the value of commercial premises in towns where there is a market that is representative of comparable properties in the sense that, at almost any time, it is possible to find operators willing to negotiate a sale or rental. However, it is Company policy to have an ECO appraisal carried out, as it considers that with this, the situation of the asset and its market value can be more accurately represented. Assets measured using those statistics-based methods account for 0.5% (0.7% in terms of carrying amount) for mortgage guarantees, and 1.6% (1.8% in terms of carrying amount) for real estate assets (1.8% of the carrying amount of mortgage guarantees and 3.8% of the carrying amount of the real estate assets at 31 December 2018).

Those measurements using automated valuation methods are recalculated every year and are performed taking into account the statistics from the National Institute of Statistics in respect of the evolution of prices for new and resale property.

Estimation of value of other assets using internal estimations or methods

In the case of real estate assets other than those described in the previous sub-sections and with a combined carrying amount per batch of less than €1 M, the company has used its best estimate to establish their current value, at least once a year. Those estimates were made using measurement models for which an external independent expert has recognised the method, and solely for those assets for which sufficiently tested data was available. Otherwise, those assets would be measured using the ECO appraisals.

In addition to the measurements carried out according to the above methods, the method developed by Sareb, based on the criteria established in Circular 5/2015 applicable to both property and financial assets, includes a number of assumptions, of which the following are worthy of special mention:

- Adjustments for reflecting the evolution of market prices and the horizons of the Company's business plan. In order to apply those adjustments, the Directors have employed their best estimate depending on the type and location of the different real estate assets, as well as the estimated sales for the different years contained in the business plan. To this end, and on the basis of the provisions of Circular 5/2015, they have considered an estimated evolution of average market prices ranging from between 2.8% and 3.3% in 2019 (3.1% and 4.92% in 2018), and an average time horizon, depending on the different types of assets, ranging from between 3.4 and 6.1 years in 2019 (4.3 and 7 years in 2018).

- Estimation of the costs for maintenance and marketing, which are deducted from the estimated measurements. In order to calculate that cost estimate, the average estimate of the asset's permanency has been taken into consideration, taken from the Business Plan as reflected in the previous paragraph. To this end, according to the different types of asset, the average costs associated to them range between 1.6% and 10.4% in 2019, respectively (1.3% and 8.9% in 2018).

- Discount rate. The measurement obtained after applying the above adjustments is updated to the current value using an estimated discount rate taking into consideration the Company's financing costs and the risks inherent to the assets. Average rates have been considered ranging between 0.77% and 1.41% in 2019 (1.4% and 1.75% in 2018), which include an aggregate figure for the financial costs estimated for the Company according to the Business Plan. Moreover, the financial assets measurement model includes a measure that is in addition to the financial costs related to the Business Plan and the real estate risk contained in the methods under the ECO Order, which varies between 6.6% and 40% (8% and 30% at 31 December 2018).

- Also, and in application of the Circular, any measurement that is seen to be 15% higher than the mortgage value or the value obtained using sample statistical procedures or automated valuation models must be evidenced with more than one market transaction involving similar assets. However, the Company has made no adjustments higher than 15% above the mortgage value or the measurements obtained using sample statistical procedures or automated valuation models.

At 31 December 2019, the Company showed net losses in this asset unit amounting to €496 M. As a result of that impairment, the Company has provisions which have been funded with a charge to the caption "Value change adjustments – Impairment of real estate assets" for the amount of €496 M. That provision is recognised under the caption "Investment properties" on the accompanying balance sheet (Note 5).

In 2018 there was no impairment in this unit.

The Company has carried out a sensitivity analysis on the key assumptions considered to be more volatile in the Real Estate Assets measurement model. The results obtained are summarised below:

Effect on equity		
€M	+ 100 b.p. / + 1 year	- 100 b.p. / - 1 year
Appraisal values	52	-52
Sales prices of real estate assets	253	-235
Time horizon of the business plan	76	-85

In 2018 those sensitivities brought about effects ranging between €506 thousand of capital gains and €513 thousand of lower capital gains.

4.7.2. Impairment of loans and credits receivable and real estate assets received in payment of debts

Trade receivables

At least at the end of the year, the Company carries out impairment testing to bring the trade receivables into line with their recoverable value. Objective evidence of impairment is considered to exist if the recoverable value of the financial asset is lower than its carrying amount. If this happens, this impairment is recognised in the income statement. At 31 December 2019 and 2018, the Company has a provision for impairment of trade receivables for the amount of €59,487 and 63,047 thousand, respectively (see Note 9).

Loans and credits and other real estate assets received in payment of debts

The value of financial assets representing debt transferred to the Company is estimated on an individual basis according to the payment capacity of the main debtors liable for payment, where appropriate, considering the possible existence of guarantors or surety with proven payment capacity.

Estimating the payment capacity of debtors takes place either individually depending on the payment capacity of the debtor if this can be verified and evidenced with documents in respect of fulfilment of contractual obligations with no significant delays or hold-ups in payments. In the case of loans without collateral, the valuation is made collectively, considering that the expected loss of the portfolio in question is reflected, except for financial assets without collateral not paid or whose payment has been delayed for over 18 months and which are considered to be of zero value, unless demonstrated otherwise. That principle is applied to the residual value of assets with collateral other than a first-ranking guarantee, after deducting all of the liability insured with the first-ranking guarantees, including interest on arrears. Only when the Company is the sole best-ranking creditor, the current value of the debt is used when this is less than the mortgage liability and the value of the guarantee could cover both senior-ranking and junior-ranking loans, whether fully or partially.

For any financial assets (or real estate assets received by the Company in payment of debts) in respect of which it is estimated that the amounts owed will be recovered by enforcing the guarantees and those guarantees represent a first-ranking real right to the assets, or a lesser ranking right if the requirements set out in the previous paragraph are met, the valuation of the financial asset will be made taking into consideration the property valuation of the guarantees. That measurement is made according to the terms set out in Note 4.7.1 on Real Estate Assets (including in the estimation of costs not only those for maintenance and marketing up until the subsequent sale of the collateral, but also those necessary for the foreclosure of the guarantees (court costs, legal costs and taxes).

In the case where the loans and receivables with collateral other than properties, such as pledging debt securities or capital, the Company calculates their market value on the measurement date if it is a financial instrument traded on an active market or, where appropriate, it uses generally accepted measurement methods.

For the estimation of the value of these assets a number of assumptions have been applied, based on the Company's Business Plan, which are listed in Note 4.7.1. With regard to the costs and deadlines for foreclosure and dation in payment of collaterals, these have been estimated on the basis of the type of assets and the Company's Business Plan, fluctuating between 1% and 26% of the debt (1%-21% for 2018).

Following the impairment testing carried out, at 31 December 2019 and 2018, the Company has provisions which have been funded with a charge to the caption "Value change adjustments – Impairment of financial assets" for the amount of €6,322,635 and 5,091,686 thousand, respectively, for the impairment of debt instruments classified as loans and receivables and assets received in payment of debt (see Note 7.1.1.). That provision is recognised under the caption "Long-term financial investments – Loans to third and related parties" on the accompanying balance sheet.

The same as for the unit of real estate assets, the Company has carried out a sensitivity analysis on the key assumptions considered to be more volatile in the Financial Assets measurement model, obtaining the following results:

€M	Effect on equity	
	+ 100 b.p. / + 1 year	- 100 b.p. / - 1 year
Appraisal values	176	(177)
Sales prices of real estate assets	873	(810)
Time horizon of the business plan	521	(498)

4.7.3 Investments in Group companies and associates

La estimación y contabilización de las pérdidas por Impairment losses on the investments in Group companies and associates are estimated and booked by the Company whenever, according to the provisions of applicable legislation, there is objective evidence that the carrying of an investment in those companies may not be recovered.

When estimating the existence of evidence of the impairment of those holdings, amongst other factors, the Company considers any drop in its underlying book value adjusted for any non-recorded unrealised gains of the companies or the evolution of its share price (in the case of those that are publicly traded), inactivity of the investee, its financial position, etc.

The amount of the impairment loss to be recognised is estimated as the difference between the carrying value of the holdings and their recoverable amount, this being understood as the higher amount between the fair value less the sales costs and the present value of future cash flows arising from the investment.

In any cases in which it is not possible to estimate the recoverable amount of an investment as described in the previous paragraph or in any insignificant investments, the estimation of their impairment is based on the equity of the investee company, adjusted by the amount of the unrealised gains existing at the date of impairment measurement.

In application of the 2nd consultation of the Official Bulletin of the Institute of Accounting and Account Audits (BOICAC) 79, adjustments related to impairment and, where applicable, their reversal, are recognised as income or expense, respectively, under the caption "Impairment and profit/(loss) from sales of financial instruments – Impairment and losses" forming part operating profit/(loss) on the income statement. The reversal of a previously recorded impairment is limited to the book value of the investment that would have been recorded on the date of reversal if the value impairment had not been recorded.

In 2019 and 2018 the impairment recorded by the Company for this item was €1,859 and 4,698 thousand, respectively (see Note 7.2).

4.8 Categories for classification of financial liabilities

EThis category includes the classification of trade payables originating in the purchase of assets and services under the Company's trade transactions, the funding received (see Note 1) and any non-trade payables which are not derivatives and have no trade origin.

Debits and items payable are initially measured at the fair value of the consideration received, adjusted by the transaction costs directly attributable to them. Subsequently those liabilities are measured for their amortised cost.

Notwithstanding the above, certain items established in applicable legislation, maturing in less than one year, are booked initially at their nominal value if the effect of not discounting their cash flows is insignificant, and are later measured for the same amount.

Derivative financial instruments are measured at fair value.

The interest accruing on those liabilities, calculated using the effective interest rate method, is recorded under the caption "Financial expense" on the income statement.

4.9 Hedging derivatives

The Company uses financial derivatives to hedge its equity positions as part of its strategy for reducing its exposure to interest rate risks.

When the Group designates a transaction as a hedge it does so from the inception of the transactions or instruments included in the hedge, and the hedging transaction is documented appropriately. The hedging operation documentation identifies the hedged instrument or instruments and the hedging instrument or instruments, the nature of the risk to be hedged, and the criteria or methods used by Sareb to assess the effectiveness of the hedge over its entire life, taking into account the risk intended to be hedged.

Sareb only classifies as hedging operations those considered to be highly effective during their expected life. A hedge is considered to be highly effective if, during its expected life, the changes in fair value or in the cash flows that are attributed to the risk hedged under the hedging operation for the financial instrument or instruments hedged are almost entirely offset by changes in the fair value or in the cash flows, as appropriate, of the hedging instrument or instruments.

To measure the effectiveness of hedging operations defined as such, the Company analyses whether, from the beginning to the end of the term defined for the hedge, it may be expected, prospectively, that the changes in fair value or in the cash flows of the hedged item that are attributable to the hedged risk will be almost entirely offset by changes in the fair value or in the cash flows, as appropriate, of the hedging instrument or instruments and, retrospectively, that the results of the hedge will vary within a range of 80% to 125% of the results of the hedged item.

In order to establish that fair value, the Company takes into account its credit risk in the event of the measurement being negative, or the counterparty risk in the event of the measurement being positive.

The hedge accounting ceases to take place when the hedging instrument matures or is sold, expires or is exercised, or if it no longer meets the criteria for hedge accounting. At that time any cumulative gain or loss corresponding to the hedge instrument that has been recorded in equity is held there until the anticipated transaction has occurred. If the hedging operation is no longer expected to occur, any cumulative gains or losses recognised in Equity are transferred to the income statement.

Cash flow hedges

The hedging operations held by the Company at 31 December 2019 are in line with the definition of "Cash flow hedges", that is, hedges to cover exposure to cash flow fluctuations associated to the interest rate risk for a highly probable forecast transaction and for the financing received at a floating interest rate, respectively, which affect the Company's income statement. The portion of the gain or loss on the hedging instruments qualifying as effective hedges is recognised temporarily in equity, net of tax, under the caption "Value change adjustments - Hedging operations", and the corresponding portion is taken to the income statement in the year or years in which the planned hedged operation affects profit/(loss).

In 2019, the derivatives hedging the 1-year bonds and part of the 2-year bonds have conserved their effectiveness within the thresholds required under the applicable accounting legislation but, due to the downward trend in the interest rates to which the hedged risks are indexed and to Sareb's application of a "floor" by which the interest rate may in no case be lower than 0%, they have lost part of that effectiveness. At 31 December 2019 and 2018, the measurement of the ineffective portion of the derivatives was €112,636 and 81,962 thousand, respectively. The Company has recorded the change in the ineffectiveness as a "Financial expense" (see Note 16.5).

Certain information is provided in Note 13.3 on the cash flow hedging operations carried out by the Company.

4.10 Derecognition of financial instruments

Financial assets are derecognised when any of the following circumstances arises:

1. The contractual rights on the cash flows generated by the asset have expired; or

2. The contractual rights to the cash flows from the financial asset are assigned and substantially all its risks and rewards are transferred or, although these are not substantially transferred or retained, control over the financial asset is transferred.

Also, a financial liability is derecognised when the obligations it generates have been extinguished or when it is repurchased by the Company, with the intention either to resell or to cancel it.

4.11 Inventories

These mainly correspond to property developments in progress and to the value of the associated land intended for sale in the normal course of the Company's business. Sareb recognises under the caption "Inventories" all assets on which it is going to take any kind of action, construction and/or development for subsequent sale through marketing.

The costs incurred in real estate development still to be completed are considered as works in progress. Those costs include any corresponding to the land, urban development and construction, as well as the capitalisation of the financial expense incurred during the construction stage and any other direct and indirect costs attributable to them. Moreover, the Company does not capitalise marketing costs, which are taken directly to the income statement.

All real estate assets for which the Company's governing bodies have approved an investment and development plan for their subsequent retail sale are transferred from "Property investments" to the caption "Inventories".

The expense corresponding to any real estate developments for which construction has concluded during the year and are still to be sold is transferred from "Works in progress" to "Completed buildings".

The principles applicable to the impairment testing of inventories are similar to those applicable to Property investments (see Note 4.7.1.).

4.12 Foreign currency transactions

The functional currency used by the Company is the Euro. Therefore, transactions in currencies other than the Euro are considered to be denominated in foreign currency and are recorded according to the exchange rates in force at the transaction dates.

At the end of the year, the Company had no balances nor had it carried out transactions in foreign currencies for any significant amount. The amount recognised in 2019 and 2018 for this item was an expense for the amount of €6 and 10 thousand, respectively.

4.13 Income and expense

Income and expense are recorded according to the principle of accrual, that is, at the moment when the goods or services represented by them are provided, regardless of when actual payment or collection occurs. This income is measured at the fair value of the consideration received, after deducting discounts and taxes.

Reporting in the income statement

In line with the provisions set out in sub-section 10 of the Seventh Additional Provision of Act 9/2012, of 14 December, and its amendment included in the Ninth Additional Provision of Act 26/2013, of 27 December, and also the provisions of Bank of Spain Circular 5/2015, the Company has recognised the income generated as a result of the process for orderly management and liquidation of all the transferred assets in the income statement forming part of its "Turnover" (see Notes 2.1 and 16.1).

Income from interest

Notwithstanding the principles provided in the Accounting and Measurement Rule 9 of the General

Chart of Accounts (GCA), under which the subsequent measurement of the financial assets should follow the amortised cost principle and also that "interest accrued is recorded in the income statement, applying the effective interest rate method", the general application of the accrual principle and the amortised cost principle can have specific practical applications depending on the type of asset to which they are to be applied, the terms under which they were acquired and even the sector applying that principle, to the extent that it responds to the true and fair view of the annual accounts.

Considering the characteristics of the assets received and the high degree of uncertainty in their recovery through regular channels as already described in Note 4.6.2, the accrual model applied by Sareb provides that interest will only accrue on transactions in which they are estimated to be effectively recovered, backed up by the recoverable value of the guarantees for those transactions. That recoverable value is estimated on the basis of the principles set out in Note 4.7.2.

As part of the effective interest rate, the Company records under the caption "Turnover – Margin of recovery of loans and credits", the difference between the recovered value and the net carrying amount of the loans and credits that have been cancelled or partially repaid.

Income from sales of loans and credits

Income from sales of loans are recognised under the caption "Turnover – Sales of loans and credits". That sale takes place once all the risks and benefits related to the financial assets transferred have been passed on to the buyer, which usually coincides with notarising the sales deeds and collecting payment on the sale.

Income from property sales (Property investments and Inventories)

Income from property sales (both for Property investments and Inventories) is recognised when the significant risks and rewards of ownership of the goods sold have been transferred to the buyer, and the Company neither continues to manage the goods nor retains effective control over them. That moment usually coincides with notarising the sales deeds for the property being sold. The amount of property sales is recorded under the heading "Turnover" on the accompanying income statement.

The Company includes in the accompanying Income Statement the charge for the amounts corresponding to the expense yet to be incurred for liquidating the promotion, as a provision for finishing building work.

Amounts paid in advance in the form of cash or notes receivable corresponding to reservations and sales contracts for promotions when they have not yet been handed over to the buyer and therefore the sale has not been recognised, are booked under the caption "Customer advances" on the liability side of the accompanying balance sheet, and are classified as current regardless of the date planned for recognition of the sale of the developments.

The Company recognises sales of land and sites when the risks and benefits inherent to them are transferred, which normally takes place when the sales deeds are notarised.

Income from leases

Rental income is recognised on an accrual basis, and incentive-related income and the initial costs of lease agreements are allocated on a straight-line basis.

4.14 Income taxs

The expense or income from income tax includes the portion relative to the current tax expense or income and the portion corresponding to the deferred tax expense or income. Corporate Income Tax for the year is calculated based on the economic or accounting profit or loss determined by applying generally accepted accounting principles, which does not necessarily coincide with taxable profit or loss, this being taken as the tax base for this tax.

Current tax is the amount that the Company pays as a result of paying income tax relating to one year. Any deductions and other tax benefits in the tax charge, excluding any withholdings and payments made on account, and the tax losses that can be offset from previous years and applied effectively in this year, give rise to a lower amount of current tax.

Any deferred tax expense or income corresponds to the recognition and derecognition of the deferred tax assets and liabilities. These include any temporary differences which are identified as those amounts that are foreseen to be payable or recoverable, arising from the differences between the carrying amount of the assets and liabilities and the tax base value, and the tax loss carryforwards and unused tax credits. Those amounts are recorded by applying to the corresponding temporary difference or credit the charge at the rate at which it is expected to be recovered or paid.

Deferred tax assets are only recognised to the extent that it is considered probable that the Company will have future taxable profits available against which they can be offset. In this case, the deferred taxes are measured on the basis of the current tax rate expected at the time of recovery.

Deferred tax liabilities are recognized for all taxable temporary differences, except those arising from the initial recognition of the goodwill or other assets and liabilities in a transaction that has no effect on the taxable profit or loss or on the accounting profit or loss, and is not a business combination, and also those associated to investments in subsidiaries, associates and joint ventures in which the Company is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities originating in transactions with charges or payments directly made in equity accounts are also entered with a balancing entry in equity.

At the end of each year, the recorded deferred tax assets are reviewed, and appropriate adjustments are made to the extent that there are doubts as to their future recovery. Also, at the end of each year, the deferred tax assets not recorded on the balance sheet are assessed and recognised to the extent that it has become probable that future taxable profit will enable them to be recovered.

4.15 Provisions and contingencies

In the preparation of these annual accounts the Directors differentiate between:

a) Provisions: credit balances that cover current obligations arising from past events, the cancellation of which is likely to originate an outgoing of resources, but that is undefined as to the amount and/or moment of cancellation.

b) Contingent liabilities: possible obligations arising as a consequence of past events, the materialisation of which is conditioned to one or several future events occurring beyond the control of the Company.

The annual accounts contain all the provisions with respect of which it is anticipated that the probability of having to attend to the obligation is greater than not having to. Contingent liabilities are not recognised in the annual accounts, but information is provided on them in the notes in the report, to the extent that they are not considered to be remote.

Provisions are measured at the current value of the best calculation possible of the amount necessary for cancelling or transferring the obligation taking into account the information available on the event and its consequences, and recording the adjustments that arise from updating those provisions as a financial expense as they become due.

The compensation to be received from a third party at the moment of liquidating the obligation, as long as there are no doubts that said reimbursement will be received, is recorded as an asset, except in the case of there being a legal relation through which part of the risk has been externalised, and by virtue of which the Company is not bound to respond; in that circumstance, the compensation shall be taken into account to estimate the amount for which, if appropriate, the relevant provision shall be recorded.

At 31 December 2019 and 2018, the Company had set up the provisions for risks and expenses described in Note 12.

4.16 Transactions with related parties

A related party is deemed to be any individual or legal entity having control or significant influence over a company, or who is a key member of its Management. According to the Directors, no other company exercises sole or joint control of the Company and there is no association with key members of Management, other than their employment relationship.

Significant influence is understood to be the power to participate in the financial and operating policy decisions of the Company, but without having control over them. In this respect, the Company considers that the FROB is the only shareholder having any significant influence on the Company.

In general, transactions with related parties are recognised according to the general rules for measurement contained in the General Chart of Accounts, namely that the items involved in the transaction are initially recorded for their fair value and subsequently according to the relevant accounting standards.

Note 17 gives information on transactions with related parties concluded in 2019 and 2018 and on the balances held at 31 December of those years with related parties.

4.17 Termination indemnities

In accordance with current legislation, the Company is required to pay indemnities to any employees who, in certain conditions, have had their employment relationships terminated. Therefore, termination indemnities that can be reasonably quantified are recorded as an expense in the financial year in which the decision to dismiss them is taken. At 31 December 2019, the Company had no liabilities for this item. However, in 2019 and 2018, the Company recognised termination indemnities for the amount of €571 and 161 thousand, respectively, which were recorded under the caption "Staff expense – Salaries, wages and similar" on the accompanying income statement.

4.18 Cash flow statements

In the cash flow statements, prepared using the indirect method, the following expressions are used with the following meanings:

1. Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an immaterial risk of changes in value.

2. Operating activities: the principal activities of the Company and other activities that are not classified as investment or financing activities. The Company classifies these activities as described in Note 4.13.

3. Investment activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

4. Financing activities: activities that result in changes in the size and composition of equity and liabilities that are not amongst the Company's operating activities, as well as any others which cannot be classified as for investment or operating.

5. Property investments

The composition of this caption at 31 December 2019 and 2018, is as follows:

	€ thousand	
	31/12/2019	31/12/2018
Land and sites	5,493,292	5,461,173
Completed buildings		
Homes - Main residence	4,812,219	4,545,675
Offices, commercial premises and multi-purpose facilities	1,128,279	1,156,227
Other properties	474,227	411,689
Homes - Other than main residence	7,313	8,122
Total completed buildings	**6,422,038**	**6,121,713**
Of which: Buildings for rental (Note 6)	1,046,202	760,705
Of which: Land	3,862,845	3,688,926
Impairment losses	**(496,378)**	**-**
Advances on property investments	**486,733**	**311,022**
Total property investments	**11,905,685**	**11,893,908**

For its part, the changes under the caption Property investments in 2019 and 2018 are as follows:

2019

	€ thousand			
	Completed buildings	Land and sites	Advances	Total
Cost				
Balance at 01 January 2019	**6,357,963**	**5,461,173**	**311,022**	**12,130,158**
Additions from foreclosures and dations	700,335	401,891	864,774	1,967,000
Other additions	10,118	19,798	116	30,032
Sales and derecognition	(755,549)	(124,063)	(14,340)	(893,952)
Transfers	393,207	281,632	(674,839)	-
Transfers to Inventories (Note 8)	(26,591)	(547,139)	-	(573,730)
Withdrawals due to rectifications (Note 1)	-	-	-	-
Balance at 31 December 2019	**6,679,483**	**5,493,292**	**486,733**	**12,659,508**
Depreciation				
Balance at 01 January 2019	**(236,250)**	**-**	**-**	**(236,250)**
Provisions charged against profit or loss	(53,436)	-	-	(53,436)
Sales, derecognition and other changes	32,241	-	-	32,241
Balance at 31 December 2019	**(257,445)**	**-**	**-**	**(257,445)**
Impairment losses				
Balance at 01 January 2019	**-**	**-**	**-**	**-**
Provisions charged against Value change adjustments	(228,844)	(267,534)	-	(496,378)
Applications	-	-	-	-
Balance at 31 December 2019	**(228,844)**	**(267,534)**	**-**	**(496,378)**
Net balances at 31 December 2019	**6,154,504**	**5,264,448**	**486,733**	**11,905,685**

2018

	€ thousand			
	Completed buildings	Land and sites	Advances	Total
Cost				
Balance at 01 January 2018	**6,706,618**	**5,072,450**	**140,046**	**11,919,114**
Additions from foreclosures and dations	564,514	389,087	453,361	1,406,962
Other additions	10,392	15,361	3,906	29,658
Sales and derecognition	(980,054)	(195,442)	(520)	(1,176,016)
Transfers	47,785	237,986	(285,771)	-
Transfers to Inventories (Note 8)	8,708	(58,269)	-	(49,561)
Withdrawals due to rectifications (Note 1)	-	-	-	-
Balance at 31 December 2018	**6,357,963**	**5,461,173**	**311,022**	**12,130,158**
Depreciation				
Balance at 01 January 2018	**(219,836)**	**-**	**-**	**(219,836)**
Provisions charged against profit or loss	(53,103)	-	-	(53,103)
Sales, derecognition and other changes	36,689	-	-	36,689
Balance at 31 December 2018	**(236,250)**	**-**	**-**	**(236,250)**
Net balances at 31 December 2018	**6,121,713**	**5,461,173**	**311,022**	**11,893,908**

The most relevant changes produced in 2019 and 2018 under this caption are itemised as follows:

Other additions

In 2019 and 2018 the Company capitalised €26,948 and 29,658 thousand, respectively, as the higher cost of property investments corresponding to improvements and developments it carried out on the items of its Property investments. Those improvements were mainly related to urban development works carried out on land and sites.

Transfers between items

In 2019 and 2018 the Company reclassified €10,732 and 49,561 thousand from the caption Property investments to Inventories corresponding to various plots of land and construction work in progress that had been halted and regarding which the Company has decided to begin or resume the construction and development of properties (see Note 8).

Furthermore, in 2019, and following the creation of the Arqura Homes Bank Assets Fund, the Company decided to begin the promotion and development of €562,998 thousand of land and construction work that had been halted, meaning that those assets were reclassified to the heading of inventories (see Note 8).

Advances on property investments

The Company recognises under the caption "Advances on property investments" all properties acquired through mortgage foreclosure proceedings which have an enforcement order but are still pending a final ruling. The Company adopted that principle in 2017 in order to standardise the accounting and tax treatment of the operation.

Mortgage foreclosures and dations in payment

2019

On 23 January 2019, as part of the bankruptcy procedure of the borrower, Martinsa Fadesa, S.A., the Company was awarded a package of unencumbered assets which were acquired with a charge to the financing granted to that Company. The acquisition cost of those properties was €36,813 thousand, this being the net carrying amount of the loans and credits repaid as partial payment of the award.

On 30 July 2019, the Company reached an agreement for dation in payment with the borrower Rayl Ribalta, S.A. As a result of that agreement, the Company acquired 148 homes, 203 garages and 2 offices, which were recognised for an amount of €33,297 thousand.

On 6 March 2019, following a mortgage foreclosure procedure, the Company acquired ownership of 228 homes, 204 garages and 1 commercial premises. Those properties were recognised on the accompanying balance sheet for an amount of €25,751 thousand as that amount coincides with the carrying amount of the loans repaid as payment for the properties acquired.

On 4 of June of 2019, 115 homes were acquired under the agreement of dation in payment reached with Inmobiliaria Tabuenca, S.A. The acquisition cost of those homes was €18,895 thousand, this being the net carrying amount of the loans repaid as part of the agreement for dation in payment.

2018

On 19 February and 26 June 2018, the Company concluded the foreclosures on various lands and finished products that the borrower "Epaat, S.L." had mortgaged in guarantee of various loans held by the Company. The acquisition cost of land and finished products acquired was €34,983 thousand, this being the net carrying amount of the loans and credits cancelled following foreclosure.

On 23 February 2018, the Company concluded the foreclosures on 45 plots of land that the borrower Greenpar Proyectos Inmobiliariarios, S.L. had mortgaged in guarantee of various loans held by the Company. The acquisition cost of the land acquired was €19,504 thousand.

On 18 December 2018,the Company concluded the foreclosures on 8 plots of land that the borrower Gediaz Suelo, S.A. had mortgaged in guarantee of various bilateral loans held by the Company. The acquisition cost of the land acquired was €20,288 thousand.

In December of 2018 various mortgage foreclosure procedures were concluded in respect of various loans secured by mortgage guarantee on finished product and land belonging to the agency Inmobelsa, S.A. The acquisition cost of the land and finished product acquired was €25,769 thousand.

Sales and derecognition

2019

On 13 February the portfolio known as "Adra" was sold, comprising properties that had previously been acquired by way of dation in payment. The sales price for that portfolio was €16,441 thousand, which has been received in full.

On another note, during the months of March, April and May, deeds were notarised for the single items of property that had not yet been notarised in 2018 as part of the "TER" portfolio while waiting for the Regional Government of Catalonia to exercise the right of first refusal, or not. The aggregate sales price of notarising those deeds was €18,075 thousand, of which €8,134 thousand have been deferred until 30 June 2020. That deferred payment is guaranteed by the buyer.

During the months of April, May, June and December 2019, deeds were notarised for the portfolio of single items of property that had not yet been notarised in 2018 as part of the "Garona" portfolio while waiting for the Regional Government of Catalonia to exercise the right of first refusal, or not. The aggregate sales price of that portfolio was €38,079 thousand, of which €17,190 thousand were deferred until 30 June 2020. The same as for the "TER" portfolio, that deferred payment is guaranteed by the buyer.

The difference between the properties for which deeds were notarised in 2019 for the portfolios "TER" and "Garona" corresponds to an amount of €1,148 thousand relating to homes for which the Regional Government of Catalonia exercised its right of first refusal.

On 30 December the "Mundaka" and "Roche" portfolios were sold, comprising portfolios of single items of property and properties available for rental. The sales price of those portfolios was €4,873 and 1,882 thousand, respectively. Those amounts have been received in full.

Lastly, on 23 October 2019, the Company created the "Esla Bank Assets Funds", having transferred to that Fund a portfolio of land and construction work that had been halted amounting to €52,180 thousand (see Note 4.6.1).

2018

On 1 February 2018, the sale took place of various commercial premises located in the shopping centre "Parque Corredor" in Torrejón de Ardoz (Madrid) for the price of €75,000 thousand, of which €29,998 thousand were received by the end of the year, and the rest was deferred. That deferral was guaranteed by the buyer and accrues interest for the Company at market rate, having established its maturity date on 1 February 2021. That amount is recognised under the caption "Long-term loans to third and related parties" on the accompanying balance sheet.

On 31 October 2018, the deeds were notarised for the sale of 180 assets of different types included in the "TER" portfolio for an overall price of €18,953 thousand, of which €10,386 thousand were received by the end of the year, and the rest was deferred. Also, in the same portfolio, on 29 December 2019, deeds were notarised for the sale of another package of 63 assets for an overall amount of €8,823 thousand, of which €4,853 thousand were received, and the rest was deferred. That portfolio also contains various homes yet to be notarised, waiting for the Regional Government of Catalonia to exercise its right of first refusal on them, or not. In 2019 the sale of those outstanding homes was concluded.

On 28 December 2018, the Company sold various homes belonging to the portfolio known as "Garona". The sales price assigned to said portfolio was €20,831 thousand, of which €9,374 thousand are still to be received. That portfolio also contains various homes yet to be notarised, waiting for the Regional Government of Catalonia to exercise its right of first refusal on them, or not. In 2019 the sale of those outstanding homes was concluded.

On 4 December 2018, the company Tempore Properties, S.A. increased its capital, which was taken up entirely by the Company through the contribution of a package of completed properties to be used for rental. The net carrying amount of said assets was €144,977 thousand (see Note 7.2.1).

Sales commitments and Bank Assets Funds

At 31 December 2019 and 2018, the Company had the following sales commitments regarding items of its Property investments:

- FAB Bull: In 2013 the Company transferred the amount of €100,000 thousand to the FAB 2013 Bull for a package of Property investments whose net cost at 31 December 2013 was €97,896 thousand. The Company did not record the corresponding sale as it considered that the risks and benefits inherent to those assets had not been transferred. At 31 December 2019, that fund sold all of the properties originally transferred except for a series of garages and storerooms whose carrying amount was €58 thousand.

- TER and Garona portfolios: In December 2018 the Company sold those portfolios, which included various homes located in Catalonia, on which it has a right of first refusal, for which reason the deeds were not notarised at the end of 2018. The committed price of those homes, awaiting notarisation, was €57,302 thousand, of which €5,733 thousand had been advanced, recorded under the caption "Customer advances" on the accompanying balance sheet. At 31 December 2019, the sale of those outstanding homes was concluded.

At 31 December 2019 and 2018, the Company signed sales commitments on various homes and plots of land whose carrying amount is €67,519 and 37,940 thousand, to which sales prices of €75,291 and 43,847 thousand have been assigned, respectively; of these amounts, €2,171 and 6,464 thousand were advanced and have been recognised under the caption "Customer advances" on the accompanying balance sheet.

Other information

At the end of 2019 and 2018:

- All the Company's Property investments are unencumbered and free from security rights.
- The Company has no fully depreciated items of Property investments on its balance sheet.
- There are no dismantling or withdrawal costs capitalised as a higher cost of the property investments for any significant amount.
- The assets awarded by Sareb forming part of the Financial Assets Unit have not generated any profit/(loss) upon being entered on the balance sheet of real estate assets.
- In this respect, the application of the rules for measurement established by Circular 5/2015 for the Real Estate Assets Unit, consisting of the assets transferred by the Assigning Banks when Sareb was set up, which are classified under the caption Property investments and Inventories (see Note 8), at the end of 2019, showed a capital loss on the net carrying amount of €496 M, while, at the end of 2018, they showed a capital gain on the net carrying amount of €260 M.
- For its part, the measurement of assets awarded or received in payment of debt subsequent to the date of transfer, carried out according to the principles of Bank of Spain Circular 5/2015, has brought a capital loss to the Financial Assets Unit (see Note 7.1) of €605 and 275 M at 31 December 2019 and 2018, respectively, in addition to the need for reorganising the credit transactions of that Unit.

The Company's policy is to take out all insurance policies deemed necessary to cover the risks that could affect the Property investments. The insurance cover taken out by the Company in respect of its Property investments is higher than the net carrying amount of the investments, and is updated annually.

6. Operating leases

At the end of 2019 and 2018, the Company acts as the lessor in certain operating lease agreements whose minimum lease payments, according to the contracts currently in force, without taking into account the invoicing of expense of homeowners' associations, future increases in the Consumer Price Index, nor future contractually agreed rent updates, are as follows:

	€ thousand	
Minimum rents	**2019**	**2018**
Less than one year	34,061	29,153
From one to five years	95,921	53,529
Over five years	99,528	45,077
Total	**229,509**	**127,759**

Also, the amount of rent from the operating leases and sub-leases corresponding to 2019 and 2018 were recorded under the caption "Turnover" with the following breakdown:

€ thousand	€ thousand	
	2019	**2018**
Minimum payments per lease (Note 16.1)	40,553	34,831
Invoicing general expense	1,352	1,793
Total	**41,905**	**36,624**

The most significant lease agreements are those itemised below:

Location	Contract date	Type of property	Gross annual amounts (€ thousand)	Expiry date
Avda Principe Felipe (Torre Pacheco)	01/05/2019	Hotel	1.012	30/04/2034
Various	27/06/2014	Holiday apartments	957	30/09/2024
c/ Doctor Trueta (Sant Celoni)	01/11/2016	Commercial premises	554	03/12/2034
c/ Gaiteira (La Coruña)	04/10/2013	Office block	419	03/10/2020
c/ Amplaries (Oropesa del Mar)	13/07/2018	Holiday apartments	451	12/07/2022
c/ Manfredonia	01/03/2009	Industrial warehouse	338	27/04/2024

The net cost of the Company properties being rented at 31 December 2019 and 2018 was €1,046,202 and 760,705 thousand, respectively (see Note 5).

Also, the amount of contingent rents, i.e. variable lease payments, corresponding to those leases, recorded in 2019 and 2018 under the caption "Turnover" are insignificant.

Lastly, the lease agreements in which the Company acts as lessee mainly refer to the lease for the offices where it has its head office, and to the leasing of various items of computer equipment. The lease payments to which the Company is committed for these items are insignificant at the end of 2019 and 2018.

7. Long-term and Short-term financial assets

The carrying amount of each category of financial asset held by the Company at 31 December 2019 and 2018 is shown below.

7.1 Breakdown of long-term and short-term financial investments

Below is the breakdown of financial assets belonging to Sareb at 31 December 2019 and 2018, classified according to the breakdown required under applicable legislation:

2019

Classes / Categories	€ thousand				
	Long-term financial instruments		Short-term financial instruments		Total
	Equity instruments	Credits, derivatives and others	Debt securities	Credits, derivatives and others	
Other financial assets	-	1,083,408	-	664,298	1,747,706
Loans and receivables - Loans to third parties	-	11,740,698	-	1,344,299	13,084,997
Assets available for sale	-	-	-	-	-
Total	-	12,824,106	-	2,008,597	14,832,703

2018

Classes / Categories	€ thousand				
	Long-term financial instruments		Short-term financial instruments		Total
	Equity instruments	Credits, derivatives and others	Debt securities	Credits, derivatives and others	
Other financial assets	-	2,370,982	-	4,593	2,375,575
Loans and receivables - Loans to third parties	-	15,257,553	-	1,587,479	16,845,032
Assets available for sale	-	-	-	-	-
Total	-	17,628,535	-	1,592,072	19,220,607

7.1.1 Long-term and short-term loans to third parties

The breakdown of the financial instruments - long-term and short-term loans to third parties, per counterparty and per instrument type, at 31 December 2019 and 2018, is as follows:

	€ thousand	
	31/12/2019	31/12/2018
Public Administrations	**18,192**	**17,085**
Other resident sectors	**974,189**	**1,149,498**
Trade credit	-	-
Borrowing with collateral	945,909	1,112,022
with mortgage	938,613	1,069,421
with other securities	7,296	42,601
Other term receivables	8,583	27,408
Overdrafts and others	19,697	10,068
Non-resident private sector	-	-
Doubtful loans and credits	**17,201,276**	**19,584,580**
Valuation adjustments	**(5,108,660)**	**(3,906,131)**
Impairment losses on assets	(6,322,635)	(5,091,686)
Other valuation adjustments - accrued interest pending collection	1,203,065	1,174,179
Others– Capitalised expense – (Note 4.6.2)	10,910	11,376
Total	**13,084,997**	**16,845,032**

In 2019 and 2018 the Company has granted no new loans or credit to third parties for any significant amount, except for the drawdowns that the borrowers have made on the available funds, which were also not significant.

Rectifications concluded

As stated in Note 1, in 2019 the Company concluded the rectifications made on financial assets for the amount of €1,299 thousand, following the process of reviewing the portfolio of loans and credits transferred by the banks in Group 1 and 2. In 2018, the Company has not concluded any rectification affecting its financial asset portfolio.

Financial income

At 31 December 2019, 87.67% of the loan and credit portfolio is indexed to Euribor plus a market spread (88.32% of the total loans and credits at 31 December 2018). Conversely, 12.33% is indexed to fixed interest rates (11.68% at 31 December 2018) - see Note 7.3.3.

In 2019 and 2018, the Company recognised interest arising from its loan and credit portfolio for the amount of €329.652 and 532,685 thousand under the caption "Turnover" on the accompanying income statement (see Notes 4.13 and 16.1). That amount includes €184,008 thousand (€350,401 thousand in 2018) corresponding to amounts received in transactions offset or partially repaid which were applied to interest following the company's order of priority according to which it gives priority to the repayment of interest and then to capital, of which, €38,145 thousand (€52,793 thousand in 2018) were received for contractual interest.

Sales of loans and credits

In 2019, the Company has carried out wholesale sales of loans for the amount of €465 thousand, booking a gross positive margin of €66 thousand (€376,569 thousand of income and a gross positive margin of €25,405 thousand in 2018) (see Note 16.1).

The most significant sales transactions of portfolios in 2019 and 2018 are described below:

2019

In 2019, and in view of the situation and the current strategy of the Company, which seeks to maximise the margin, no transactions have taken place for the sale of loans and credits for any significant amount.

2018

Transaction "Arco y Argón II": On 27 July 2018, the Company concluded the transfer of 148 loans with first-ranking mortgage. The price fixed for this portfolio was €25,396 thousand, which was received in full and recorded under the caption "Turnover" on the accompanying income statement.

Transaction "Bidasoa": On 10 October 2018, the sale was concluded for a portfolio of mortgage loans for various properties for an overall price of €44,809 thousand which is recognised under the caption "Turnover". At 31 December 2018, €3,888 thousand are still to be received and recognised under the caption "Trade and other accounts receivable". This portfolio included a package of properties recorded under the caption "Investment properties" having been assigned a sales price of €1,662 thousand (see Note 5).

Transaction "Adra": On 05 December 2018, the sale was concluded for a portfolio of 166 mortgage loans on various properties for the total price of €115,217 thousand which is recorded under the caption "Turnover". At 31 December 2018, the price was received in full.

On 28 December 2018, the Company sold the portfolio known as "Candanchú", comprising 350 mortgage loans. The sales price for this portfolio was €42,648 thousand, which was received in full and recorded under the caption "Turnover" on the accompanying income statement.

Margin of recovery of loans and credits

Under this caption the Company records the difference between the amount recovered from loans that have been repaid and/or fully or partially offset, and their carrying amount (see Notes 4.13 and 16.1). The order of priority adopted by the Company means that the amounts received are firstly applied to the repayment of interest and then to capital. The amount of interest received during 2019 and 2018 was €184,008 and 350,401 thousand. This has resulted in the recovery of loans and credits in 2019 being a negative figure of €90,778 thousand (a negative figure of €238,296 thousand in 2018).

Adjustments related to impairment of credit risk

Changes in adjustments related to impairment recorded by the Company in 2019 and 2018 were as follows:

2019

	€ thousand			
	Opening balance	Charge	Application	Closing balance
Provision for impairment of loans and credits	(5,091,686)	(1,230,949)	-	(6,322,635)
Total	**(5,091,686)**	**(1,230,949)**	**-**	**(6,322,635)**

2018

	€ thousand			
	Opening balance	Charge	Application	Closing balance
Provision for impairment of loans and credits	(4,229,552)	(862,134)	-	(5,091,686)
Total	**(4,229,552)**	**(862,134)**	**-**	**(5,091,686)**

In application of the rules for measurement established by the Bank of Spain Circular 5/2015 for what is known as Financial Assets Unit, in 2019 and 2018, the Company recognised provisions for the impairment of its loan and credit portfolio for the amount of €1,230,949 and 862,134 thousand, respectively, for adjustments related to impairment of credit risk (see Note 4.7.2).

The provision for impairment of loans and credits for the years 2019 and 2018 is as follows:

Type of transaction	31/12/2019		31/12/2018	
	Carrying amount (€M)	Loss / (Gain) (€M)	Carrying amount (€M)	Loss / (Gain) (€M)
With collateral	17,040	3,459	19,262	2,495
Personal guarantee or without first charges	2,367	2,289	2,586	2,322
Awarded Sareb	6,527	575	5,163	275
Totals	**25,934**	**6,323**	**27,011**	**5,092**

For its part, Note 7.3.1 includes the necessary information on the nature and degree of the credit risk of the portfolio of loans and receivables at 31 December 2019 and 2018 (see Note 4.7.2).

Other information

At 31 December 2019 and 2018:

- The nominal amount of unused credit associated to loan and credit transactions is €797,376 and 1,126,610 thousand, respectively. Nonetheless, practically all of that unused credit relates to loans that are overdue.
- There are no sales commitments for any significant amount regarding the financial assets appearing under the caption "Loans and credits to third parties".
- There are no lawsuits or seizure proceedings having any significant effect on the figure for long-term and short-term financial investments.

Taking into additional consideration what is described in Note 4.7, the Directors of the Company consider that the carrying amount of the aggregate balances included in this caption of the balance sheet approximates to the fair value.

7.1.2 Long-term and Short-term financial investments - Other financial assets

The breakdown of the caption "Other financial assets" -both long-term and short-term- on the balance sheet at 31 December 2019 and 2018 is as follows:

€ thousand	31/12/2019		31/12/2018	
	Non-current	Current	Non-current	Current
Monetary guarantees from derivative contracts concluded (Note 13.3)	825,816	658,184	1,814,900	-
Guarantees for leases (Note 6)	3,608	-	4,135	-
Deposits and judicial consignments	20,084	-	17,873	-
Fixed-term deposits	211,862	-	527,249	-
Other financial assets	22,038	6,114	6,825	4,593
Total	**1,083,408**	**664,298**	**2,370,982**	**4,593**

Guarantees for leases

Non-current guarantees and deposits mainly correspond to the amounts paid by the lessees which the Company deposits with the Institute of Housing or Chamber of Property pertaining to each Autonomous Region.

Monetary guarantees from derivative contracts concluded

At 31 December 2019 and 2018, the Company held guarantees for an amount of €1,484,000 and 1,814,900 thousand, respectively, from the counterparties with which it has concluded financial derivative contracts (see Note 13.3). Those guarantees have an interest rate indexed to the Eonia and to 3-month Euribor plus a market spread. Financial income accrued in 2019 and 2018 was insignificant.

The Directors of the Company consider that the carrying amount of the balances included in this caption of the balance sheet approximates to the fair value.

Fixed-term deposits

With the aim of optimising liquidity, at 31 December 2019 and 2018, the Company has €211,862 and 527,249 thousand, respectively, on deposits and fixed-term deposits in various banks, with maturity at more than 12 months.

Deposits and judicial consignments

At 31 December 2019 and 2018, the Company held deposits and judicial consignments for the amount of €20,084 and 17,873 thousand, respectively, mainly as a result of the mortgage foreclosure procedures in which it is involved.

7.2 Breakdown of financial investments with associates

The balance of the accounts under the caption "Long-term investments in associates" at the close of 2019 and 2018 is as follows:

2019

€ thousand	31/12/2018	Additions	Repayments and derecognition	31/12/2019
Financial investments in Group companies and associates	331,151	31,897	(316,246)	46,802
Impairment financial investments in associates	(6,907)	(1,859)	-	(8,766)
Total equity instruments	**324,244**	**30,038**	**(316,246)**	**38,036**
Loans to associates	13,171	20,872	-	34,043
Impairment loans to associates	(12,827)	(344)	-	(13,171)
Total loans to associates	**344**	**20,528**	**-**	**20,872**
Total	324,587	50,566	(316,246)	58,908

2018

€ thousand	31/12/2017	Additions	Repayments and derecognition	31/12/2018
Financial investments in Group companies and associates	185,076	149,096	(3,021)	331,151
Impairment financial investments in associates	(2,209)	(4,698)	-	(6,907)
Total equity instruments	**182,867**	**144,398**	**(3,021)**	**324,244**
Loans to associates	13,171	-	-	13,171
Impairment loans to associates	(10,004)	(2,823)		(12,827)
Total loans to associates	**3,167**	**(2,823)**	**-**	**344**
Total	186,034	141,575	(3,021)	324,587

7.2.1. Financial investments in Group companies and associates

Group companies

2019

On 5 August 2019, and before selling the shares in the Company Témpore Properties Socimi, S.A, the Company received a dividend for €190,618 thousand from that investee. That dividend was used to reduce the cost of the holding in that Company as it had been distributed with a charge against the issue premium previously paid up by the Company.

Subsequently, on 5 August 2019, the Company notarised the deed for the sale of 20,305,479 shares of the Company Témpore Properties Socimi, S.A. which constitute 75% of the total shareholding of that Company. The price assigned to those shares was €103,078 thousand, their cost being €95,885 thousand. Of the total price, the amount of €97,901 thousand was deferred, and is recognised under the caption "Trade and other accounts receivable" on the accompanying balance sheet, having established its maturity date within one year, accruing an annual interest rate of 1.5%. That deferral has been guaranteed by a leading bank.

Following the above-mentioned sale, the Company Témpore Properties Socimi, S.A. ceased to be considered a Group company in 2019 and became an associate.

2018

On 4 December 2018, Témpore Properties Socimi, S.A. increased its capital; that increase was fully taken up by the Company through the non-monetary contribution of a portfolio of completed homes rented or available for rental for the amount of €148,834 thousand. The carrying amount of the homes transferred was €144,977 thousand (see Note 5); that value was increased by a commitment acquired by the Company with that REIT, under which it undertook to assume other refurbishment work on various homes up to a maximum of €2,477 thousand.

In addition, the Company made a monetary contribution of €325 thousand.

In 2018 the Company sold 237,167 shares in Témpore Properties Socimi, S.A., which represent 0.88% of the share capital of that Company. The total sales price was €2,467 thousand, having generated a gross negative margin of €333 thousand. Those sales were made to non-controlling interests to comply with the requirements established by the Alternative Stock Market (MAB) for that Company to be admitted for listing, which took place on 3 April 2018.

Details for Témpore Properties Socimi at 31 December 2018 are as follows. The details for that Company at 31 December 2019 are shown under the caption Associates:

31 December 2018

Company	Holding	Address	Main activity	Miles de Euros				
				Shares (*)	Issue premium	Other shareholders' contributions	Operating profit/(loss) (*)	Profit / (Loss) after taxes
Témpore Properties Socimi, S.A.	99.12%	Paseo de la Castellana 89, Madrid	Lease of properties	27,073	297,278	1,153	(377)	(384)

(*) Data extracted from the audited annual accounts at 31 December 2018, prepared in accordance with the regulations applicable to each company.

Associates

2019

In 2019 there have been no significant changes in the portfolio of associates, with the only significant change being the status of Témpore Properties Socimi, S.A. as an associate after the sale of shares.

After that sale, the Company's percentage interest in Témpore was 24.12%. The registered address of that Company is Pº Castellana, 89, Madrid, and its corporate purpose is the lease of properties. That Company's equity stands at €106,322 thousand at the end of 2019 and it generated a loss after tax of €3,883 thousand in 2019.

The average share listing for that company at 31 December 2019 and the average during the last quarter of 2019 was €5 per share.

That holding was not impaired during 2019.

2018

On 03 May 2018, the company sold 4,267,740 preferential subscription rights in the company Quabit Inmobiliaria, S.A., reducing the value of the holding by €222 thousand. The registered address of that company is calle Poeta Joan Maragall 1 (Madrid) and its corporate purpose is property development. The share capital of that company is €74,381 thousand, with an issue premium of €179,717 thousand and other reserves amounting to €40,416 thousand. The operating profit/(loss) for 2018 was €29,049 thousand of losses and, after tax, the outcome was a positive figure of €20,338 thousand. That company is listed on the continuous trading market, its share listing at 31 December 2019 being €1.002 per share, the average price for the last quarter having gone up to €1.08 per share (€1.3140 and 1.876 per share in 2018).

At the end of 2018, the shares of that company were measured on the basis of their listed price, recognising a provision for impairment in the year for the amount of €2,475 thousand taken to the caption "Impairment and profit/(loss) from sales of financial instruments" on the accompanying income statement. In 2019 no further impairment on the holding was recognised.

On 20 June 2018, the company acquired a total of 938,226 shares by way of dation from the company Reyal Urbis, S.A., for the amount of €2,223 thousand. At 31 December 2018, the value of that holding was fully impaired. The registered address of that company is calle Ayala 3 (Madrid) and its corporate purpose is property development. The main figures have not undergone any relevant changes in 2019.

Also, at 31 December 2018, the Company had a 6.94% holding in the capital of the Company Hercesa Internacional, S.L. (whose registered address is in Plaza de Europa 3, Guadalajara, and whose corporate purpose is property development). The share capital of that company is €111,588 thousand, and other reserves amounting to €15,367 thousand. The operating profit/(loss) for 2018 was €4,092 thousand of profits and, after tax, the outcome was a positive figure of €3,017 thousand. That Company is not listed on the stock market.

In 2019 and 2018 no impairment was recognised for the holding in Hercesa Internacional, S.L.

Deconsolidated Bank Assets Funds

2019

On 26 October 2019, the Company created what is known as "Esla Bank Assets Funds" through the contribution of land and construction work in progress that had been halted, for the price of €52,180 thousand (see Note 4.6.1). The transfer of those properties was taken up by the fund through the issue of equity securities amounting to €31.308 thousand, and the rest was deferred, through senior financing, for the amount of €20,872 thousand.

Subsequently, on 30 December of 2019, the Company notarised the deeds for the sale of 95% of the securities subscribed for their par value, that is, €29,743 thousand, which have been received in full.

2018

In 2018 no transactions were concluded for any significant amount with the deconsolidated FABS, nor were any new vehicles set up.

2019

Company	Holding	Address	Main activity	€ thousand			
				Values (*)	Reserves and other equity items	Gross margin (*)	Profit / (Loss) after taxes
1. Unlisted.-							
FAB 2013 Teide	15%	C/ Príncipe de Vergara 131, Madrid	Real estate sales and management	87,815	-	2,050	-
Esla Bank Assets Funds	5%	c/ Medina de Pomar. 27, Madrid	Real estate sales and management	31,308	-	(109)	(345)

(*) Data extracted from the last annual accounts available at 31 December 2019, prepared in accordance with the regulations applicable to each company. At the date of preparation of these Annual Accounts, the annual accounts of FAB 2013 Teide and Esla Bank Assets Fund were yet to be audited.

2018

Company	Holding	Address	Main activity	€ thousand			
				Values (*)	Reserves and other equity items	Gross margin (*)	Profit / (Loss) after taxes
1. Unlisted.-							
FAB 2013 Teide	15%	C/ Príncipe de Vergara 131, Madrid	Real estate sales and management	87,815	-	1,705	-
1. Unlisted.-							

(*) Data extracted from the audited annual accounts at 31 December 2018, prepared in accordance with the regulations applicable to each company.

In 2015, at the request of the CNMV (Spanish National Securities Market Commission), the FAB Teide made a change to its accounting principles consisting of offsetting the profit/(loss) for the year by recording a balancing entry, i.e. an allowance account that reduces the amount of the debt securities issued. That change in the accounting principles had no impact on the annual accounts of the Company.

Non-Deconsolidated Bank Assets Funds

The main changes relating to non-deconsolidated Bank Assets Funds are those described in Note 4.6.1. referring to the creation of the Arqura Homes Bank Assets Fund.

2019

Company	Holding	Address	Main activity	€ thousand			
				Values (*)	Reserves and other equity items	Gross margin (*)	Profit / (Loss) after taxes
FAB 2013 Bull	49%	C/ Príncipe de Vergara 131, Madrid	Real estate sales and management	50,364	-	375	-
Arqura Homes Bank Assets Fund	100%	c/ Medina de Pomar 27	Property development	5,000	-	12,061	9,615

(*) Data extracted from the last annual accounts available at 31 December 2019, prepared in accordance with the regulations applicable to each company. At the date of preparation of these annual accounts the annual accounts of that fund were yet to be audited.

2018

Company	Holding	Address	Main activity	€ thousand			
				Values (*)	Reserves and other equity items	Gross margin (*)	Profit / (Loss) after taxes
FAB 2013 Bull	49%	C/ Príncipe de Vergara 131, Madrid	Real estate sales and management	50,364	-	2,459	-

(*) Data extracted from the audited annual accounts at 31 December 2018, prepared in accordance with the regulations applicable to each company

7.2.2. Loans to associates

The changes under that caption in 2019 and 2018 are as follows:

2019

	31/12/2018	Drawdowns	Repayments	31/12/2019
FAB 2013 Teide	344			-
Debt securities	13,172	-	-	13,172
Impairment debt securities	(12,828)	(344)	-	13,172
Esla FAB	-	20,872	-	20,872
Senior financing	-	20,872	-	20,872
	344	20,528	-	20,872

2018

	31/12/2017	Drawdowns	Repayments	31/12/2018
FAB 2013 Teide	3,167			344
Debt securities	13,172	-	-	13,172
Impairment debt securities	(10,005)	(2,824)	-	(12,828)
Total	3,167	(2,824)	-	344

In 2019, the entire profit from the debt securities received by the Company relate to the Teide FAB for the amount of €1,193 thousand. In 2018, the profit obtained by the Company for that holding in Teide FAB was €3,423 thousand, while the entire profit obtained from its holdings in the FABs amounted to €3,506 thousand (see Note 16.1).

7.3 Information on the nature and risk degree of the financial assets

Risk management is the key principle for achieving the objectives established for the Company, which consist of contributing to the recovery of the financial system, minimising public funding, settling debts and meeting obligations it assumes in the course of its operations, minimising any possible distortions in the markets that might arise from its actions and selling the assets received, enhancing their value within the time period established and for which the company was set up, while at all times preserving the Company's financial soundness and equity.

The Board of Directors is the governing body responsible for deciding on and approving the general procedures for internal control, as well as the policies on the assumption, management, control and reduction of the risks to which the Company is exposed. Having been assigned the functions delegated by the Board of Directors, the Risks Team and the departments of Network and Direct Management also act in managing risk.

For its part, the Auditing Committee, backed up by the department of Internal Auditing and the department of Internal Control and Compliance, is responsible for supervising the effectiveness of the operating procedures and internal control systems, as well as ensuring compliance with applicable regulations.

The Company manages risk on the basis of the principles of independence, the commitment of Senior Management, delegation of functions, proactive management of lending and property investments in order to minimise default and the decreased value of the investments, by monitoring and controlling the positions and technical specialisation, establishing the most suitable tools and methods of risk management and measurement, and ensuring they are uniformly applied.

As a result of the very structure of the Company's opening balance sheet, the main risks to which it is subject are the following:

- Credit risk and the concentration of credit related to the units of financial assets acquired by the Company, and also to certain investments made in the normal course of its business.
- Liquidity risk associated with financial instruments, arising from the lack of availability of the funds necessary for meeting the commitments acquired by the Company at reasonable prices and for continuing with its credit activity.
- Interest rate risk, linked to the likelihood of losses being generated by an adverse trend in market interest rates.
- Operational risk, brought about by losses due to unsuitable or faulty processes, personnel or internal systems, or due to external events.

Considering the type of assets and liabilities of the Company, the exchange rate risk corresponding to potential losses due to the adverse evolution of the prices of assets and liabilities denominated in foreign currency is not significant.

7.3.1 Credit risk

Credit risk is defined as the possibility of loss arising from the total or partial failure of our customers or counterparties to meet their contractual financial obligations, or a deterioration in their creditworthiness. At 31 December 2019 and 2018, 96.31% and 95.8%, respectively, of the loan portfolio as a whole was in default. It is managed by the Risks and Business Teams according to the policies, methods and procedures approved by the Board of Directors of the Company.

In line with its corporate purpose, the Company's policy centres on managing the portfolios acquired in order to maximise their recoverability through collection or sale. With this, specific procedures are established for the management of credit risk depending on the different characteristics of the financial assets units, according to the definition included in Note 1 above, and of the operations included in each of those categories, based on the:

- Identification, analysis, monitoring of specific risks during the life of the transaction until they disappear.
- Measurement and valuation of those specific risks based on the methods established, which are in line with those used for calculating the transfer price of the financial assets units.
- Recovery management of risk transactions.

With regard to the business of assets for rental and real estate sales, the concentration of customer risk is not relevant and there are no significant deferrals of payment for the purposes of credit risk. Furthermore, in the case of deferred payment, it is Company policy to obtain from the customer the guarantees necessary for ensuring the recoverability of the deferred amounts, either through bank guarantees or conditions precedent or subsequent in the public deeds of transfer.

The Company's exposure to credit risk, at 31 December 2019 and 2018, mainly affects the transactions recorded in the category of financial assets under "Loans and receivables" (see Note 7.1); its carrying amount, including the contingent available amounts of the loans and credits held to date, is the maximum exposure to the credit risk at that date. In this respect, at 31 December 2019 and 2018, the captions "Long-term financial investments - Loans to third and related parties" and "Short-term financial investments - Loans to companies" account for 90.06% and 86.19%, respectively, of the total financial assets of the Company.

Below is relevant information on the profile of credit risk of the investments included in these captions:

Loans to third parties per segment of industry of the borrower

The breakdown, at 31 December 2019 and 2018, of the "Long-term and short-term financial investments - Loans to third parties" based on the borrower's activities, is as follows:

€ thousand	Total		Of which: property collateral (gross of impairment)		Of which: remaining collateral (gross of impairment	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Public Administrations	**18,193**	**24,673**	**2,857**	**7,589**	**-**	**-**
Banks	**-**	**-**	**-**	**-**	**-**	**-**
Non-financial companies and individual businessmen	**19,297,330**	**21,824,833**	**17,753,137**	**20,441,398**	**235,084**	**45,796**
Property construction and development	18,131,976	20,566,670	16,985,618	19,621,758	219,792	34,485
Civil engineering work	1,147	2,294	868	1,782	-	-
Other purposes	1,164,207	1,255,869	766,975	817,858	15,292	11,312
Major companies	-	24,263	-	3,339	-	-
SMEs and individual businessmen	1,164,207	1,231,606	766,975	814,520	15,292	11,312
Other residential properties	**81,197**	**75,836**	**74,628**	**73,202**	**-**	**-**
Capitalised expense (Note 4.6.2)	**10,912**	**11,376**	**-**	**-**	**-**	**-**
Impairment losses on assets	**(6,322,635)**	**(5,091,686)**	**-**	**-**	**-**	**-**
Total	**13,084,997**	**16,845,032**	**17,830,622**	**20,522,189**	**235,084**	**45,796**

Actions for recovery - debt restructuring and refinancing:

Within the scope of measures for recovery carried out by the Company, there were various actions aimed at providing borrowers with the conditions necessary for meeting the contractual obligations established on the basis of the continuity of their business as the main guarantee of compliance.

Those actions comprised, amongst others, transactions for awarding property as collateral or as dation in payment of debts (see Note 5), liquidating guarantees and transactions for debt restructuring and refinancing.

The actions for recovery and, especially in the case of the transactions for debt restructuring and refinancing, were carried out based on objective criteria which took into account both the circumstances common to specific loan and credit portfolios, and the specific circumstances of the borrowers, such as their economic and financial situation, and also the viability of their business. The main criteria governing the analysis and implementation of these actions for recovery is to provide a solution to the existing payment problems and to avoid their deferral, and also to maximise the recoverable value of the assets received.

The debt restructuring and refinancing tools put into operation include modifying the conditions originally arranged with the debtors in respect of maturity periods, interest rates, guarantees provided and, in certain circumstances, remitting or partially reducing the amounts owed. The restructuring or refinancing transactions involve bringing the transaction completely or partially up to date with the payments of the corresponding debts.

In no case has the refinancing of transactions involved any adverse effect on the Company's assets in respect of the status of the restructured or refinanced transactions nor any deferral of the recognition of possible losses due to the impairment of those transactions in accordance with the circumstances thereof. Therefore, all transactions which, in application of the provisions of the regulatory framework applicable to the Company, should be impaired have been considered as such for the purposes of preparing these annual accounts.

The number and amount of transactions refinanced in 2019 and 2018 is as follows:

2019

	No. transactions	Amount (€ thousand)
Restructured / Refinanced transactions	489	623,915
Renegotiated / Renewed operations	-	
Total	489	623,915

2018:

	No. transactions	Amount (€ thousand)
Restructured / Refinanced transactions	484	663,784
Renegotiated / Renewed operations	-	-
Total	484	663,784

Geographical distribution of the balance of loans and credits

The geographical distribution, at 31 December 2019 and 2018, of the "Long-term and short-term financial investments - Loans to third parties", and also of "Cash and other cash equivalents" is as follows:

€ thousand	31/12/2019	31/12/2018
Andalusia	1,944,168	2,276,766
Aragón	772,564	937,369
Asturias	304,295	349,848
Balearic Islands	377,789	448,097
Canary Islands	419,877	422,875
Cantabria	392,946	406,703
Castile - La Mancha	564,067	557,736
Castile and Leon	1,074,979	1,405,686
Catalonia	3,744,590	4,220,124
Extremadura	201,693	239,405
Galicia	1,013,093	1,198,928
Madrid	6,895,822	6,639,979
Murcia	924,682	1,061,450
Navarra	65,531	27,674
Region of Valencia	3,376,430	4,006,739
Basque Country	202,343	245,193
La Rioja	218,162	286,147
Ceuta and Melilla	18,979	22,014
Other non-resident sectors	-	-
- Others – Capitalised expense (Note 4.6.2)	10,912	11,376
- Impairment losses on assets	(6,322,635)	(5,091,686)
Total	**16,200,287**	**19,672,423**
Of which: Cash and other cash equivalents	3,115,290	2,827,391
Of which: Long-term and short-term loans to third parties	13,084,997	16,845,032

7.3.2 Liquidity risk

Liquidity risk is defined as the risk of Sareb not having the resources available for being able to pay its debts on their maturity dates.

The Company periodically and specifically establishes the cash requirements by means of preparing a treasury budget over a 12-month time horizon, which will be updated on a recurring basis with the aim of identifying those cash requirements or surpluses in the short term. Furthermore, for managing the liquidity risk, the general financing requirements in the medium and long term are identified, and also how to address them in a way that is consistent with the business projections.

In any case, the liquidity risk is also mitigated by the power that the Company has for renewing the bonds issued in consideration of the assets transferred by the assigning banks upon their maturity (see Note 13.2).

During the first years of life of the Company, the prudent concept has prevailed in managing liquidity, which is intended to be made more versatile. To this end, a procedure has been established for auctioning liquidity between entities to which limits of counterparty risk have been assigned. The auction takes place following the principles established in Sareb of transparency, competition, and maximisation of profitability.

The Board of Directors has also approved a policy for managing the company's liquidity risk which includes regular measuring and monitoring of a series of short-term and of long-term liquidity ratios, and also, where appropriate, implementing contingent measures designed to preserve the Company's liquidity position.

Breakdown of financial investments according to maturity

Following what is mentioned in Note 2.4, the Company considers its financial assets will be recovered in accordance with the schedule of payments contracted, except for those seen to have difficulties - doubtful - (Note 1) which will be recovered in a period in accordance with the updated estimates made by the Company.

Also, under the unilateral option to renew the maturity of the senior debt (Notes 2.4 and 13.2) the Company classifies the probable maturities of that debt according to updated forecasts. The breakdown of the maturities of the Company's financial assets and liabilities at 31 December 2019, is as follows:

2019:

	€ thousand						
	Less than 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
Assets:							
Cash and other cash equivalents	**3,115,290**	**-**	**-**	**-**	**-**	**-**	**3,115,290**
Financial investments	**2,008,597**	**1,878,345**	**1,875,673**	**2,295,182**	**2,199,651**	**4,575,255**	**14,832,703**
- Loans and credits to third parties	1,344,299	1,304,568	1,398,343	2,262,881	2,199,651	4,575,255	13,084,997
- Other financial assets	664,298	573,777	477,330	32,301	-	-	1,747,706
Financial investments with associates	**4,138**	**2,527**	**3,670**	**4,800**	**9,875**	**-**	**25,010**
- Loans to companies	4,138	2,527	3,670	4,800	9,875	-	25,010
Total at 31 December 2019	5,117,955	1,880,872	1,879,343	2,299,982	2,209,526	4,575,255	17,973,004
Liabilities:							
Long-term and short-term debts	**1,589,669**	**1,603,091**	**1,777,444**	**2,366,558**	**3,440,812**	**27,661,040**	**38,438,614**
- Debentures and other negotiable securities	1,064,930	916,606	1,408,134	2,346,638	3,440,812	27,661,040	36,838,160
- Amounts owed to credit institutions	15,301	-	-	-	-	-	15,301
- Other financial liabilities	201	242,553	-	-	-	-	242,754
- Derivatives	509,237	443,932	369,310	19,920	-	-	1,342,399
Total at 31 December 2019	1,589,669	1,603,091	1,777,444	2,366,558	3,440,812	27,661,040	38,438,614

2018:

	€ thousand						
	Less than 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
Assets:							
Cash and other cash equivalents	2,827,391	-	-	-	-	-	2,827,391
Financial investments	1,592,072	3,209,979	3,941,766	2,687,485	2,431,712	5,357,593	19,220,607
- Loans and credits to third parties	1,587,479	3,209,979	3,941,766	2,687,485	2,431,712	2,986,611	16,845,032
- Other financial assets	4,593	-	-	-	-	2,370,982	2,375,575
Financial investments with associates	-	344	-	-	-	-	344
- Loans to companies	-	344	-	-	-	-	344
Total at 31 December 2018	4,419,463	3,210,323	3,941,766	2,687,485	2,431,712	5,357,593	22,048,342
Liabilities:							
Long-term and short-term debts	1,983,083	1,974,912	2,630,501	2,879,165	2,906,581	27,554,986	39,929,228
- Debentures and other negotiable securities	1,460,962	1,333,830	2,060,153	2,568,334	2,886,178	27,554,986	37,864,443
- Amounts owed to credit institutions	15,963	-	-	-	-	-	15,963
- Other financial liabilities	441	163,249	174,872	-	-	-	338,562
- Derivatives	505,717	477,833	395,476	310,831	20,403	-	1,710,260
Total at 31 December 2018	1,983,083	1,974,912	2,630,501	2,879,165	2,906,581	27,554,986	39,929,228

The Company's available cash position, at 31 December 2019 and 2018, was €3,115,290 and 2,827,392 thousand. This liquidity, together with the cash generated from repayments, cancellations and sales of loans and credits, the cash generated from sales of real estate assets and from renting Company equity, lead the Directors to being confident that they will have sufficient resources to meet the cash requirements, mainly motivated by the maturity of the senior bonds and the financial expense accrued. In this respect, it should be pointed out that the Company has the unilateral right to cancel the senior bonds upon their maturity by delivering new senior bonds of similar characteristics, which very significantly reduce the liquidity risk. Furthermore, and if certain circumstances are fulfilled, Sareb has the option of extending the term of the negotiable securities.

7.3.3. Interest rate risk

Structural interest rate risk is defined as being the exposure of the Company to fluctuations in the market interest rates resulting from the varying maturity and repricing dates of assets and liabilities on the balance sheet. Management of the interest rate risk of the balance sheet seeks to keep the Company's exposure within levels in line with its strategy compatible with the Company's Business Plan and risk profile in the face of changes in market interest rates.

As regards assets, internal tools have been developed which make it possible to simulate cash flows and loan interest according to the contractual conditions on the basis of the information provided by the servicers. These tools allow for the inclusion of scenarios of interest rate variations and assess the impact on future interest flows, taking into account the likelihood of the borrower's creditworthiness.

Liability modelling also makes it possible to simulate the flows of issued debt with the market conditions or simulated scenarios and make an assessment of that debt. To mitigate the Company's strong exposure to changes in interest rates, arising from the high sensitivity of the company's liability and the strong insensitivity of the assets in the face of those changes, in 2013, the Company decided to use derivative instruments to hedge around 85% of the expected outstanding amount of the senior debt during a 9-year time horizon (3-year time horizon at 31 December 2019) with the object of reducing the risk of any increases in interest rates having a significant negative effect on the future income statement. That decision was taken considering that the rates in force at the time of adopting the hedge were compatible with the Company's Business Plan.

Reference interest rates

With regard to the contractual interest rates to which the portfolio of loans and credits acquired is indexed, 87.67% (88.32% at 31 December 2018) of the them are indexed to floating interest rates, 12.33% (11.68% at 31 December 2018) of them are indexed to fixed interest rates. Notwithstanding the above, and given that a large part of the portfolio of loans received has the status of non-performing loans, their actual sensitivity to fluctuations in interest rate is very low.

The floating interest rates applied to the above-mentioned amounts are indexed to Euribor at different periods plus the corresponding spread. However, the Company accrues interest income on the basis of the provisions of Note 4.13.

Interest rate hedging derivatives

As stated in Note 13.3, the Company has interest rate hedging contracts in place with various banks which make it possible to fix the interest rate of approximately 85% of the senior bonds that are estimated during the next 4 years, thus eliminating the uncertainty in the income statement and the future cash flows for the coming years that would result from the evolution of the reference interest rates.

The Directors of the Company have quantified the interest rate risk using a probability-based structure such as VaR with a 95% probability of standard deviation and a time horizon of one year. That analysis has concluded that, in 5% of the most extreme scenarios, the average upward fluctuation of 3-month Euribor by 89 b.p. and of the spread to which the company's senior debt is fixed (see Note 13.2) could have a total negative impact of €17 M (79 b.p. with a total negative impact of €14 M in 2018).

8. Inventories

The composition of this caption at 31 December 2019 and 2018, is as follows:

	€ thousand	
	31/12/2019	31/12/2018
Completed buildings	52,695	19,387
Homes	52,695	19,387
Offices, commercial premises and multi-purpose facilities	-	-
Other properties	-	-
Homes - Other than the borrower's main residence	-	-
Buildings under construction	801,541	269,052
Homes	801,541	269,052
Offices, commercial premises and multi-purpose facilities	-	-
Other properties	-	-
Homes - Other than the borrower's main residence	-	-
Advances to suppliers	52,320	20,131
Total	906,556	308,570

Changes in 2019 and 2018 under the caption "Inventories" were as follows:

	€ thousand			
	Completed buildings	Buildings under construction/ Land	Advances to suppliers	Total
Balance at 31 December 2017	17,327	217,790	33,242	268,359
Additions	-	50,490	20,131	70,621
Derecognition	(46,571)	(158)	(33,242)	(79,971)
Transfers to Completed buildings	48,631	(48,631)	-	-
Transfers to Property investments (Note 5)	-	49,561	-	49,561
Balance at 31 December 2018	19,387	269,052	20,131	308,570
Additions	-	54,029	32,189	86,218
Derecognition	(54,926)	(7,036)	-	(61,962)
Transfers from Property investments (Note 5)	88,234	485,496	-	573,730
Balance at 31 December 2019	52,695	801,541	52,320	906,556

The most relevant changes produced in 2019 and 2018 under this caption are itemised as follows:

Additions

In 2019 and 2018, the Company incurred expense amounting to €54,378 and 50,490 thousand in building work and in continuing the work in progress. Those amounts were capitalised as the higher value of the inventories at 31 December 2019 and 2018.

Transfers between items

In 2019, the Company created Arqura Homes Bank Assets Fund (see Note 4.6.1) by a contribution to that fund of €776,085 thousand of land and works in progress, both ongoing and halted. Of those properties, €562,998 thousand were classified under the caption "Investment properties" as their development is not foreseen. Following the contribution to the fund, and the foreseeable promotion and/or development of the properties, they have been transferred to the caption of Inventories.

Meanwhile, in 2019 and 2018 the Company carried out a detailed analysis of its works in progress with the object of maximising their value. That analysis mainly sought to differentiate those works in progress on which it expects to obtain a higher degree of profitability through building work, development, completion and offering the properties for sale through the retail channel. That analysis involved the Company making transfers from Property investments to Inventories for the amount of €10,732 and 49,561 thousand, respectively, in 2019 and 2018.

Rectifications

In 2019 and 2018 no rectifications were made affecting the caption Inventories.

Other information

At 31 December 2019 and 2018, the entire inventory of the Company is unencumbered and free from security rights.

Furthermore, in 2019 and 2018 no financial expense was capitalised as the higher cost of inventories.

As a standard procedure, practically all the presales are subject to indemnity clauses in the case of delayed delivery as they are concluded in contracts in similar terms. The mentioned clauses on indemnity for delay mainly consist of legal interest on the amounts paid during the period between the delivery date scheduled in the contract and the actual delivery date. The Company does not estimate any impact for this reason mainly due to the fact that the delivery date scheduled in the contracts allows for a safety margin of a certain number of months in respect of the anticipated delivery date. For this reason and due to the low number of transactions of this kind in 2019 and 2018, the Company has not considered any impact in the annual accounts of 2019 and 2018 for this item. Generally speaking, presales include indemnities in favour of the Company in the event of cancellation by the buyer, although no amount is recorded for this item until contracts are actually terminated for causes not attributable to the Company.

The procedure followed by the Company in relation to guarantees or bank guarantees covering the advance payments received from customers anticipates that all advance payments received from customers are guaranteed. The total of advance payments received from customers as reservation deposits at 31 December 2019 was €17,335 thousand (€22,426 thousand at 31 December 2018).

The Directors of the Company consider that the carrying amount of the balances included in this caption of the balance sheet approximates at least to the fair value (see Note 5).

9. Trade and other accounts receivable

The breakdown of this caption, at 31 December 2019 and 2018, is as follows:

	31/12/2019	31/12/2018
Customer receivables from sales	249,323	186,861
Sundry debtors	13,574	14,721
Doubtful debts	59,487	63,047
Provision for insolvency	(59,487)	(63,047)
Staff	12	2
Current tax assets (Note 15.1)	5,104	2,832
Other receivables from the Public Administrations (Note 15.1)	12,267	4,287
Total	**280,280**	**208,703**

The amount recorded by the Company under the caption "Customer receivables from sales" includes the amount still to be received, mainly from real estate sales and income from leases handled by the Company in 2019 and 2018. This caption includes the amount still to be received arising from the sale of 75% of the shareholding in the Company Témpore Socimi, S.A. for the amount of €97,901 thousand (see Note 7.2.1). That amount has been deferred until 5 August 2020, accruing an annual interest rate of 1.5% and is guaranteed by a leading bank.

In addition, at 31 December 2018, that caption includes the amount still to be received from the sales of the "Ter" and "Garona" portfolios, for the amount of €12,537 and 9,374 thousand, respectively. Those amounts were received by the Company in 2019.

Changes in the provision for insolvency in 2019 were as follows:

2019

	31/12/2018	Provisions	Applications	31/12/2019
Provision for insolvency	(63,047)	(8,367)	11,927	(59,487)

2018

	31/12/2018	Provisions	Applications	31/12/2019
Provision for insolvency	(54,981)	(8,066)	-	(63,047)

Applications during 2019 correspond mainly to the failure to receive any balances that the Company considers to be unrecoverable, given the credit situation of the debtor and the amount still to be received. It corresponds entirely to balances coming from rental contracts which the Company took over when it acquired the properties in question.

It is Company policy to require guarantees for deferred payments, whether guarantees payable on first demand or guarantors with proven solvency.

The Directors of the Company consider that the carrying amount of trade and other accounts receivable approximates to its fair value.

10. Cash and other cash equivalents

The caption "Cash and other cash equivalents" includes cash and short-term bank deposits with an initial maturity of three months or less.

The breakdown of those assets, at 31 December 2019 and 2018, is as follows:

	31/12/2019	31/12/2018
Other cash equivalents	561,302	134,854
Banks	2,553,988	2,692,538
Total	**3,115,290**	**2,827,392**

The amount recognised, at 31 December 2019 and 2018, under the caption "Other cash equivalents" corresponds to various fixed-term deposits taken out by the Company for the amount of €561,302 and 134,854 thousand, respectively, with different banks. While the initial maturity of those deposits is usually set for more than three months, the Company has decided to classify it under that caption as it can opt to repay them in advance with no cancellation charge.

In 2019 and 2018, the Company recognised €18 and 419 thousand, respectively, as interest from those investments, and also the money deposited in current accounts (see Note 16.6). Furthermore, in 2019 and 2018, the Company obtained negative remuneration on various deposits and current accounts. That negative remuneration amounted to €5,931 and 4,942 thousand, recognised under the caption "Other financial expense" on the accompanying income statement (see Note 16.5).

At 31 December 2019, there are no restrictions on the use of cash and other cash equivalents, nor they did exist at 31 December 2018, except for an amount equivalent to 8% of the cash generated by the Company. At 31 December 2019 and 2018, that amount stood at €169,100 and €57,000 thousand, respectively, and will be used for repaying the senior debt as set out in the contracts related to the issue of the Company's financing (see Note 13).

11. Equity

11.1 Share capital

At 31 December 2019 and 2018, the Company's share capital is represented by 2,170,440,000 shares, with a nominal value of €0.14 each one, fully subscribed and paid up. These shares all have the same voting and monetary rights.

Below is a list of shareholders having a shareholding equal or greater than 2.5% of the share capital at 31 December 2019 and 2018:

	Holding %	Share capital	Issue premium
Fund for Orderly Bank Restructuring (FROB)	45.90%	139,472	-
Banco Santander, S.A.	22.21%	67,499	-
CaixaBank, S.A.	12.24%	37,181	-
Banco de Sabadell, S.A.	6.61%	20,097	-
Kutxabank, S.A.	2.53%	7,698	-
Other shareholders	10.50%	31,915	-
Total	**100%**	**303,862**	**-**

The Company has no knowledge of any other shareholdings of 3% or more in the Share capital or in the voting rights of the Company, or of any which, while lower than the percentage established, allow it to exercise a notable influence over the Company.

As established under article 326 of the Capital Companies Act, once the share capital has been reduced, the legal reserve will have to be funded so that it is again equivalent to 10% of the new capital.

11.2 Legal reserve

The legal reserve is restricted in its use, which is determined by different legal provisions. According to article 274 of the Capital Companies Act trading companies incorporated under that legal form are obliged, if they make profits, to transfer 10% of those profits to a reserve until such reserve reaches one fifth of the subscribed share capital. The purposes for which the legal reserve may be used are to offset losses, or to increase capital, in respect of the portion of the reserve that exceeds 10% of the increased capital, or to be distributed to shareholders in the event of liquidation.

At 31 December 2019 and 2018, the balance of the legal reserve was €19,174 thousand.

11.3 Other reserves

The composition of this caption at 31 December 2019 and 2018 is as follows:

€ thousand	31/12/2019	31/12/2018
Loss from previous years	(2,105,715)	(1,227,367)
Voluntary reserves for application of RD 4/2016	2,330,270	2,330,270
Restricted reserve	629,428	629,428
Total	**853,983**	**1,732,331**

11.4 Value change adjustments

This caption on the accompanying balance sheet includes the amount, net of taxes, of changes in the value of financial derivatives designated as cash flow hedging instruments (see Note 13.3) and the amount, net of taxes, arising from the impairment existing in the Financial Assets and Real Estate Assets units, in application of the provisions of RD 4/2016 (see Notes 4.7 and 7.1.1.).

The changes in the balance for this caption in 2019 and 2018 are as follows:

2019

	€ thousand				
	Opening balance	Reductions for derecognition of tax credits	Reduction for impairment	Increases / Decreases	Closing balance
Measurement of derivatives	(1,221,223)	-	-	298,901	(922,322)
Impairment of Financial Assets unit	(5,091,686)	-	(1,230,949)	-	(6,322,635)
Impairment of Real Estate Assets unit	-	-	(496,378)	-	(496,378)
Balance	**(6,312,909)**	**-**	**(1,727,327)**	**298,901**	**(7,741,335)**

2018

	€ thousand				
	Opening balance	Reductions for derecognition of tax credits	Reduction for impairment	Increases / Decreases	Closing balance
Measurement of derivatives	(1,533,045)	-	-	211,822	(1,221,223)
Impairment of Financial Assets unit	(4,229,552)	-	(862,134)	-	(5,091,686)
Balance	**(5,762,597)**	**-**	**(862,134)**	**211,822**	**(6,312,909)**

The equity value adjustments are as follows:

	€ thousand	
	31/12/2019	**31/12/2018**
Interest rate derivatives (Note 13.3)	(1,342,399)	(1,710,260)
Ineffective derivatives	112,636	81,963
Tax effect	307,441	407,074
Value change adjustments – Hedging operations (net of taxes)	**(922,322)**	**(1,221,223)**
Impairment Financial Assets unit (see Note 7.1.1)	(6,322,635)	(5,091,686)
Impairment Real Estate Assets unit (see Note 5)	(496,378)	-
Tax effect recognised	-	-
Decapitalisation tax credits from previous years	-	-
Value change adjustments – Impairment of Financial Assets and Real Estate Assets units (net of taxes)	**(6,819,013)**	**(5,091,686)**
Total value change adjustments	**(7,741,335)**	**(6,312,909)**

As indicated in Note 15.3, the Company has derecognised from the balance sheet any tax credits that will not be recoverable over the life of the Company according to its best estimates.

11.5 Equity position of the Company

The equity accountable for the purposes of the mentioned articles 327 and 363.1 e) of the Consolidated Text of the Capital Companies Act is as itemised below, and, therefore, the Company is not incurred in any of those circumstances at 31 December 2019:

	€ thousand
Equity in the annual accounts of Sareb, S.A. at 31/12/2019	(7,511,562)
Less:	
Value change adjustments for cash flow hedges	922,322
Value change adjustments for impairment of Financial Assets	6,322,635
Value change adjustments for impairment of Real Estate Assets	496,378
Equity for the purposes of reduction and dissolution 31/12/2019	**229,773**

It should be mentioned that under prevailing accounting legislation, any changes in the value of hedging derivatives are recognised in equity until they are allocated to profit or loss in the corresponding year. The total fair value of this interest rate risk derivative, net of its tax effect, is recognised under the caption "Value change adjustments – Hedging operations" (see Note 13.3). However, from a business perspective and according to the provisions of article 36 of the Code of Commerce, these value changes in the hedging derivative yet to be allocated to the income statement are not considered as equity for the purposes of profit distribution, mandatory reduction of share capital and mandatory dissolution for losses.

In turn, as established by article 2 of RD 4/2016 the Company has recorded the value adjustments of the units of assets established in Circular 5/2015 allocating them to the captions "Value change adjustments – Impairment of financial assets" and "Value change adjustments – Impairment of real estate assets" net of taxes. As established in that RD the adjustments referred to above will not be considered as equity for the purposes of profit distribution, compulsory reduction of share capital and compulsory dissolution for losses.

Lastly, it should be pointed out that on 11 March 2020 Royal Decree-Law 6/2020 was published which, in article 1 amends sub-section 3 of the seventh additional provision of Act 9/2012. That amendment establishes that, given the particular features of the Company, it will not be subject to the provisions of articles 348 bis and 363.1 e) of the Capital Companies Act (see Note 2.4).

12. Provisions and contingencies

This caption of the balance sheet, at 31 December 2019 and 2018, includes the long-term provisions set up by Sareb with the object of covering certain liabilities, and also to cover other responsibilities undertaken by Sareb in the ordinary course of its business, which are reasonably covered. The changes that took place under this chapter of the balance sheet in 2019 and 2018 are shown below:

Miles de Euros		
	2019	**2018**
Opening balance for the year	7,862	9,530
Provisions	1,353	947
(Reversal)	(5,553)	(2,615)
Transfers and other changes	-	-
Closing balance for the year	**3,662**	**7,862**

The Company is party, as defendant, to certain lawsuits due to the responsibilities inherent to the business it is engaged in. The litigation for which it made provision in 2019 and 2018 are for amounts of little relevance if considered individually, and there are no others of any particular relevance. In this respect, Sareb makes provision for any likely risks arising from litigation according to the assessment made by its legal advisors.

13. Breakdown of financial liabilities

Below is the breakdown of financial liabilities assumed by Sareb at 31 December 2019 and 2018, classified according to the breakdown required under applicable legislation:

2019

Classes / Categories	€ thousand						
	Long-term financial instruments			Short-term financial instruments			Total
	Amounts owed to credit institutions	Debentures and other negotiable securities	Derivatives and others	Amounts owed to credit institutions	Debentures and other negotiable securities	Derivatives and others	
Debits and items payable	-	35,773,230	242,552	15,301	1,064,930	201	37,096,214
Hedging derivatives	-	-	1,342,399	-	-	-	1,342,399
Total	-	35,773,230	1,584,951	15,301	1,064,930	201	38,438,613

2018

Classes / Categories	€ thousand						
	Long-term financial instruments			Short-term financial instruments			Total
	Amounts owed to credit institutions	Debentures and other negotiable securities	Derivatives and others	Amounts owed to credit institutions	Debentures and other negotiable securities	Derivatives and others	
Debits and items payable	-	36,403,198	338,121	15,963	1,461,245	441	38,218,968
Hedging derivatives	-	-	1,710,260	-	-	-	1,710,260
Total	-	36,403,198	2,048,381	15,963	1,461,245	441	39,929,228

13.1 Amounts owed to credit institutions

At 31 December 2019 and 2018, the Company has recognised the amounts of €15,301 and 15,719 thousand, respectively, under the caption "Amounts owed to credit institutions" as "Accrued interest pending payment" on the hedging derivatives subscribed in 2013 (see Note 13.3).

13.2. Debentures and other long-term and short-term negotiable securities

The composition of the caption "Long-term debts - Debentures and other negotiable securities" and "Short-term debts - Debentures and other negotiable securities" at 31 December 2019 and 2018 is shown below:

€ thousand	31/12/2019		31/12/2018	
	Non-current	Current	Non-current	Current
Negotiable securities- Senior debt	34,343,670	1,064,930	34,973,638	1,460,962
Negotiable securities- Subordinated debt	1,429,560	-	1,429,560	-
Accrued interest pending payment	-	-	-	283
Total	**35,773,230**	**1,064,930**	**36,403,198**	**1,461,245**

Negotiable securities- Senior debt

The breakdown of the balances included under the caption "Negotiable securities- Senior debt" in the previous table at 31 December 2019 and 2018 is as follows:

31 December 2019

Denomination	Issue date	Contractual maturity date	Applicable rate in force	€ thousand
SAREB/VAR BO 20201231 2019-4	31/12/2019	31/12/2020	Eur 3M – 0.070%	10,262,300
SAREB/VAR BO 20201231 2018-3	31/12/2018	31/12/2020	Eur 3M + 0.030%	13,553,500
SAREB/VAR BO 20200228 2019-1	28/02/2019	28/02/2020	Eur 3M - 0.010%	4,064,100
Total short-term contractual maturities				**27,879,900**
SAREB/VAR BO 20211231 2018-4	31/12/2018	31/12/2021	Eur 3M + 0.050%	1,387,600
SAREB/VAR BO 20210228 2019-2	28/02/2019	28/02/2021	Eur 3M + 0.060%	5,463,700
SAREB/VAR BO 20220228 2019-3	28/02/2019	28/02/2022	Eur 3M + 0.090%	677,400
Total long-term contractual maturities				**7,528,700**
Total				35,408,600

31 December 2018

Denomination	Issue date	Contractual maturity date	Applicable rate in force	€ thousand
SAREB/VAR BO 20191231 2018-2	31/12/2018	31/12/2019	Eur 3M – 0.110%	10,262,600
SAREB/VAR BO 20190228 2018-1	28/02/2018	28/02/2019	Eur 3M – 0.100%	4,064,100
SAREB/VAR BO 20190228 2017-2	28/02/2017	28/02/2019	Eur 3M + 0.070%	5,557,600
SAREB/VAR BO 20190228 2016-2	26/02/2016	28/02/2019	Eur 3M + 0.516%	1,125,800
Total short-term contractual maturities				**21,010,100**
SAREB/VAR BO 20201231 2018-3	31/12/2018	31/12/2020	Eur 3M + 0.03%	13,647,400
SAREB/VAR BO 20211231 2018-4	31/12/2018	31/12/2021	Eur 3M + 0.05%	1,777,100
Total long-term contractual maturities				**15,424,500**
Total				36,434,600

The total amount of negotiable securities, at 31 December 2019 and 2018, is represented by book entries. In addition, they have an irrevocable and unconditional guarantee from the Central Administration, waiving the benefit of excussion.

Sareb has the unilateral option to renew the above-mentioned issues of senior debt upon maturity although at the time of the transaction there were no significant differences between their fair value and nominal value.

That unilateral option, and also its business forecasts and the experience acquired since it was set up, allows the Company to consider that the mentioned short-term contractual maturities will materialise in the long term for an approximate amount of €26,808,370 and 19,549,138 thousand, respectively.

The interest rates accruing on those bonds are established as 3-month Euribor plus a spread. That spread is the same during the whole life of the issue.

2019

Amortisation of bonds in 2019

The summary of the amortisations of senior debt made by the Company in 2019 is as follows:

Denomination	Amortisation in cash	Amortisation Escrow Account (Note 10)	Amortisation by rectification (Note 1)	Amortisation through new issue	Total
SAREB/VAR BO 20190228 2017-2	85,700				5,557,600
SAREB/VAR BO 20190228 2016-2	419,200				1,125,800
SAREB/VAR BO 20201231 2018-3	70,000	23,400	-	-	93,400
SAREB/VAR BO 20211231 2018-4	291,700	97,500	-	-	389,200
SAREB/VAR BO 20210228 2019-2	-	8,200	-	-	8,200
SAREB/VAR BO 20220228 2019-3	-	29,200	-	-	29,200
SAREB/VAR BO 20191231 2018-2	-	-	300	10,262,300	10,262,600
SAREB/VAR BO 20201231 2018-3	-	-	500	-	500
SAREB/VAR BO 20211231 2018-4	-	-	300	-	300
SAREB/VAR BO 20190228 2018-1	-	-	-	4,064,100	4,064,100
Total	**866,600**	**158,300**	**1,100**	**20,504,900**	**21,530,900**

Rectification of deeds for asset purchases

As stated in Note 1, in 2019 the Company amortised €1,100 thousand in bonds, on the basis of the rectifications concluded during that year:

€ thousand	Bankia, S.A.	Total
SAREB/VAR BO 20191231 2018-2	300	300
SAREB/VAR BO 20201231 2018-3	500	500
SAREB/VAR BO 20211231 2018-4	300	300
Total	**1,100**	**1,100**

2018

Amortizaciones de bonos del ejercicio 2018

El resumen de las amortizaciones de deuda senior efectuadas por la Sociedad durante el ejercicio 2018 son las siguientes:

Denomination	Amortisation in cash	Amortisation Escrow Account (Note 10)	Amortisation by rectification (Note 1)	Amortisation through new issue	Total
SAREB/VAR BO 20160226 2016-2	514,800	209,400	-	-	724,200
SAREB/VAR BO 20180228 2018-2	90,000	42,800	-	-	132,800
SAREB/VAR BO 20180228 2018-1	-	-	-	4,064,100	4,064,100
SAREB/VAR BO 20161231 2016-4	127,600	42,100	-	13,647,400	13,817,100
SAREB/VAR BO 20151231 2015-4	1,312,500	594,700	-	1,777,100	3,684,300
SAREB/VAR BO 20181231 2018-3	-	-	-	10,262,600	10,262,600
Total	**2,044,900**	**889,000**	**-**	**29,751,200**	**32,685,100**

Rectification of deeds for asset purchases

As stated in Note 1, in 2018 the Company has not concluded any rectifications leading to amortisation of bonds.

Other information

The interest on those negotiable securities accruing in 2019 and 2018 was €280 and 4,699 thousand, respectively, and is recognised under the caption "Financial expense - For debts with third parties" on the accompanying income statement (see Note 16.5.). At 31 December 2019 and 2018, accrued interest pending payment was €1 and 283 thousand and is recognised under the caption "Short-term debts - Debentures and negotiable securities" on the accompanying balance sheet. At the date of preparing these annual accounts that interest has been paid in full.

At 31 December 2019 and 2018, the senior negotiable securities issued by the Company are listed and admitted for trading.

The Directors consider that the carrying amount of the negotiable securities approximates to their fair value.

Negotiable securities - Subordinated debt

The breakdown of the balances included under the caption "Negotiable securities - Subordinated debt" in the previous table, at 31 December 2019 and 2018, is as follows:

31 December 2019 and 2018

	Issue date	Maturity date	Applicable rate in force	€ thousand
SAREB/8,00 OBSUBDCONV 20271127 2013	26/02/2013	27/11/2027	8.00%	1,429,560
Total				**1,429,560**

The principal conditions of the unsecured subordinated debentures which are occasionally convertible is itemised below:

- All the securities belong to a single series, have the same terms and conditions and therefore grant the same rights to their holders. They can be freely transferred and are represented by book entries and have been registered in the accounts ledgers kept by Iberclear and its authorised participants.
- The interest rate accruing on those bonds is fixed and will be due on an annual basis provided that profits have been obtained as established and sufficient reserves being available. For this reason, in 2019 and 2018 the Company has no coupons due or paid for this item due to the difficulty of estimating future distributable cash flows.
- Total amortisation: compulsory on 27 November 2027.
- Partial amortisation: This is possible at the Company's discretion after the fifth year since issue, according to the existing solvency and leverage ratios.
- Conversion: The subordinated debt can be converted to capital in the event of insufficient company equity in the event of: (i) cumulative losses equal to or more than the share capital plus the reserves of the Company or (ii) if there are grounds for dissolution due to the fact that the losses have reduced the equity of the Company to an amount less than half of its share capital. That conversion should take place provided that there are annual accounts audited by the Company corresponding to a year in which insufficient equity is present. If conversion takes place, the shares will have the same nominal value, be of the same class and series, and will have the same rights as the ordinary shares outstanding and it will be for an amount equivalent to 2% of the Company assets after the conversion. In 2016, after approval from the Shareholders General Meeting held on 5 May 2016, the Board of Directors approved the conversion of €2,170,440 thousand to share capital of the Company, by issuing 2,170,440 thousand shares each with a nominal value of €1. Following that conversion the balance of the subordinated debt was €1,429,560 thousand.
- Rank: the convertible subordinated debentures are placed, in terms of credit priority:
  - Behind all other common creditors (senior) of the Company;
  - *Pari passu* with any subordinated, simple or convertible debt of the Company, issued or to be issued in the future, or that has been incurred or may be incurred in the future under any other title.
  - Ahead of the Company's ordinary or preference shares.

13.3 Derivatives

At 31 December 2019 and 2018, the main source of Sareb's financing came from debentures and negotiable securities issued in 2013 and 2012, or, where appropriate, renewed upon maturity, for the intention of the acquisition of the real estate and credit assets described in Note 1, which are indexed to floating interest rates. Due to the high volume of the transaction and in order to reduce the high exposure and the consequent risk for the Company to a possible rise in the interest rate, on 2 August 2013 the Company contracted an interest rate swap that enabled it to cover this risk for an initial notional amount of €42,221 M, which will be gradually reduced upon the maturity of each of the senior bonds hedged in future years, and establishing the debt at fixed interest rates within a range of between 0.491% and 3.145% per year. This operation is not for speculation purposes but for a cash flow hedge and, in reality, it involved converting part of the Company's borrowing during the period covered into borrowing at a fixed interest rate rather than the floating interest rate of the bonds issued.

The cash flow hedging was made in the context of time and market in which the interest rates were compatible with those contemplated in the Company's Business Plan, whereby under this operation a substantial part of it could be assured, reducing the risk that an increase in interest rates could jeopardise the Plan in question and the viability of the Company. In exchange, the operation meant waiving any possible benefits arising from a decrease in the reference interest rates for the portion and the period of time hedged.

The measures for easing monetary policy adopted by the European Central Bank since the end of 2013 have contributed to a gradual decrease in the interest rates which currently stand at historic minimums. That evolution has been transferred to the measurement of the hedging derivative contracted by the Company.

The market value of the interest rate derivatives (swaps) is obtained as the sum of the present value of all cash flows according to the contractual conditions and interest rates quoted on the market. The interest rates used for the future estimation of floating interest rates are obtained from instruments listed in financial markets and indexed to the EURIBOR 3M index. The discount interest rates used for updating cash flows are obtained from instruments listed in financial markets and indexed to the EONIA index.

The balance of the caption "Long-term debts – Derivatives" on the liability side of the balance at 31 December 2019 and 2018 corresponds entirely to the fair value of the mentioned interest rate risk hedging derivative taken out with various financial institutions. The fair value of this derivative, obtained by applying generally accepted measurement methods based on observable market-based inputs, at 31 December 2019 and 2018, is €1,342,399 and 1,710,260 thousand, respectively (see Note 11.4).

The breakdown of the amount of the notional value and fair value of these operations, in relation to the time periods in which the cash flows are expected to arise, and the years in which they are expected to have any effect on the income statement, is as follows (€ thousand):

INTEREST RATE SWAPS	Range Fixed Rates	Maturity	2020	2021	2022	2023	Totals
Notional	2.48%-3.16%	2020-2023	16,782,000	14,009,000	11,397,000	2,967,000	45,155,000
Fair value			(509,237)	(443,932)	(369,310)	(19,920)	(1,342,399)

The Company estimates that the effect of a 1 basis point increase in reference interest rates on the market value of those derivatives would have a positive impact of €4,077 thousand on the Company's equity. The estimated impact of a downward variation of 1 basis point in the reference interest rates would have a negative impact of a similar figure. That effect was also calculated at the end of 2018, when a positive impact of €5,695 thousand on the Company's equity was calculated and with a similar negative effect in the case of a downward variation.

Under accounting legislation in force, any changes in the value of hedging derivatives are recognised in the Company equity until they are allocated to profit or loss in the corresponding subsequent years. As set out in Note 4, in 2019 and 2018, the derivatives that hedge bonds issued over one year and part of the bonds issued over two years have maintained their effectiveness within the thresholds required under the Accounting and Measurement Rule 9. 6, but due to the downward trend in interest rates to which the hedged risks are indexed and to Sareb's application in 2019 and 2018 of a "floor" which stipulated that the interest rate could in no event go lower than 0%, it has lost part of that effectiveness. In consequence, the Company has recognised an amount of €30,674 and 68,702 thousand, respectively, of greater financial expense, resulting from the measurement of those hedging instruments under the caption "Financial expense" on the accompanying income statement (see Note 16.5).

The rest of the value of the derivatives, net of taxes, is recognised under the caption "Value change adjustments" for the amount of €922,322 and 1,221,223 thousand, respectively, at 31 December 2019 and 2018. This effect, together with the impairment of the financial assets and the real estate assets units, places the Company in negative equity. However, from a business point of view, and according to the provisions of article 36 of the Code of Commerce on the distribution of profits, the mandatory reduction of share capital and mandatory dissolution for losses, these changes in the value of the hedging derivative yet to be charged to the income statement are not considered as equity.

Similarly, the amount that has been taken to the income statement from equity, at 31 December 2019 and 2018, was €576,322 and 640,161 thousand, respectively, recognised under the caption "Financial expense – For debts with third parties" (see Note 16.5).

The credit risk associated to derivative transactions is minimised through contractual arrangements for exchanging collateral and by other types of guarantee which depend on the nature and type of counterparty, according to the rules of the "International Swaps and Derivatives Association" (ISDA).

At 31 December 2019 and 2018, for the purpose of ensuring compliance with the terms of the derivatives contracts mentioned, Sareb had set up monetary guarantees in the name of the counterparties of the derivatives contracted which at that date showed a negative value for the Company, in the amount of €1,266,500 and 1,597,400 thousand, respectively; these are recognised under the caption "Long-term financial investments - Other financial assets" of the balance sheet, and also deposits in the balancing entries for a total amount of €217,500 thousand in both years (see Note 7.1.2).

13.4 Other non-current financial liabilities

The breakdown of this caption on the balance sheet at 31 December 2019 and 2018 is as follows:

	€ thousand	
	31/12/2019	31/12/2018
Fair value of the Íbero bonds	235,642	330,140
Discount effect on Íbero bonds	-	968
Total nominal amount of Íbero bonds	235,642	331,108
Advance FAB 2013 Bull	-	670
Guarantees from lessees and Others	6,910	6,343
Total	242,552	338,121

In accordance with the provisions of Accounting and Measurement Rule 9, 5.6 of the General Chart of Accounts, the Company has measured the fair value of the bonds mentioned in Note 1 in relation to the Íbero Project. To calculate that update, the weighted average cost of the Company's debt was taken into consideration (see Note 13.1). In 2019, and with the evolution of interest rates, the Company concluded that the fair value of those guarantees coincides with their nominal value.

At 31 December 2019, and with the maturity under the "Íbero" contract of the portfolio managed by Haya Real Estate, S.A.U., the Company has regularised as income the bond posted by that Servicer and which foreseeably will not be returned, with a charge against the fees due and pending payment at that date. The amount of that guarantee is €36,117 thousand, which were recognised under the caption "Other operating income" on the accompanying income statement.

Based on the last estimates provided in the business plan of the FAB 2013 Bull, it is considered that, given its configuration and payment structure, there are €25,015 thousand in both years of the advance received by the investor in the FAB, which will not be returned during the course of its life. Based on the above, the Company has recognised income under the caption "Financial income" on the accompanying income statement for the amount of €670 and 1,956 thousand in 2019 and 2018, respectively (see Note 16.6).

The Directors estimate that the fair value of the caption "Other non-current financial liabilities" does not differ from its carrying amount.

14. Trade and other accounts payable

The breakdown of this caption of the balance sheet at 31 December 2019 and 2018 is shown below:

	€ thousand	
	31/12/2019	**31/12/2018**
Suppliers	79,611	60,263
Suppliers, invoices pending receipt	351,047	349,325
Staff	4,628	7,728
Current tax liabilities (Note 15.1)	-	-
Other payables to the Public Administrations (Note 15.1)	75,634	72,095
Customer advances	19,506	28,890
Total	**530,426**	**518,301**

The caption "Trade and other accounts payable" mainly includes the amounts pending payment for trade purchases and related expense, and the amounts of payments on account from customers received prior to the recognition of the sale of the properties or land.

The caption "Trade and other accounts payable" mainly includes the amounts pending payment for trade purchases and related expense, and the amounts of payments on account from customers received prior to the recognition of the sale of the properties or land.

At 31 December 2019, the caption "Suppliers, invoices pending receipt" includes amounts of €50,010 and 65,431 thousand (€58,373 and 88,135 thousand at 31 December 2018) for expenses arising from management fees and sales commissions, respectively, and €235,606 thousand (€203,031 thousand at 31 December 2018) for general and maintenance expenses of the assets managed by the Company, for which the Company has not received the corresponding invoices.

At 31 December 2019 and 2018, the caption "Customer advances" mainly includes the amounts received in advance on account of future transfers of certain properties included under the captions Property investments and Inventories (see Notes 5 and 8).

The Directors consider that the carrying amount of trade payables approximates to their fair value.

Information on deferral of payments made to suppliers. Third Additional Provision. "Duty to provide information" under Act 15/2010, of 5 July o

In accordance with the provisions of the Second Final Provision of Act 31/2014, of 3 December, in amendment of the Third Additional Provision of Act 15/2010, of 5 July, modifying Act 3/2004, of 29 December, which established measures to combat late payment in commercial transactions, and in relation to the information to be included in the Report accompanying the annual accounts on the deferral of payments to suppliers in trade transactions calculated on the basis of the provisions of Resolution of 29 January 2016 of the Institute of Accounting and Account Audits, the breakdown of the average period for payments made by the Company to suppliers in 2019 and 2018 is as follows:

	Year 2019	Year 2018
Average payment period to suppliers	35	41
Ratio of transactions paid	32	38
Ratio of transactions pending payment	54	65
	€ thousand	
Total payments made	481,064	431,970
Total payments outstanding	79,611	60,049

15. Public Administrations and tax position

15.1 Current balances receivable from and payable to Public Administrations

The composition of the current balances receivable from and payable to Public Administrations at 31 December 2019 and 2018 is as follows:

31 December 2019

	€ thousand			
	Assets		Liabilities	
	Non-current	Current	Non-current	Current
Tax Authority deferred VAT	-	457	-	
Tax Authority VAT/IGIC receivable	-	11,810	-	-
Deferred tax assets	323,821	-	-	-
Provision for taxes	-	-	-	33,799
Tax Authority VAT/IGIC payable	-	-	-	36,782
Tax Authority Personal Income Tax payable	-	-	-	2,932
Tax Authority IGIC payable	-	-	-	897
Tax Authority VAT Ceuta and Melilla payable				658
Social Security payable	-	-	-	566
Corporate Income Tax	-	5,104	-	-
Tax Authority payable/receivable for other tax items	-	-	-	-
Total	323,821	17,371	-	75,634

31 December 2018

	€ thousand			
	Assets		Liabilities	
	Non-current	Current	Non-current	Current
Tax Authority deferred VAT	-	14	-	428
Tax Authority VAT/IGIC receivable	-	4,273	-	-
Deferred tax assets	507,152	-	-	-
Provision for taxes	-	-	-	30,781
Tax Authority VAT/IGIC payable	-	-	-	37,673
Tax Authority Personal Income Tax payable	-	-	-	2,582
Tax Authority IGIC payable	-	-	-	89
Social Security payable	-	-	-	542
Corporate Income Tax	-	2,832	-	-
Tax Authority payable/receivable for other tax items	-	-	-	-
Total	**507,152**	**7,119**	**-**	**72,095**

The balances corresponding to provisions for taxes correspond to the provision made for non-deductible VAT related to the provision for invoices to be received (see Note 14) at the end of 2019 and 2018.

15.2 Reconciliation of accounting profit/(loss) and tax base

The reconciliation of accounting profit/(loss) and the tax base for the tax in question, is as follows:

2019

	€ thousand				
	Income statement		Income and expense taken directly to equity		Total
Balances of net income and expense for the period Profit /		(947,246)		(1,428,425)	(2,375,671)
	Increases	Decreases	Increases	Decreases	
Corporate Income Tax	82,999	-	99,634	-	182,633
Permanent differences	5,010	(31,512)	-	-	(26,502)
Temporary differences					
- Originating in the period	6,487	-	1,328,791	-	753,132
- Originating in previous periods	-	(14,435)	-	-	(14,435)
Tax base (taxable profit/(loss))	**94,496**	**(993,193)**	**1,428,425**	**(1,428,425)**	**(898,697)**

2018

	€ thousand				
	Income statement		Income and expense taken directly to equity		Total
Balances of net income and expense for the period Profit / (Loss)		(878,348)		(550,312)	(1,102,460)
	Increases	**Decreases**	**Increases**	**Decreases**	
Corporate Income Tax		(654)	103,940	-	103,286
Permanent differences	4,956	(34,428)	-	-	(29,472)
Temporary differences					
- Originating in the period	79,716	-	446,372	-	199,888
- Originating in previous periods	-	(6,641)	-	-	(6,641)
Tax base (taxable profit/(loss))	**84,673**	**(920,071)**	**550,312**	**(550,312)**	**(835,399)**

At 31 December 2019 and 2018, the main temporary differences arise from charges to provisions and amortisations, amongst others. For its part, the permanent differences originate in surcharges, penalties, the outcomes contributed by the FABs (see Note 4.7) and exemptions for income resulting from the transfer of certain properties.

The above tables are shown in accordance with the format required by the General Chart of Accounts of 2007. The amounts included under the caption "Income and expense recognised directly in equity" correspond to accounting adjustments not reflected in the tax base for the tax and, therefore are not effectively included in the tax base for Corporate Income Tax for the year.

The relevant tax effects recognised directly in equity at 31 December 2019 and 2018 correspond to the financial derivatives designated as hedging instruments for the amount of €307,441 and 407,074 thousand, respectively (see Note 11.4).

Shown below is the reconciliation between the expense for Corporate Income Tax booked by Sareb and the result of multiplying the applicable rate for Corporate Income Tax by the total income and expense recognised, before taxes, corresponding to 2019 and 2018:

2019

	(Income) / Expense (€ thousand)		
	Income statement	Amounts recognised directly in equity	Total recognised income and expense
Profit / (Loss) before taxes	(864,247)	(1,328,791)	(2,193,038)
Permanent differences	(26,502)	-	(26,502)
Total	**(890,749)**	**(1,328,791)**	**(2,219,540)**
Corporate Income Tax rate	25%	25%	25%
Total	**(222,687)**	**(332,198)**	**(554,885)**

Continue

	(Income) / Expense (€ thousand)		
	Income statement	Amounts recognised directly in equity	Total recognised income and expense
Deductions and credits	(796)	-	(796)
(Profit) / Loss arising from Corporate Income Tax	(223,483)	(332,198)	(555,681)
Adjustment for Corporate Income Tax previous year	3,609	-	3,609
Corporate Income Tax non-deconsolidated FABs (Note 4.6.1.)	98	-	98
Adjustment for limitation on tax assets of previous years	80,088	-	80,088
Adjustment for limitation on tax assets of the current year	222,687	431,832	654,519
Total (income) /expense recognised in the income statement	82,999	99,634	182,633

2018

	(Income) / Expense (€ thousand)		
	Income statement	Amounts recognised directly in equity	Total recognised income and expense
Profit / (Loss) before taxes	(879,002)	(446,373)	(1,325,375)
Permanent differences	(29,472)	-	(29,472)
Total	(908,474)	(446,373)	(1,354,847)
Corporate Income Tax rate	25%	25%	25%
Total	(227,118)	(111,593)	(338,711)
Deductions and credits	(804)	-	(804)
(Profit) / Loss arising from Corporate Income Tax	(227,922)	(111,593)	(339,515)
Adjustment for Corporate Income Tax previous year	-	-	-
Corporate Income Tax non-deconsolidated FABs (Note 4.6.1.)	-	-	-
Adjustment for limitation on tax assets of previous years	-	-	-
Adjustment for limitation on tax assets of the current year	227,268	215,534	442,802
Total (income) /expense recognised in the income statement	(654)	103,940	103,286

During the course of 2017, the Company received confirmation from the General Directorate of Taxation of the principles applied and also the principles to be applied in respect of changes in the balance for the provision and account for "Value change adjustments" arising in the future. In this respect, any value adjustments that had been recognised subsequent to 1 January 2016, taken to the "Value change adjustments" account with the intention of increasing the amount of the provision for impairment of the financial assets unit are not considered to be tax-deductible expense. Any reductions in the amount of that provision credited to the account for "Value change adjustments" are disregarded when calculating the profit/(loss) for the year. For this reason, given that, after 1 January 2016, the corresponding charge would not have been considered a tax-deductible expense, it should not be included in the tax base, notwithstanding the comments in the following paragraph.

At 1 January 2016, the balance of the account for "Value change adjustments" included the amount of the provision for impairment of the financial assets unit, recorded at 31 December 2015, net of taxes, with those charges being classified as tax-deductible. Conversely, the charges made as from 1 January 2016 were not classified as tax-deductible. For the purposes of tax treatment of the reduction arising in the provision, and for determining if it relates to charges that were tax-deductible or not, the Company applies a FIFO principle, considering that the amounts reversed relate initially to amounts that were considered to be tax-deductible. Once an amount has been accumulated equal to that included in the tax bases for the tax periods 2012 to 2015 for considering the corresponding charges to be tax-deductible, the reductions in the balance of the provision credited to the account for "Value change adjustments" will not be included in the tax base.

The Company also considers that the increased amount for the provision that has been recognised for the year in "Value change adjustments" of SAREB Equity in application of RD 4/2016 is classified as a non-deductible item, having confirmed that principle with the Tax Authorities.

On 3 December 2016, Royal Decree-Law 3/2016 of 2 December was published in the Official State Gazette [BOE], under which measures are adopted in the area of taxation intended for the consolidation of public finances and other urgent social measures. That regulation introduces some amendments to the Corporate Income Tax Act 27/2014, of 27 November. It specifically adds the Fifteenth Additional Provision under which it establishes, indefinitely, the offsetting of tax losses up to a limit of 25 per cent of the previous tax base if the turnover for the preceding 12 months was at least €60 M.

The Company has analysed the recovery of all the deferred tax assets (tax credits and deferred tax assets) based on the Resolution of 9 February 2016, of the Institute of Accounting and Account Audits which implements the standards for accounting, measurement and preparation of annual accounts for the accounting for Corporate Income Tax under tax legislation, including the amendment mentioned and in accordance with the forecasts of the Business Plan, which covers an eight-year time horizon (nine years in 2018).

In consequence, the deferred tax assets recognised by the Company at the end of 2019, at a rate of 25 per cent (tax rate applicable under Corporate Income Tax), are those thought likely to be applied, according to future taxable profits or through the recovery of the measurement of the financial derivatives contracted by the Company (see Note 15.3). Said calculation was carried out as described considering the time horizon contemplated in its business plan, which anticipates generating future taxable profits to offset the tax assets booked, taking into account that the maximum annual limit for offsetting those tax credits is restricted to 25% of the positive annual taxable base. The effect resulting from that analysis has meant derecognising €83,697 thousand from the balance sheet, which have been recognised as a "Corporate Income Tax" expense on the accompanying income statement.

The reconciliation between the tax base and the tax payable for Corporate Income Tax for the years 2019 and 2018 is as follows:

	€ thousand	
	2019	2018
Tax base (taxable profit/(loss))	(898,697)	(835,399)
Tax base according to tax rate (25%)	(224,674)	(208,850)
Deductions and credits	(796)	(804)
- Of which monetisable	(796)	(654)
Withholdings and payments on account	(522)	(2,178)
Tax (receivable) / payable	(1,318)	(2,832)

The breakdown of the tax bases recorded at 31 December 2019 and 2018 is as follows:

2019

	€ thousand	At 25 %	Amount capitalised
Tax losses			
2012	200	50	-
2013	120,594	30,149	-
2014	494,350	123,588	-
2015	2,387,698	596,925	-
2016	706,118	176,530	-
2017	835,348	208,837	-
2018 (*)	904,044	226,011	-
2019	898,697	224,674	-
Total	6,347,049	1,586,764	-

2018

	€ thousand	At 25 %	Amount capitalised
Tax losses			
2012	200	50	-
2013	120,594	30,149	-
2014	494,350	123,588	-
2015	2,387,698	596,925	6,535
2016	706,118	176,530	5,408
2017	904,044	226,011	50,276
2018 (*)	835,399	208,850	-
Total	5,448,403	1,362,103	62,219

(*) There is a difference between the tax losses for Corporate Income Tax for 2018 and the settlement finally submitted in Tax Form 200 as a result of a positive adjustment.

The above tax losses do not expire and can be offset at any time during the life of the Company.

For its part the Company has the following deductions at the end of 2019 and 2018:

	Amount of deduction	Expiry date
Deductions for R+D		
Ejercicio 2018	654	2036
Total	654	

The whole of the expense for Corporate Income Tax arising in 2019 and 2018 corresponds to ongoing operations.

15.3 Deferred tax assets

The breakdown of the balance of this account at the end of 2019 and 2018 is as follows:

	€ thousand	
	2019	2018
Tax credit - For tax losses	-	62,219
- For unused tax credits	-	-
Temporary differences 2013	2,585	2,917
Temporary differences 2014	11,029	12,452
Temporary differences 2015	723	723
Temporary differences 2016	552	552
Temporary differences 2017	316	1,284
Temporary differences 2018	1,175	19,931
Temporary differences 2019		-
Market valuation of derivatives	307,441	407,074
Others		
Total deferred tax assets	**323,821**	**507,152**

With regard to the deferred tax assets recorded as a result of the measurement of the derivatives at market value, the Company estimates they will be reversed against the caption "Value change adjustments" on the accompanying balance sheet, according to the reversing of the valuation of the hedging derivatives contracted. The Company's provision for reversal is as follows:

Deferred tax assets	2020	2021	2022	2023	Totals
Market valuation of derivatives	97,883	110,983	92,327	6,248	307,441

Both the prepaid taxes payable and the tax credits for tax losses were recognised on the balance sheet as the Directors consider that, based on their best estimate of the Company's future earnings, including certain tax planning measures, it is probable that these assets will be recovered.

15.4 Years open for inspection

Under current legislation, tax returns cannot be deemed definitive until they have been inspected by the tax authorities or the statute of limitations period has elapsed. At 31 December 2019, the Company has all the Corporate Income Tax accrued since its incorporation open for tax inspection. As a result, amongst others, of the different interpretations of current legislation, additional liabilities could arise in the event of a tax inspection. In any case, the Directors consider that those liabilities, should the case arise, would not have any significant effect on the annual accounts.

In April 2019 the Tax Authorities began an inspection in respect of Value Added Tax for the years 2015 and 2016. At the date of preparing these annual accounts that inspection had been concluded by the authority in question. The outcome of the inspection was accepted by the Company by signing a record of acceptance, which has had no significant impact on these annual accounts.

At the end of 2019, the Company has no further inspections open with the Tax Authorities other than the one above.

16. Income and expense

16.1 Turnover

The breakdown per branch of activity at the end of 2019 and 2018 is as follows:

	€ thousand	
	2019	2018
Income from sales of loans and credits (Note 7.1.1)	465	376,569
Income from interest on loans and credits (Note 7.1.1)	329,652	532,685
Income from sales of property investments (Note 5)	958,155	1,154,950
Income from sales of inventories	87,839	70,872
Income from rent (Note 6)	40,553	34,831
Income from remuneration of FABs (see Note 7.2.2)	1,193	3,506
Income from sale and liquidation of FABs (see Note 7.2.2)	103,078	2,467
Recovery of capital gains on loans and credits – net of debt remission (Note 7.1.1)	(90,778)	(238,296)
Total	**1,430,157**	**1,937,584**

All the Company's income has been obtained in Spain.

In 2019 and 2018, and as a result of the principle of application of the amounts recovered by Sareb from its borrowers, which is applied firstly to interest and then to capital, the figure for "Recovery of capital gains on loans and credits" is negative for the amount of €90,778 and 238,296 thousand, respectively. Nevertheless, the total income taking into account the figure for income from interest amounts to €238,874 and 294,389 thousand, respectively.

16.2 Cost of sales and changes in inventories

The composition of this caption of the accompanying income statement is as follows:

	€ thousand	
	2019	**2018**
Changes in inventories	(61,962)	(46,571)
Total changes in inventories	**(61,962)**	**(46,571)**
Cost of property investments (Note 5)	(861,711)	(1,009,977)
Sales costs of financial assets (Note 7.1.1)	(399)	(351,164)
Sales costs of the FABs (Note 7.2.2)	(95,885)	(2,799)
Total sales costs	**(957,995)**	**(1,363,940)**

16.3 Staff expense

The breakdown of staff expense for the years 2019 and 2018 is as follows:

	€ thousand	
	2019	**2018**
Salaries, wages and similar	33,300	30,504
Social Security	6,669	6,289
Total	**39,969**	**36,793**

The average number of people employed in 2019 and 2018, distributed per category, is as follows:

	Number of employees	
	2019	**2018**
Senior management	66	67
Managers and Technical staff	278	270
Administration and sales staff	44	52
Total	**388**	**389**

Similarly, the distribution according to gender, at 31 December 2019 and 2018, detailed per category, is as follows:

	2019			2018		
	Women	Men	Number of employees	Women	Men	Number of employees
Senior management	18	48	66	17	50	67
Managers and Technical staff	126	159	285	122	154	276
Administration and sales staff	35	8	43	37	14	51
Total	179	215	394	176	218	394

In 2019 and 2018 the Company employed two members of staff with a degree of disability that is 33% or higher.

16.4 External services

The breakdown of this item corresponding to 2019 and 2018 is as follows:

	€ thousand	
	2019	2018
Fees for assets management and marketing (Note 1)	199,517	203,825
Leases and ground rents	4,052	3,683
Repairs and conservation	96,013	101,633
Independent professional services	87,128	99,779
Insurance premiums	3,708	3,740
Advertising, publicity and public relations	3,419	3,581
Bank services	5,716	670
Supplies	22,238	11,612
Other services	6,046	7,059
Total external services	427,837	435,582
Total taxes	198,452	217,511

The caption "Repairs and conservation" in 2019 and 2018 mainly includes the expense of homeowner's associations of the real estate assets, for the amounts of €32,810 and 43,213 thousand, respectively. The caption "Taxes" mainly contains the cost for Property Tax (IBIs) relating to the Company's the real estate assets and the non-deductible VAT it has paid in 2019 and 2018. That non-deductible VAT is largely charged on procedures for foreclosure and dation concluded by the Company during 2019 and 2018 (see Note 5).

Fees charged by PricewaterhouseCoopers Auditores, S.L. for auditing the Company's separate annual accounts for 2019 and 2018 were €1,312 and 1,115 thousand, respectively. In 2019 and 2018, fees were charged for other services for the amounts of €20 and 13 thousand, respectively, for the issue of the annual report by the external expert in relation to the prevention of money laundering and financing of the terrorism.

16.5 Financial expense

Below is a breakdown of this caption of the income statement for the years 2019 and 2018:

	€ thousand	
	2019	**2018**
Interest from debentures and other negotiable securities (Note 13.2)	280	4,699
Interest from financial derivatives (Note 13.3)	545,648	571,524
Financial expense – Ineffective derivatives (Notes 4.9 and 13.3)	30,674	68,702
Other financial expense	12,093	16,849
Total	588,695	661,775

The caption "Other financial expense" mainly includes the finance cost arising from the funding granted by the investor of the FAB Bull 2013 for the amount of €238 and 2,380 thousand in 2019 and 2018, respectively, which has not been deconsolidated from the accompanying balance sheet (see Note 4.6.1). In 2019 the Íbero bonds were not updated, while in 2018 the amount was €2,093 thousand (see Note 13.4). Furthermore, at 31 December 2019 and 2018, that caption includes €5,931 and 4,942 thousand, respectively, arising from the negative remuneration that the Company has obtained on its cash balances (see Note 10).

16.6 Financial income

Below is a breakdown of this caption of the income statement for the years 2019 and 2018::

	€ thousand	
	2019	**2018**
For remuneration from cash and other cash equivalents (Note 10)	18	418
For remuneration from "Other financial assets"	2,471	1,377
Other financial income – Rectification (Note 1)	1	-
Other financial income (Note 13.4)	670	1,956
Total	3,160	3,751

17. 17. Transactions and balances with related parties and legal information relating to the Board of Directors

17.1 Transactions with related parties

The breakdown of the balances held and the transactions carried out by Sareb with related parties recognised in these annual accounts for the years 2019 and 2018 is as follows:

2019

	€ thousand				
	FROB and entities under FROB control.	Significant shareholders (**)	Bank Assets Funds, Group companies and other related parties	Board of Directors (*)	Senior Management (*)
Assets:					
Credits and loans	-	-	20,872	-	-
Long-term investments in Group companies and associates (Note 7.2.1 and 4.6.1)	-	-	38,035	-	-
Short-term investments in Group companies and associates	-	-	4,138	-	-
Cash and other cash equivalents	1,200	-	-	-	-
Liabilities:					
Debentures and other long-term negotiable securities	20,305,100	-	-	-	-
Debentures and other short-term negotiable securities	-	-	-	-	-
Gains and Losses:					
Income from sales of property investments	-	-	165	-	-
Income from services rendered	-	-	-	-	-
Income from remuneration of FABs	-	-	1,193	-	-
Other operating expenses	-	-	1,147	(1,273)	(3,594)
Impairment of financial instruments	-	-	(2,203)	-	-
Financial income	-	-	-	-	-
Financial expense	(160)	-	-	-	-
Other transactions					

Continue

Purchase of property investments	-	-	-	-	-
Options commitments	11,097	-	-	-	-
Dividends	-	-	190,618	-	-
Contingent risks:					
Guarantees given	-	-	-	-	-

(*) Those amounts refer to the remuneration received by the Board of Directors and Senior Management of the Company during 2019 (see Note 17.3).

(**) At 31 December 2019, no shareholders, except for the FROB, were considered to be significant as, individually, they could not exercise any control or significant influence on decision-making involving the Company's finances or operations.

2018

	€ thousand				
	FROB and entities under FROB control.	Significant shareholders (**)	Bank Assets Funds, Group companies and other related parties	Board of Directors (*)	Senior Management (*)
Assets:					
Credits and loans	-	-	344	-	-
Long-term investments in Group companies and associates (Note 7.2.1)	-	-	324,244	-	-
Short-term investments in Group companies and associates	-	-	-	-	-
Cash and other cash equivalents	100	-	-	-	-
Liabilities:	-				
Debentures and other long-term negotiable securities	20,852,900	-	-	-	-
Debentures and other short-term negotiable securities	-	-	-	-	-
Gains and Losses:	-				
Income from sales of property investments	-	-	4,609	-	-
Income from services rendered	-		175		
Income from remuneration of FABs	-	-	3,506	-	-
Other operating expenses	-	-	380	(1,374)	(4,431)
Impairment of financial instruments	-	-	(7,522)	-	-
Financial income	-	-		-	-
Financial expense	(2,690)	-		-	-

Continue

	€ thousand				
	FROB and entities under FROB control.	Significant shareholders (**)	Bank Assets Funds, Group companies and other related parties	Board of Directors (*)	Senior Management (*)
Other transactions					
Purchase of property investments	-	-	3,308		
Contingent risks:					
Guarantees given	-	-	-	-	-

(*) Those amounts refer to the remuneration received by the Board of Directors and Senior Management of the Company during 2018 (see Note 17.3).

(**) At 31 December 2018, no shareholders, except for the FROB, were considered to be significant as, individually, they could not exercise any control or significant influence on decision-making involving the Company's finances or operations.

The variation shown under the caption "Debentures and other negotiable securities" corresponds to the repayments of senior debt made by the Company during 2019 (see Note 13), while the variation undergone in the caption "Credits and loans" corresponds to sales and to cancellations as a result of the ordinary course of business of the Company.

17.2 Transparency in relation to the interests and activities of the members of the Board of Directors

In reference to any situations of conflict of interest, in accordance with the Regulations of the Board of Directors (article 22) and the Conflicts of Interests and Related Operations Policy, the Directors have to inform the Board of any situation of direct or indirect conflict between them and the Company's interests.

Once the Company has become aware of existing conflicts of interest, either on its own account or following notification from Directors, and in accordance with the procedure established in the Conflicts of Interests and Related Operations Policy, the Company shall not provide any information on that transaction to the Directors in question, and they shall not participate in the debate nor vote on the issue giving rise to the conflict of interest.

Under the obligation of preventing situations of conflict with the interest of the Company, during the year the directors who have held office on the Board of Directors have complied with the obligations provided for in article 228 of the Consolidated Text of the Capital Companies Act and in the Company's Conflicts of Interests and Related Operations Policy. Similarly, both they and any related persons have abstained from falling under any situation of conflict of interest set out in article 229 of that regulation.

17.3 Remuneration and other benefits paid to the Board of Directors and to Senior Management

For the purposes of preparing these annual accounts, Senior Management is taken to be 18 and 20 people at 31 December 2019 and 2018, respectively, of which 11 are men and 7 women (13 men and 7 women at 31 December 2018), who for those purposes are classified as key Sareb personnel.

At 31 December 2019 and 2018, the Board of Directors was made up of 15 people, respectively, of which 12 were men and 3 women (14 men and 1 woman at 31 December 2018).

The amount for salaries, allowances and remunerations of any kind received in 2019 and 2018 by the members of the governing body and Senior Management of the Company was €4,867 and 5,805 thousand, respectively, according to the following breakdown:

2019

	€ thousand		
	Board of Directors	**Senior Management**	**Total**
Fixed Remuneration	1,248 (1)	3,510 (3)	4,758
Variable Remuneration	25(2)	84(4)	109
Total	**1,273**	**3,594**	**4,867**

(1) Includes the fixed remuneration at 31 December 2019 for the Executive Director of the Company, for the amount of €385 thousand.

In addition to the Fixed Remuneration of the members of the Board of Directors at 31 December 2019 and included in this sub-section, €110 thousand were paid to 3 directors who resigned on 30 April 2019 for their services up until that date..

(2) It includes the final third of the Variable Remuneration for 2017 (€25 thousand), received in January 2020. The Executive Director has not accrued, and therefore did not receive, any Variable Remuneration in 2018.

Furthermore, the Executive Director has accrued the amount of €33 thousand as Variable Remuneration for 2019, corresponding to one third of the total Variable Remuneration for 2019 which will be paid in 2020 provided that there are no reasons for not paying it, to be assessed within the Board of Directors upon the proposal of the Remuneration and Appointments Committee.

(3) This sub-section includes the total information of the 18 members of Sareb Senior Management at 31 December 2019. Furthermore two members of Senior Management who resigned in 2019 prior to 31 December received the amount of €248 thousand.

(4) It only includes the last third of the Variable Remuneration for 2017, received in January 2020 by 5 of the 18 members of Senior Management (Sareb Executive Management). No members of the Senior Management accrued and therefore received Variable Remuneration for 2018.

Furthermore, Senior Management accrued a total aggregate amount of €650 thousand as Variable Remuneration for 2019. The amount accrued and receivable by the Executive Management as Variable Remuneration for 2019 is deferred over three years, provided that there are no reasons for not paying it, which will be assessed within the Board of Directors upon the proposal of the Remuneration and Appointments Committee.

2018

	€ thousand		
	Board of Directors	Senior Management	Total
Fixed Remuneration	1,291 (1)	3,743 (3)	5,034
Variable Remuneration	83 (2)	688 (4)	771
Total	**1,374**	**4,431**	**5,805**

(1) Includes the fixed remuneration at 31 December 2018 for the Executive Director of the Company, for the amount of €385 thousand.

(2) It includes the last third of the Variable Remuneration for 2016 (€32.5 thousand), a first third of the Variable Remuneration for 2017 (€25 thousand) received in April 2018, and a second third of the Variable Remuneration for 2017 (€25 thousand) received in January 2019, leaving the final third of the Variable Remuneration for 2017 still to be received in the first quarter of 2020.

The Executive Director did not accrue any Variable Remuneration for 2018

(3) This sub-section includes the aggregate information of the 20 members of Sareb Senior Management at 31 December 2018.

(4) It includes the Variable Remuneration for 2017 received in 2018. However, as the Variable Remuneration is deferred over the period, 5 of the 20 members of Senior Management have only received the last outstanding third of the Variable Remuneration for 2016 and two thirds of the Variable Remuneration for 2017 with the remaining third to be received during the first quarter of 2020.

Senior Management accrued no Variable Remuneration for 2018.

The Company has taken out civil liability insurance for Directors and Executives. Applying the criterion of the General Directorate of Taxation, the premium expense corresponding to each Director is not declared as remuneration in kind.

At 31 December 2019 and 2018, the Company had not given any guarantee or protection clauses in favour of the Executive Directors or members of Senior Management to cover the event of dismissal arising from changes of control in the company or from events depending totally or partially on the will of the member.

The Company has not entered into pension obligations with members of its Board of Directors or Senior Management.

The Company did not grant any advances, loans or guarantees to the members of the Board of Directors. It did not neither make any share-based payments to any members of the Board of Directors, or to Senior Management.

18. Third party guarantees and other contingent liabilities

At 31 December 2019 and 2018, the Company has given the following guarantees to third parties:

	€ thousand	
	2019	**2018**
For challenges to taxes and amounts levied	4,543	5,634
For amounts paid on account by customers	9,006	24,353
For outstanding liabilities on land, developments and others	16,536	21,744
Total	**30,085**	**51,731**

The Directors of the Company do not expect any additional liabilities to arise on account of those guarantees.

19. Subsequent events

On 28 February 2020, the Company carried out a simultaneous partial repayment and novation of the maturity of the senior debt not paid during 2013 for the acquisition of assets in Group 1 (€ thousand).

Denomination	Opening balance 2020	Depreciation	Novation	Outstanding amount	Maturity	Applicable rate in force	New ISIN novation
SAREB/VAR BO 20190228 2019-1	4,064,100	-	4,064,100	4,064,100	28/02/2021	E3M - 0.040	ES0352506291
SAREB/VAR BO 20210228 2019-2	5,463,700	49,700	-	5,414,000	28/02/2021	E3M + 0.060	ES0352506267
SAREB/VAR BO 20220228 2019-3	677,400	254,300	-	423,100	28/02/2022	E3M + 0.090	ES0352506275
Total Group 2	10,205,200	304,000	4,064,100	9,901,200			

On 11 March 2020 and as stated in Note 2.4, RDL 6/2020 was published which amended Act 9/2012 in the 7th Additional Regulation, sub-section 3. On the basis of that Royal Decree-Law, the Company will not be subject to the provisions of articles 348 bis and 363.1.e) of the Capital Companies Act, and therefore not subject to dissolution on the grounds of its equity being reduced to an amount less than half of its share capital.

The appearance of the Coronavirus COVID-19 in China in January 2020 and its recent worldwide spread to many countries has resulted in the virus outbreak being classified as a pandemic by the World Health Organisation since 11 March.

Considering the complexity of the markets due to globalisation, and the absence, for the time being, of any effective treatment against the virus, the consequences on the Company's operations are uncertain and will largely depend on the evolution and spread of the pandemic in the coming months, and also the capacity of reaction and adaptation of all economic operators affected.

For all of which, at the date of preparing these annual accounts, it is premature to make a detailed valuation or quantification of the possible impact that COVID-19 will have on the Company, due to the uncertainty of its consequences in the short, medium and long term.

In this respect, the extent to which Coronavirus will affect the value of the assets, the fulfilment of the Business Plan, the pace of sales or the Company's profits or losses will depend on future events or developments that cannot be reliably predicted, and therefore it is impossible to assess whether that situation will continue and to what extent in the future.

Nevertheless, the Directors and the Management of the Company have made a preliminary assessment of the current situation from the best information available, although for the reasons mentioned above, that information could be incomplete. As a result of that assessment, the following aspects are highlighted:

- Liquidity risk: it is likely that the general situation of the markets could lead to a general increase in liquidity constraints in the economy, and also a credit crunch. In this respect, in order to be able to address those pressures, the Company is implementing specific plans for improved and more effectively managed liquidity. Those plans are added to the capacity the Company already had to be able to renew the maturity of the bonds issued in consideration for the assets transferred by the assigning banks (Note 13.2).

- Operational risk: the changing and unpredictable state of events implies the emergence of a risk of temporary interruption in sales. For this reason, the Company has established working groups and specific procedures intended to monitor and manage the evolution of its operations at all times with the aim of minimising the impact on its operations.

- Risk of changes in certain financial figures: the factors mentioned above, together with other specific factors such as the evolution that the prices of real estate assets in Spain could have in the short term, could bring about a decrease in the next annual accounts of the amounts in captions that are relevant for the Company such as "Turnover", "Value change adjustments – Impairment of Financial and Real Estate Assets" and "Profit before/after taxes", or in key indicators. For the time being and taking into account the conditions and restrictions already mentioned, it is not possible to reliably quantify their impact on the next annual accounts.

- Risk of balance sheet asset measurement: a change in the Company's future sales estimates or in the prices of the property market in Spain, could have an adverse effect on the carrying amount of the assets resulting from the need for further impairment adjustments. As soon as there is sufficient reliable information available, we will make the appropriate analyses and calculations that will make it possible to reassess the value of those assets and liabilities, if needed. In this respect, Notes 4.7.1 and 4.7.2 include a sensitivity analysis (before the appearance of COVID-19) on the possible impacts on impairment testing, if any changes arise in any of the basic assumptions for the models used.

- Continuity risk (going concern): taking into account all the previously mentioned factors and also the recent change in legislation following the publication of RD-Law 6/2020, the directors consider that the conclusion described in Note 2.4 on the application of the going concern principle continues to be valid at the date of preparing these annual accounts.

Lastly, we would highlight that the Directors and Management of the Company are constantly monitoring the evolution of the situation, in order to successfully address any possible impacts that might arise, both financial and non-financial.

Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A.

Directors' Report for the year ended 31 December 2019

1. Significant aspects of the period

Previous years

The scale of the challenge facing Sareb from the outset at the end of 2012 was evident from the significance of the figures: €50,781 M of assets transferred in the form of nearly 200,000 real estate and financial assets, over 18,000 borrowers to which more than 400,000 properties as collateral for loans and credit must be added.

This challenge becomes even more evident if seen in relation with the necessary creation of a human and technical structure to overcome the difficulties arising from the technological and commercial dependence of the banks who have transferred the assets. Even more so if those banks have also undergone deviations and shortcomings following their own restructuring processes, whereby in addition to sometimes providing limited information on the assets, their management and marketing of them was not always sufficiently active.

In 2013 the recently created Sareb launched an accelerated process of creating an internal structure from scratch (teams, processes, procedures) and a framework of relationships between its departments and the assigning banks that will enable it to tackle the orderly liquidation of the assets received on a continuous basis and in significant volume. This growth in the organisation was accompanied **in 2014** by a number of measures aimed at having a better knowledge of the various assets transferred which will allow for more efficient systematic marketing, focussing the action (sales and maintenance) on the more mature and liquid assets. Those measures gave Sareb a more defined commercial momentum in which certain business lines would be built up and streamlined, and above all, it was consolidated as a relevant agent in the institutional market, making a marked contribution to the revitalisation of this sector. Despite the transformations that will be described below, it managed to achieve sales figures in line with its Business Plan.

In any case, the final months of 2014 and a large part of the future operating and commercial structure of the company were marked by the implementation of the **Íbero Project** with the aim of changing to a professional and vocational model of outsourced management with which the targets would be better identified and brought into line between the parties. The process concluded with the assignment of the different portfolios to the four servicers, as described in Note 1 of the Report, who during the course of 2015 and 2016 would carry out the procedures for operational migration and management. In parallel to the bidding process, and as part of the agreements entered into, Sareb initiated a process of re-engineering its internal procedures with complex informational projects (Colabora, Medea, Alejandría and Carcasa) which have involved considerable effort over successive years.

The most important aspect of **2015** for Sareb, once the Íbero bidding process was over, were operational migrations from the assigning banks to the new servicers. The complexity of the process (involving 14 migrations) made it a challenge that was satisfactorily resolved, inasmuch as all of them were concluded in the course of that year, except for two that were completed in the first quarter of 2016. The technical and organisational efforts focussed on the transition from assigning banks to servicers meant that turnover was inevitably reduced.

To overcome this gap, in terms of marketing, Sareb has undertaken a matrix reorganisation involving a double parameter of products and servicers. The products side directs, guides and stimulates the various lines of business for all the agents, while the servicer side manages the implementation of business proposals and budgets in each servicer. In in this way, business activities are monitored and in particular, commercial activities are energised.

As for its operational reorganisation, and under the name of Híspalis, developments started in 2014 were intensified in the critical technological projects for interaction with the servicers and for internal management. Amongst these we would highlight: Medea – a data warehouse for holding information on operations carried out; Alejandría – a document management system dealing with the company's transactions and assets; Colabora - channelling workflows (authorisations, communications, service levels, etc.); and Carcasa – implementing our own accounting system for real estate assets. Those tasks continued in the following years with various improvements depending on the requirements of the business.

A significant event occurred in October when Circular 5/2015 was published by the Bank of Spain. This instruction laid down the central lines of methodology in terms of which the accounting value of Sareb's assets is to be measured (but not necessarily for management which restricts future expectations), the main points of which are set out in this report below. Its primary application called for setting up an important fund in respect of impairment of financial assets, and it would be safe to say that this impairment of asset value originated from when the assets were transferred to Sareb. As it was produced against profits and losses, it consumed all the initial equity and opened up the process of converting subordinated debt into capital in a very significant amount (see Note 11).

2016 saw the consolidation of the technological projects mentioned above and a gradual process of operational gearing with the servicers, which was concluded in 2017. And especially, as a result of the requirements of Circular 5/2015, the work initiated the previous year relating to the information and status of its assets (their legal situation, possession status, location, characteristics, identification, etc.) was completed. By achieving the objective of measuring (and therefore being familiar with) practically the whole portfolio, we were able to improve the management and sale of portfolios, and thus to follow the principle of generating resources and maintaining margins.

Bearing in mind that practically the whole of our portfolio was measured according to the aforementioned Circular, basically in terms of the ECO appraisal parameters, this involved an enormous effort as regards gathering information on the Company's assets, in addition to the further task of measuring the immense portfolio of both our own and collateral properties (over 400 thousand assets identified in total). Along with these mass-scale refinements, lines of action have been reinforced with respect to refining legal aspects. Monitoring legal proceedings in course for the allocation of assets has been extended, thus broadening and specifying in more detail the underlying information available on loans and collaterals. The systems for monitoring prices and turnover for both the Company and third parties were also upgraded.

Being aware of the limitations of its assets in the condition received and of an evident improvement in the cycle of properties, Sareb implemented a new turn in its organisation, strengthening lines for creating value, with a clear intention for continuity: developing works in progress received as a real estate asset, support for the termination of building work in properties received as collateral, the transformation into land for development, opting for the renting residential and business properties, and very especially, the opening of a line of residential promotion on land with greater marketing possibilities.

Turnover was stabilised, given that decisions were affected by the regulatory value (as an approximation to the market value). This amount was difficult to beat or even get close to in a good number of the operations carried out.

Nevertheless, towards the end of the year RD 4/2016 was published. This Decree lays down that the impairment fund has to be noted as an equity adjustment rather than being set against the Income Statement. Its retroactive application gave rise to an aggregate re-establishment of shareholders' equity, which had been substantially reduced during the previous year.

In 2017, this change in regulations, while involving an improved equity situation following the return of its shareholders' equity, also brought about a change that had important effects on our business, as it conditions the decisions taken on proposals. The book value for a transaction will be that which matches the offer to the acquisition or transfer price, without any value adjustments. Therefore, we have to assess not only the basic relationship between the offer price and the market price of an asset but the accounting profit/(loss) as well because the company has a limited amount of its own resources which have to be protected. In this regard, it is worth mentioning that the first quarter of the year was affected by transactions that had been approved months beforehand under the previous regulations. As these transactions were linked to market values, they gave rise to considerable accounting losses.

Accordingly, during the course of the year selling activities were intensified with a view to focussing on operations with greater margins so as to meet the Company's structural costs. But since it was difficult to generate business (the universe for transactions is limited), sales systems were implemented and promoted by Sareb with the assistance of the servicers. Special mention is made of the "showcases" in which a number of assets are offered to a select group of possible customers involving a competitive setup among them so that, if Sareb sees fit to do so, it can carry out its transactions at the best price on offer. In this way the seed is sown for an open asset market in the future with greater depth and more players.

As regards operational structure, many of the strategic projects involving transactional and informational relationships with the servicers have been concluded. Sareb initiated an internal programme to improve operational aspects (known as "OS17") which is oriented towards responding more speedily to business requirements, providing a prompt response to initiatives from our servicers and above all, to propose a framework of pre-approved prices for most of the assets in our portfolio. As this is a method which uses a process of re-engineering, it will continue to be applied during the following years. All of the above, naturally, continuing to enhance the data on our assets, both with regard to their measurement and in more accurately bringing their prices closer to the double parameter of the market and the future creation of value.

Moreover, in order to reinforce our lines of value generation noted in previous years, in 2017 a specific Development, Promotion and Investment Area was formally set up, whose first task in that year was to broaden the range of assets to be developed and organise channels for them to be built and marketed. And in the second six-month period, full promotion activity began with different development in strategic locations in cities with more promising demand for new-built property.

Also in 2017, all the work was carried out for creating the REIT Témpore Properties as a vehicle created to channel our rental properties, but above all as a way of seeking out sales alternatives and energising markets through collective investment schemes. At the end of that year, the first assignment of assets took place, culminating with the company being listed on the alternative stock market (MAB) in April 2018. The commitment to this activity materialised during 2018 with a further assignment of assets, reaching a volume of nearly €350 M.

With all of this, the Company's activity reached the figures for volume and margins that enabled it to return to a positive operating margin, even if low.

In terms of business, **2018** must be qualified as one year of transition and reflection. Transition because during a good part of the year, the basic lines of management are continued (balance between volume and margin generation) and reflection because in the second half-year period, **emphasis is placed on defending the Company's value** through the creation of value already aimed at the year before, and also by holding back on transactions that do not provide the margin expected from them. In that respect, we held back on the sale of portfolios where little profit would be generated (even losses in some cases) and those which would materialise with considerable discounts.

This shift, together with the fact that Sareb's portfolio is old and only part of it has the opportunity for positive, and, in any case, increasingly smaller, margins, translates significant reduction in the volume of transactions, and also lower margins obtained.

Within this framework, the area for Development, Promotion and Investment was strengthened, not only to define the range of assets for promotion, but also to consolidate projects by beginning construction work and marketing, having already organised the channels necessary for both tasks. This obvious value-generating instrument obtained significant results, meaning it could be considered as a separate operating activity to be operated separately and subsequently sold.

The REIT Témpore Properties went even further, not only due to being listed on the Alternative Stock Market but for also extending its perimeter with a new assignment of assets, mainly recently allocated developments. Having achieved a significant volume of management, and meeting the targets for management and return that were forecast when it was launched, Sareb sensed this was the right moment for placing management in the hands of third parties; this process was implemented in the final months of the year.

As for the Organisation of the company, special mention should be made of the launch of the concept and initial advances of what is known as the Esparta Project, the objective of which is to reflect on the future management model, placing the emphasis on the segmentation of the different types of asset and their degree of maturity, and also their future contribution to value. Based on that classification, it was proposed to apply a specific and more professional management model to each one (channel, servicers, procedures, metrics).

2019

2019, as regards business, is marked by a greater emphasis on its ideas for optimising the value of the company and protecting its limited own resources.

This has brought about a reduction in turnover, focussed on the sale of financial assets. Running parallel to this slowdown, the low, if not negative, margins that are being obtained from sales compared to the price for which they were acquired, have led Sareb to consider it can obtain a higher final value by converting loans into assets awarded, and then to sell them on the retail markets. This conversion activity has almost doubled in figures (from 1,406 to 1,967 M), and the aim is to continue this pace in coming years, placing more emphasis on assets with greater liquidity with a view to selling them to third parties, and which for the company entail a considerable expense.

As for property development, it is seen to be more consolidated, now not only due to being managed by Sareb units but more particularly by the constitution of the Arqura Homes Bank Assets Fund. The purpose of that fund is to transfer 10% of the holding in the Fund, with the option of increasing that holding in the future until becoming a leading partner. This alliance with major managers and investors allows Sareb to open speedy divestment channels, but, in any case, always absorbing part of the capital gains that can arise in the process of property development.

As mentioned in the previous sub-section referring to 2019, in 2020 all the work will take place pertaining to the Esparta Project, which had been presented as a concept during the course of 2018. In view of the evident signs of draining of resources, this project proposes breaking with the current model of global servicer at national level whose management portfolio is the result of the portfolios of the assigning banks being added to the Íbero Project, replacing it with a model of suppliers/servicers for each branch of activity, which does not do away with the existing services but does reorganise and limit the scope of their services.

It should be pointed out that in 2019 the activities that were being provided by Haya Real Estate, S.A. were put out for tender, as its contract expired at the end of 2019. Following a tender carried out amongst different service providers, Haya Real Estate, S.A. itself was awarded the contract for a two-year period from that tender, but restricting their activity to the marketing and sale of assets, with Sareb retaining the work for the administration and management of its assets.

This important decision, of handling the administration of the assets in the Haya portfolio, gets an important project under way for organisation and resources that could be summarised as the creation of a Sareb in-house servicer, to be operative in January 2020, not with the full impact of the existing servicers, but with a broad range of activities. This project is launched with the idea that in the future, when the other servicers' contracts expire in 2021, Sareb will be qualified to manage all of its assets, and transfer to the providers/servicers that are chosen any tasks and any scope of action it considers appropriate. It would then become the sole overall servicer of its own portfolio; this achievement has a greater economic impact on improving its divestment business than in improving costs by reducing fees.

With the same vision, Territorial Centres have been created, not only with the aim of replacing the servicers, but in order to act as driving forces for them (or for any suppliers that might replace them in the future) with greater proximity to the assets. It is clear that this will allow for speedier decision-making in marketing work and also in tasks related to the maintenance and reconditioning or our assets, steering investment toward those showing a higher degree of liquidity. Accordingly, in mid 2019 the Levante territorial branch office was opened, and the teams were set up to begin operating in January 2020 in the four other branch offices that will eventually be created, making a total of five: Centre, East-Levante, North-West, North-East, and South.

As we already stated in the report for the previous year, the mentioned Esparta Project is backed by a major technological project that had commenced in previous years such as Sareb's implementation of its own applications for administrative and accounting management of the assets, in addition to adding some tools for monitoring sales.

These applications, regardless of whether they are operated by our servicers or the future suppliers, ensure Sareb has a framework of independence from third parties, because as all the information (inventory, asset data, operating and marketing actions) go to Sareb systems, the mentioned range of segmentation is opened up, both in portfolios and in providers, without the any conditioning factors arising from these.

Encompassed under the name of Ecuador, the main applications on which we worked during 2018, and continue to do so in 2019, together with their migrations, are:

- The **Mare** app which is used with real estate assets. Developed for Sareb in an SAP environment, it came into operation with the migration of the properties from Haya Real Estate in October 2018. During the course of 2019, the Altamira and Servihabitat properties were migrated, leaving those of Solvia for migration during the first half year of 2020.
- The **Capri** app which is used with financial assets. A bidding process was opened and a pre-existing platform contracted (Iris run by the company RSI), which was put into operation with the migration of Haya RE (who shared this application) in the first half year of 2019, to which the migration of Solvia was later added at the end of the year. For Altamira and Servihabitat, work had already started on their migration during the course of the first half year of 2020.
- The **GMAO** app for monitoring the maintenance and reconditioning of the Company's properties, which make it possible not only to control but also to send instructions for operators. The idea was that the servicers would connect to the system during 2019, leaving Solvia and Altamira still to be integrated.
- The **Prisma** app as a platform for monitoring the stages of recovery and collection from transactions, deeply engrained with the conversion of assets through awards/dations. During the first half year of 2020 all the servicers will be integrated into that model.

The implementation of these operating devices is involving a heavy work load for the Company, although at no time has it affected the amount of business generated, to the extent that all other improvements and innovations in our systems have been orientated towards it.

Regarding the accounts corresponding to 2019 the following facts are worthy of mention:

- Losses before taxes for the year stand at €864 M, compared to losses of 879 M in the previous year; as such, in both years the same rules for recognition of the impairment were applied.
- Furthermore, a tax adjustment of 83 M was made (having not made that type of adjustment in 2018) considering that our Business Plan does not take into account the tax bases to be offset, which could allow conserving those existing at the end of the previous year.
- At 31 December 2019 and 2018, in application of the method for measurement established by Bank of Spain Circular 5/2015, the Company set up an impairment fund for its financial assets unit for the amount of €6,322 and 5,092 M, respectively. As there is no tax adjustment applicable, the provision for this fund is charged entirely against equity in a specific account for value change adjustments.
- Furthermore, in 2019 the real estate assets unit shows losses amounting to €496 M, having recognised an impairment of the real estate assets unit in these annual accounts for that amount. That impairment, the same as for the impairment of

financial assets, has been recognised against the caption "Value change adjustments" in equity.

- With regard to Turnover, there has been a marked decrease from the €1,938 M of the previous year to the 1,430 M of the current year. A certain asymmetry is observed in its performance in the two blocks of portfolios, in that the figure for property sales has gone up by more than 220 M, while the figure for income from transactions with loans has gone down by close to 400 M.

- The following aspects are highlighted from the operating profit/(loss):

  - An even greater operating loss of 279 M as against the 221 M of loss in the previous year. This downturn is accounted for by the reduction in margins, particularly for financial assets.

  - On the subtraction side, the expenses items show a path of containment even after absorbing the tax costs for the growing strategic business of assets conversion, and also for the higher Property Tax on an increasingly growing asset portfolio. With all other expenses, Sareb continues making an important effort of restraint although for a considerable part of the expenses there is limited possibility of managing their accrual and amount.

  - Property sales for the amount of €1,045 M compared to 1,226 M of the previous year, with a gross margin of €122 M (representing 13%, a decrease on 16% the previous year). In this year, the balance is broken between residential assets and all other assets, clearly in favour of the former which, added to development activity, allows for more stable margins, eliminating the volatility of land and commercial properties. We should consider, in any case, that in this year more than half of the properties sold were originally collateral properties for loans, and that in those cases the margins that can be expected are considerably lower. On the other hand, the property segment includes 41 M in income received from rental properties.

  - As we already mentioned, the financial assets segment of the business shows lower figures in all of its lines, both in volume and margins. In any case, special mention is made of the line for the cancellation and sale of loans (in which in addition to an 82% reduction in volume there is very little contribution to the operating margin) and the line for income from interest, which went down by around one third.

  - Financial income for a total figure of €239 M (€293 M in 2018), of which €330 M (€533 M in 2018) related to accruals on loans and credits and €91 M of loss (€238 M also of loss in 2018) with recoveries by way of collecting the nominal amounts of loans and credit acquired at a discount. The order of priority of the amounts recovered has to be taken into account, as it is first allocated to unpaid interest, which has brought about the increase under that caption on the income statement, to the detriment of the line of "Margin of recovery of loans and credits".

  - The notable downturn in the margin is due both to the assets being sold with less margin (as the scope of assets with a capital gain lessens) and above all by a significant decrease in the interest accruing specifically for Sareb. On the one hand, by reducing the group of loans which accrue interest by selling them off, and more particularly due to the increasing reversal of the amount accrued in the past as a result of sales and for the increasingly greater conversion of assets received through foreclosure awards and dation of properties.

  - The expense for maintenance, amortisation/depreciation and structure stands at €741 M (€765 M in the previous year), largely corresponding to the costs of property maintenance, local taxes and fees for the management and sales commissions on assets, as well as the tax costs arising from the foreclosure and dation procedures that Sareb cannot pass on, which has resulted in the aggregate growth.

    In any case, except for the tax costs, none of the lines has undergone any significant change. At the end of 2018, Sareb began a programme of reduction (in absolute terms) and efficiency (grouping suppliers) in its expense that has made it possible to lower it as much as is possible under its management; the first results of this have been seen in this year in which the higher costs of conversion and those arising from the Esparta project have been absorbed with no increase in volume. In any case, during the course of 2020

Sareb will further consolidate this process limiting its costs even more with no decrease in the value of the assets and its possibilities of divestment.

From the aspect of cash generation, in its seventh year of existence the Company has managed to generate a cash surplus sufficient for repaying senior debt for the amount of 362 M in that year in addition to the 663 M that were paid with a charge to the cash of the previous year. All of which after covering the corporate structure expenses, the asset maintenance expenses and the management and marketing expenses, and, particularly, the amount of over 589 M of finance charges associated to the senior debt, its hedging derivatives and other financial expenses.

Since no rectification of any significant amount was made with the assigning banks in 2019 (except for the one described in Note 1), the Company has reduced the volume of senior debt issued by 1,026 M, which, added to the €14,347 M from previous years, brings the amount of reduction to €15,373 M, i.e. 28.2% of the volume of original debt, a percentage that would increase to 29.2% if we take into consideration the amortisation of 304 M made in February 2020, financed from the funds generated in the previous year.

Lastly, it is worth mentioning that the average payment period to suppliers in 2019 was 35 days, as described in Note 14. Payments to suppliers made in a period in excess of 30 days correspond to invoices paid within the periods arranged with those suppliers, and do not exceed 60 days, as established by Act 11/2013 in amendment of the Late Payment Act (Act 3/2004 of 29 December).

2. Foreseeable evolution of the Company

As mentioned in the explanations given in the previous points, the analysis that began in the second half year of 2018 is consolidated in its two key aspects: on the business level due to optimising the value of the company (which would extend the period for divestment) and on the internal level, the undertaking of the Esparta Project which has led the company to begin managing and maintaining the portfolio of assets that was previously under the umbrella of Haya Real Estate.

In the first aspect, by committing more intensely to preserving and increasing the value of the company, forfeiting turnover in the short term, as put forward in the budget for the year and as is observed in the figures presented. And at the same time, improving the segmentation of our assets, creating sub-portfolios in order to give them a more specialised management which includes specialist servicers for each one, the principal example of which is the creation of Arqura. All of the above in the framework of our special accounting status, with an ongoing commercial appeal for a group of assets with a capital gain, whose possibilities were becoming not only increasingly shorter (there are less and less assets) but also narrower (the margin achieved is also less and less).

With this in mind, 2020 is seen as a year for consolidating our commitment to optimising the amount from sales, preserving value, even though this limits our ordinary activity, and consequently reduces the figure for turnover and repayment of the debt.

And that approach would not be very appropriate if we do not achieve a deeper, more thorough knowledge and segmentation of the portfolio that will make it possible to focus sales actions (which include actions pertinent to reconditioning, maintenance and safety) on the segments that are more likely to result in transactions at competitive prices and very significantly on maintaining a group of assets in our portfolio with an expected trend toward an increase in value (per se or through development) in order to be sold once those improvements are consolidated or at interim moments at prices that fall within that expected trend. This is the purpose of Esparta, which converts the strategic ambition of consolidating not only the corporate own technological infrastructure to which our servicers will migrate into an urgent need, but also the need to provide ourselves with our own services structure that will convert us into a Servicer, without being dependent on third parties. It is an important and decisive challenge, difficult to put into operation which will allow us to face the coming years with greater flexibility in decision-making and a framework in which we optimise the efforts for management and information, and thus achieving greater operating efficiency for the Company. We can say that 2020 will be marked by the way in which we are able to resolve this organisational challenge, having dedicated significant human and technical resources to achieving it.

With this requirement for improvement, for constant adaptation to the environment, this whole set of management tools will be accompanied by the necessary reorganisation and restructuring of the various areas, extending the mechanisms of coordination amongst them. The guiding light of the organisational strategy will be the necessary functional specialisation, to mirror the segmentation of business.

In terms of business, as we have already said in previous sub-sections, embarking on a path of protecting value entails a reduction of activity in respect of non-converted assets, which will be compensated and improved by the contribution of those activities for creating value, especially for developing homes. This will result in a greater demand and outcome in business margins.

Given the inflexibility of our costs (in respect of which Sareb has little possibility of taking action), we do not expect any improvement in our results in the short term, even more so in a situation of some uncertainty in the real estate markets (both in general and those specific to Sareb).

These improvements in information management (more, better, higher quality, more granular) fuel the Company's Business Plan, which better identifies those assets (in segments and groups) upon which commercial activities should be focussed and also serves to facilitate the important development levers for the Company's own real estate assets. As in the case of the business plans for previous financial years, this year's Plan incorporates in its cash flow projections the effects on equity that may be produced by variations in asset impairment, although these are not included in the income statements. Any losses will be incorporated into these cash flows as of the date of divestment. In this way the principle of offsetting the value of the assets and of their long-term measurement is applied to the Business Plan.

With regard to the evolution of the market expected for 2020, it is likely that some symptoms already evident in 2019, such as the geographical fragmentation of the property market, or a certain slowing down of the domestic economy partly generated by the instability of the Spanish political situation, could hinder a stable or sustained increase in transactions and prices. To the extent that such concerns can be dispelled, it is anticipated that there will be a reactivation in the crucial block of final domestic buyers, especially as there is beginning to be a reactivation in mortgages, which is a key aspect of any stable growth. The effect on prices will depend on the segment in which that demand takes place, and also on the stiff competition that will arise between the various providers holding extensive stocks of property.

It is clear that some sub-markets (certain municipalities in the provinces of Madrid and Barcelona or the provinces on the Mediterranean coast comprising homes), have been functioning as the driving force behind the escalation of transactions and prices of the last quarters. But it is no less true that this does not apply to the same extent to the rest of the country, and not even within the same provinces. And in any case, these movements are centred on specific segments of location and standard. Their transfer to the Sareb portfolio, with evident differences in respect of geographical areas, uses and age, does then not take place with the same degree of intensity. The more than evident effect of Sareb's competitors should also not be forgotten, with portfolios partly composed of large funds which, with purchases recently made at low prices will give a boost to a market with lower margins.

While Spain is a country that is attractive for international and institutional investors, for Sareb they will play a very limited role as only transactions with lower discounts will be able to take place. That strategy will continue to be promoted through the loan auction platform, in the spirit of promoting greater competition among participants, and prices on the increase.

In any case, we are relying on 2020 producing a reduction in the domestic market prices which will prevent the broadening of the limited range of our operations with margin. We expect a repetition of some situations of increases in certain geographical locations (Andalusia, Catalonia, Region of Valencia, Murcia or Madrid), which gave a boost to the market for sites, so we will take a more active position in areas where the offer is not saturated or even where the demand is not met, either by the development of promotions or by building on the land.

Consequently, the consolidation of positive expectations in the medium-term macroeconomic environment, the new segmented organisation of the company, the strong operational capacity of our retail sale channels, the improved information on our assets, all allow us to predict a framework of greater possibilities for margin and Company value in the medium term. This perspective materialises for 2020 in the already mentioned optimising of margin, sacrificing the volume of transactions, with the object that the expected future path of prices will bring income greater than that forecast in a framework of immediate implementation. This organisational and sales approach is defensible from an evident programme of segmentation of our portfolio into different blocks of activity and specialisation in the management of each one.

And, of course, in any case, without renouncing our status as one of, if not the principal, stakeholder in the Spanish property market and, most particularly, in the retail segment.

In any case, these perspectives that form part of our recently approved business plan will have to be reviewed in the coming months in the light of the COVID-19 pandemic, the evolution and consequences of which open a phase of extreme uncertainty in all sectors of society and business both nationally and internationally. To predict the effects of this health crisis today would be reckless, and could be erroneous both by underestimating and by overestimating. It is, however, true that a first approximation would lead us to predict a major economic downturn which would affect the job market, a significant increase of public deficit and, consequently, property market conditions that are clearly worse than those under which that plan was prepared. The duration of this crisis, and, above all, the recovery time for the economic cycle, will depend not only on when those forecasts can be made but also on the level of prices and demand in which they materialise.

Note 19 also gives details of the analysis made by the Company on the possible impacts that the pandemic could have on the Company.

3. Main business risks, risk management and use of financial instruments

In addition to the factors of financial risk and risk management described in Note 7 of the accompanying Report, the Company has in principle identified the following risk factors that might adversely affect our ability to achieve our targets:

- Crisis in the property market (prices, occupation levels, non-payment).
- Decrease in asset values (although recent movements in the property market suggest not just stabilisation but even a steadily upward path).
- Financial and liquidity crisis, which might affect potential buyers of the Company's assets. This risk is mitigated by a certain improvement in the Spanish economy on a macroeconomic level although the effects on potential buyers are not yet clear. At Sareb, we perceive faint signs of a possible rise in interest rates, though more in the medium term than in the short term.
- Effects of possible changes in fiscal/legal legislation. In this report, and particularly in last year's report, we have pointed out the effects of Royal Decrees 3/2016 and 4/2016 in accounting and fiscal terms. As far as Sareb is concerned, possible changes in tax legislation may be important in improving the Company's financial position, especially with regard to better conditions for offsetting tax losses.
- Also, and as already mentioned in this report, on 11 March 2020 RD 6/2020 was approved, in which article 1 establishes that the Company will not be subject to the provisions of articles 248 and 363.1 e) of the Capital Companies Act. That regulatory measure is intended to improve the universe of Sareb's sales activity, as it operates exclusively under the model of market price.
- It cannot be ruled out that regional regulations will extend to the real estate assets (all of which are unoccupied) made available to Sareb, following Constitutional Court judgements handed down in the past.
- Once the Íbero process had concluded (migration, taking control) with the servicers, the risks of operational malfunction had gone down noticeably in the past years. Conversely, for 2020 and the following years the Esparta Project opens important operating migration processes (both in respect of information and providers managed directly by Sareb) which in the short term could have an adverse effect on generating business. It is true, however, that that project will bring about a significant improvement in business (both in volume and above all in margins) in the coming years, by bringing management closer to the assets within the double physical framework (setting up territorial branch offices and specialist managers) and to the information required for optimising decisions.
- As mentioned in the report as regards the use of financial instruments for the purpose of interest rate risk hedging, in the 2019 financial year the hedging system that was implemented in 2013 was maintained, the aim of which is to reduce the possible negative impact of a rise in interest rates which might even put the viability of the Company at risk.

4. Acquisition of own shares

In 2019 the Company had neither carried out no transactions with its own shares nor held any at 31 December 2019.

5. Information on related parties

Note 17 of these annual accounts describes the transactions carried out with related parties. Most of these arise from financing agreements and their corresponding financial expenses and from fees for management and sales commissions accrued during the year with the banks that were entrusted with the management and marketing of the Company's assets.

6. Subsequent events

No further significant events have occurred other than those already mentioned in Note 19 of this Report.

7. Research and Development

No significant investments in research and development were made in 2019 due to the nature of the Company's business.

On 25 March 2020, and in compliance with the requirements established in article 253 of the Capital Companies Act and in article 37 of the Code of Commerce, the Board of Directors of "Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A." prepared the Annual Accounts and Directors' Report for the year ended 31 December 2019, which comprise the accompanying documents preceding this statement. The Annual Corporate Governance Report for the period was included as an appendix.

Mr Jaime Echegoyen Enríquez de la Orden

Chairman

Mr Eduardo Aguilar Fernández-Hontoria

Director

Mr Enric Rovira Masachs

Director

Mr Javier García-Carranza Benjumea

Director

Ms Idoya Arteagabeitia González

Director

Mr Jorge Mondéjar López

Director

Ms Francisca Ortega Hernández-Agero

Director

Fund for Orderly Bank Restructuring
(represented by Mr Jaime Ponce Huerta)

Director

Mr Jaime Rodríguez Andrade

Director

Mr Iñaki Goikoetxeta González

Director

Mr Pedro Antonio Merino García

Director

Mr Juan Ignacio Ruiz de Alda

Director

Mr Joaquín Vilar Barrabeig

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Mr Francisco Javier Bartolomé Delicado

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