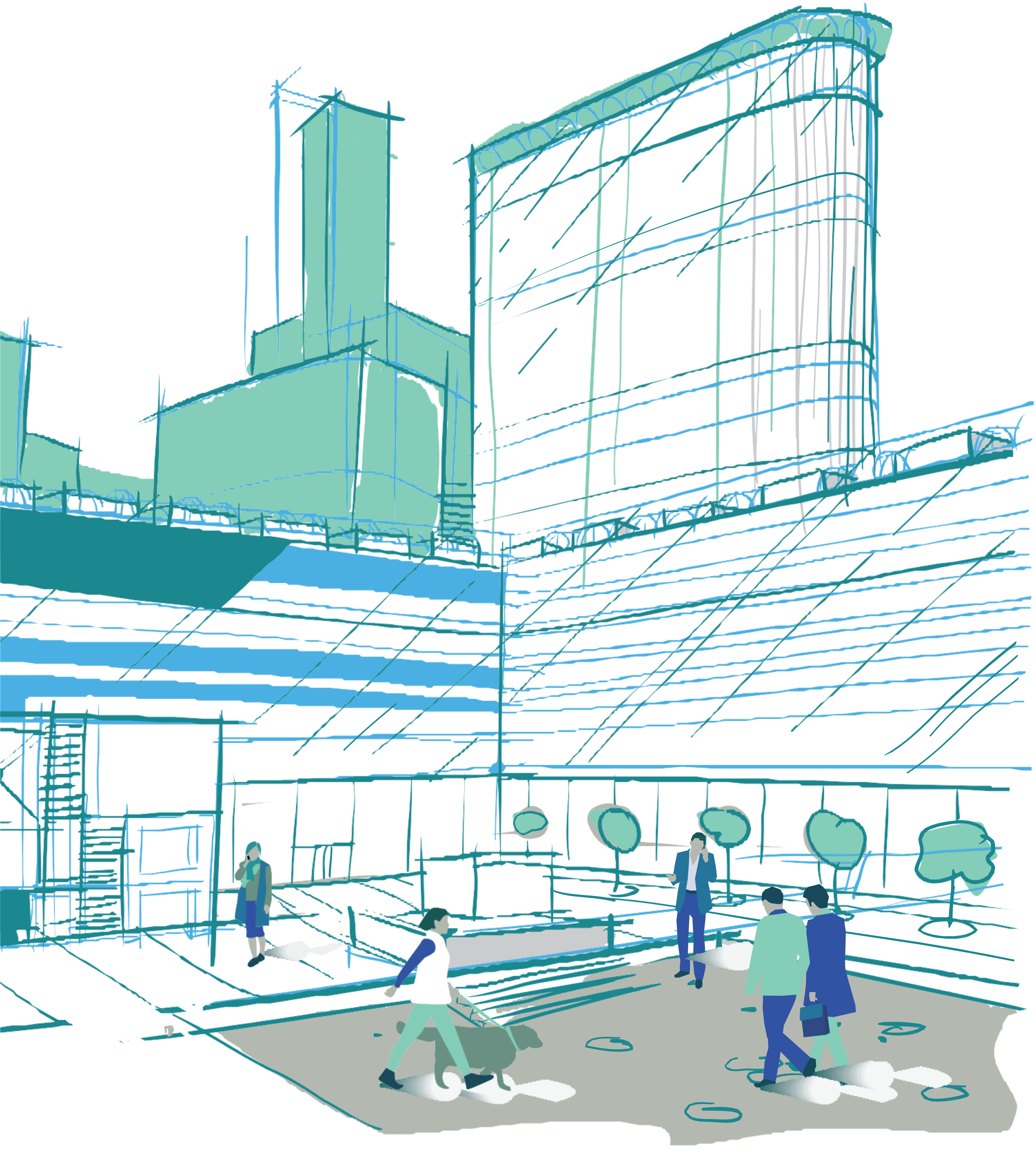
Sareb

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

ANNUAL REPORT 2015



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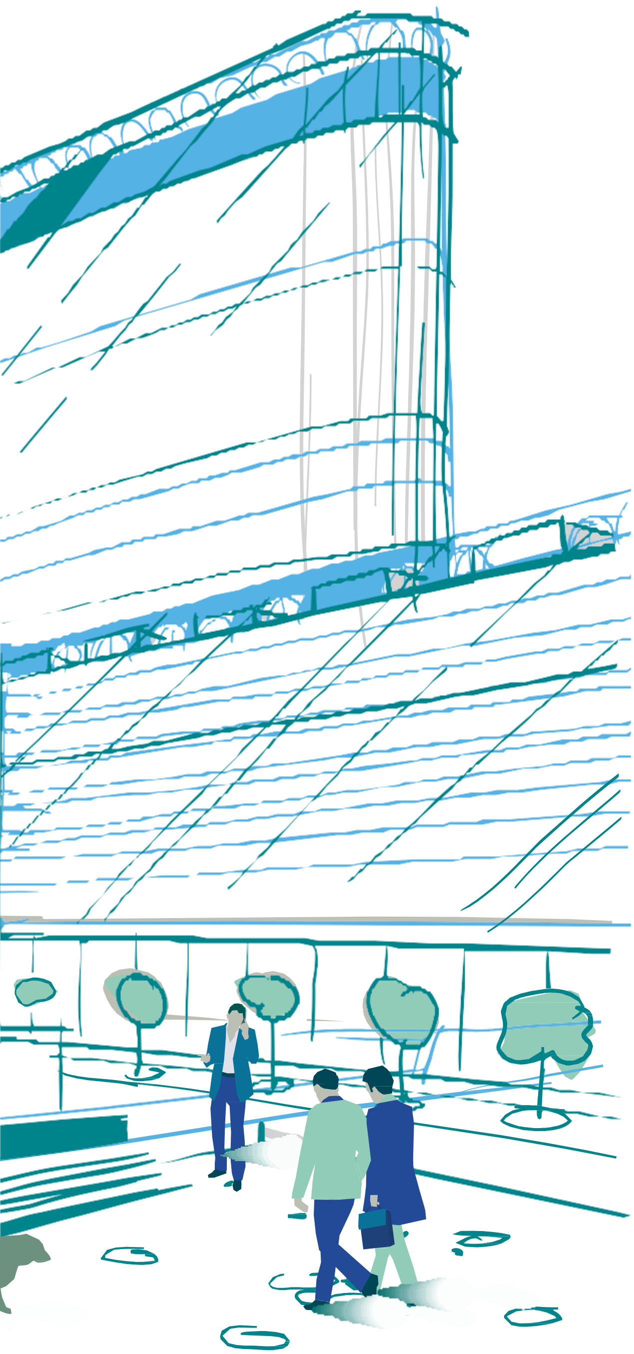


Chairman's letter

As it is already clear, Sareb is a dynamic company that is progressing in its transformation as it carries out the mission for which it was created. In the first three years of its life it has promoted changes to its business strategy and internal structure. These changes arise both from the need to adapt to the market and from the portfolio transformation process itself.

In 2015 the Company faced two very significant challenges that will shape the institution's future in the twelve remaining years of its mandate. The first challenge was the integration into the project of the four property servicers - Altamira Asset Management, Haya Real Estate, Servihabitat and Solvia- which will be working with us over the next few years in our portfolio divestment process. The second major milestone was the new regulatory framework for the valuation of our assets approved by the Bank of Spain.

The migration of assets to the platforms of the new partners, which was concluded in the first four months of 2016, involved a huge effort requiring coordination between an array of Sareb internal teams, the new servicers and the entities that originally held the assets. The extent of the technological and logistical work is more than evident from the aggregates of our portfolio: 105,000 properties, 80,000 loans and 375,000 collateral assets. In 2015 15 parallel migrations were carried out, equivalent to half of those performed by the Spanish banking system in the last seven years. In the course of this initiative over four million documents and the keys to over 350,000 properties changed hands. The teams involved have successfully taken on an unprecedented challenge in Spanish history, which has now given way to the needs of a new period in the management of our assets.

The second great challenge faced by Sareb in 2015 was adapting to the new regulatory framework, approved by a Bank of Spain circular which has regulated the valuation of Sareb's portfolio since 1 October 2015. This regulatory development involved the obligation to valuate our entire portfolio, on an individual and regular basis, using a specific methodology validated by the supervisor. The write-downs arising from the application of this methodology in 2015 had an impact on the Company's statement of profit or loss and equity.

As we announced when the aforementioned circular came into force, the Company is going to assume the implications of the regulatory change using its capital, without the need to seek new capital. In this regard it will assume EUR 2,044 million in write-downs, in addition to the EUR 968 million from prior years. To deal with this impact, a proposal will be made to Sareb's General Meeting to convert EUR 2,171 million of subordinated debt into capital, a measure that already has the support of our Board of Directors.

In addition to the accounting impact, the new valuation policies under the circular have resulted in the need to perform a special review of the business plan this year, which is updated annually.

As we can see, these significant challenges have been resolved successfully and despite the complexity they involve and the fact that they have slowed down our activity, Sareb managed to close 2015 with revenue of EUR 3,900 million.

The fact is that the combination of the boost given to the market by Sareb and now the consolidation of the servicers as new professional agents continues to drive the development of the industry, channelling the existing offer in a positive manner and identifying demand successfully.

The recovery of the market and certain sub-sectors, such as land and tertiary assets, has favoured the appearance of local and international family offices and other value-added investor profiles, specialising in property.

Both the environment in which we operate and the new regulations that apply to us have led us to reshape asset management and divestment, involving a much more complex business strategy focusing on our capacity to generate margins, while also managing provisions effectively.

Our activity will concentrate on strengthening and boosting the retail channel, led and shaped by our commercial partners, designing specialised institutional transactions and extending the value generation strategy we started to implement two years ago.

Specifically, as regards the management of loans, which account for around two-thirds of our portfolio, we are going to shore up a fundamental pillar that sustains Sareb. Activity has been intense in this area, as reflected by the 9,000 proposals received in 2015 from 15,700 companies who have debts with us. The results in 2015, with a 71% increase in income from the repayment and sale of loans, underscore the importance of the active management of this portfolio. This management must be maintained also with regard to the collection of interest, the recurrent nature of which provides great stability for the Company.

With regard to property, we are working with our servicers on marketing plans to give our product greater visibility and facilitate attention to interested parties' requests. In 2015 Sareb sold more than 11,250 properties, with land and tertiary assets gaining ground over the residential sector.

As regards the institutional channel, the commitment to commercial efficiency means that we need to continue designing competitive processes that preserve margins. Without doubt 2016 will require an additional effort to define the transactions, with a view to providing a service better suited to specialised investors.

In line with the value creation strategy rolled out a few years ago, 16 developments are expected to be completed this year and more than 20 new transactions are being studied which will enable us to complete property proposals which we received when they were half-finished. In addition, the development is under way of 13 plots of land all around Spain and we have studied another significant package for development with the co-investment of local developers. We are convinced that all this work will enable us to take advantage of the recovery of the Spanish property market and of the Spanish economy in general.

This is because, despite the uncertainty facing the European and world economies, the performance of the Spanish market in 2015 allows us to be moderately optimistic. Thanks to its professionalism and maturity, Spain continues to provide definite opportunities through its varied offering of assets, among which Sareb has gained a significant foothold.

The interest in our portfolio and Sareb's successful management in the last three years have enabled us to reduce the scope of the assets received by 15% since our foundation. Proof of this is that in this period we have managed over 28,000 developer proposals and sold more than 35,000 properties. This activity has enabled us to repay debt totalling EUR 7,300 million, 14% of the total senior debt issued when the Company was created, and cover over EUR 3,000 million in finance costs. These figures confirm that in the last three years the Company has been able to fulfil the mission entrusted to it: to manage and dispose of, in an orderly manner, the impaired assets of banks that required public aid.

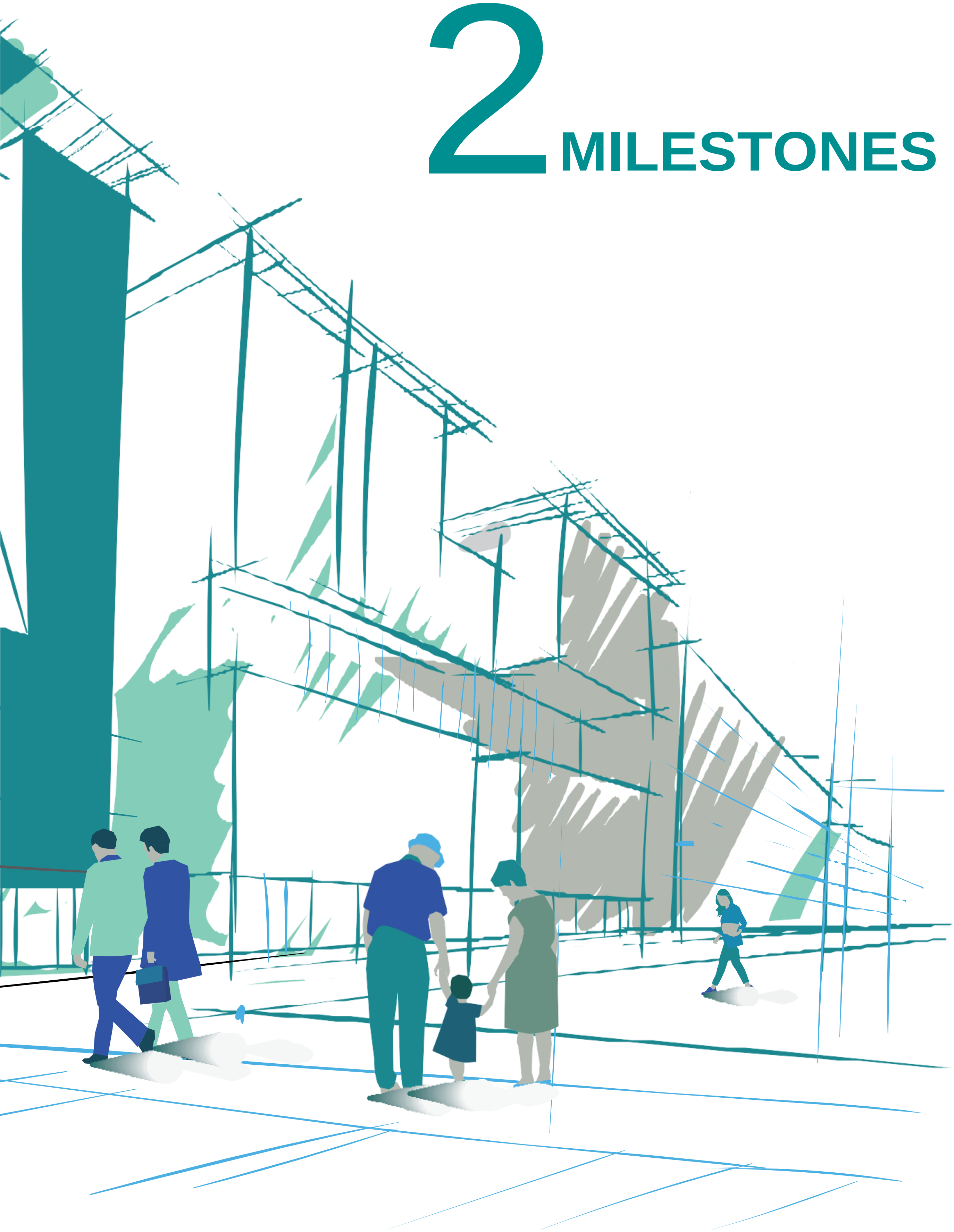
Sareb's divestment mandate involves high social responsibility because achieving this mandate requires that the public guarantee relating to our senior debt not be activated. Without neglecting this mission, in 2013 the Company implemented a programme to transfer affordable rental housing to autonomous communities. The volume of assets available for these agreements doubled in 2015 to 4,000 housing units. Now, cooperation with public authorities has reached eight regions and has also been extended to large city councils, directly benefiting around 6,200 people. Sareb has been able to define a cooperation model with public authorities that works.

As I mentioned at the beginning, the challenges overcome in 2015 will shape our future in the next few years, increasing yet more the management demands on us and the effort required of everyone at the Company. There is no doubt that with the support of our partners and the dedication and work of our teams we will also be able to take on these new challenges.

Jaime Echegoyen
Chairman


Business Chart - Visual

2 MILESTONES



2012

November

28
Incorporation of Sareb

December

12
First capital increase

17
Second capital increase

28
First subscription of subordinated debt

31
Receipt of the assets of BFA-Bankia, Catalunya Banc (CX), Banco de Valencia, Novagalicia Banco and Banco Gallego

2013

February

4
Sareb starts the sale of assets through the transferor institutions

13
Third capital increase

23
Second subscription of subordinated debt: Sareb completes its capital with EUR 4,800 million (EUR 1,200 million of share capital and EUR 3,600 million of subordinated debt)

28
Receipt of assets of Liberbank, Caja 3, CEISS and BMN

March

20
Approval of the Conflict of Interest and Related Party Transactions Policy

May

20
Approval of Sareb's Code of Conduct

August

2
Arrangement of interest rate hedges

6
First institutional transaction completed: award of the Bull portfolio

September

25
Adhered to the United Nations Global Compact

October

22
Sareb’s corporate website launched

31
Approval of the plan to transfer 2,000 housing units to autonomous communities

December

31
Sareb closed its first year with revenue of EUR 3,800 million, repaid debt of EUR 2,000 million and the sale of over 9,000 properties

2014

February

03
Appearance before the Catalan parliament

23
Internal reorganisation and appointment of Jaime Echegoyen as Chairman

March

27
Sareb announces write-downs of EUR 259 million to its loan portfolio

April

01
Appearance before the Spanish parliament

22
Approval of tender of the asset servicing contract, the Íbero Project

May

26
First institutional sale of land plots

July

03
Agreement with Pierre Vacance for the management of tourist assets

14
Signing of the first agreement to transfer homes to the Catalan autonomous community government (600 housing units)

24
Award of Crossover Bank Asset Fund (FAB)

October

27
Appearance before the Spanish Senate

November

03
Íbero Project: first award of assets to Solvia

December

04
Íbero Project: award of assets to Haya, Servihabitat and Altamira

23
Closing of institutional portfolios and projects (Kaplan, Agatha, Aneto, Olivia, Meridian, Corona) for EUR 1,000 million

31
Income of EUR 5,115 million, 15,000 properties sold and EUR 3,400 million in repaid debt

2015

January

26
Resignation of Belén Romana and appointment of Jaime Echegoyen as chairman of Sareb

February

05
Signing of the agreement to transfer homes with the autonomous community government of Aragón (80 housing units)

25
Appointment of Óscar García Maceiras and Manuel Gómez Gilabert as managing directors of Sareb

28
First migration of property assets transferred from the portfolio of Ceiss to Solvia

March

13
Migration of the servicing of loans from CEISS to Solvia

17
Signing of the agreement to transfer homes with the autonomous community government of Galicia (50 housing units)

31
Sareb announces write-downs of EUR 719 million to its loan portfolio

May

9
Migration of property assets from Abanca to Servihabitat

13
Sareb announces a new structure focusing on servicers and the appointment of Alfredo Guitart as business general manager

30
Migration of property assets from Bankia to Solvia

June

11
Migration of properties from Caja3 to Altamira

16
Extension of the agreement to transfer homes with the Catalan autonomous community government (300 housing units)

July

1
Migration of properties from BMN to Altamira

2
Appearance before the Spanish parliament

14
Migration of properties from CX to Altamira

14
Commercial campaign for coastal residential properties and new Sareb guarantee seal

18
Migration of loans from Abanca to Servihabitat

29
Signing of agreement to transfer homes with the Basque Country autonomous community government (10 housing units)

September

18
Migration of properties from Liberbank to Servihabitat

October

02
Publication of the Bank of Spain Circular establishing the valuation criteria for Sareb's asset portfolio

06
New land marketing campaign for developers and investors

15
Signing of the agreement to transfer homes with the Balearic Islands autonomous community government (75 housing units)

16
Migration of loans from CX to Altamira

19
Appearance before the Spanish Senate. The Company doubles its stock of social housing to 4,000 units

26
Signing of the agreement to transfer homes with the Castilla y León autonomous community government (100 housing units)

November

4
Launch of the Large Discount Sales campaign

11
Signing of the agreement to transfer 50 housing units in the Canary Islands

24
Sareb announces a EUR 100 million investment in the development of 13 land plots

December

4
Migration of loans from Caja3 to Altamira

16
Signing of the agreement to transfer homes with Barcelona City Council (200 housing units)

31
Sareb closed the year with revenue of EUR 3,886 million and having sold 11,256 units. Sales of land surpassed housing sales for the first time

2016

January

28
Signing of the agreement to transfer homes with Madrid City Council (300 housing units)

February

19
Migration of loans from BMN to Altamira

23
Sareb sells a package of loans with a nominal value of EUR 131 million to Banco Sabadell

March

9
Signing of the agreement to transfer homes with the autonomous community government of Cantabria (40 housing units)

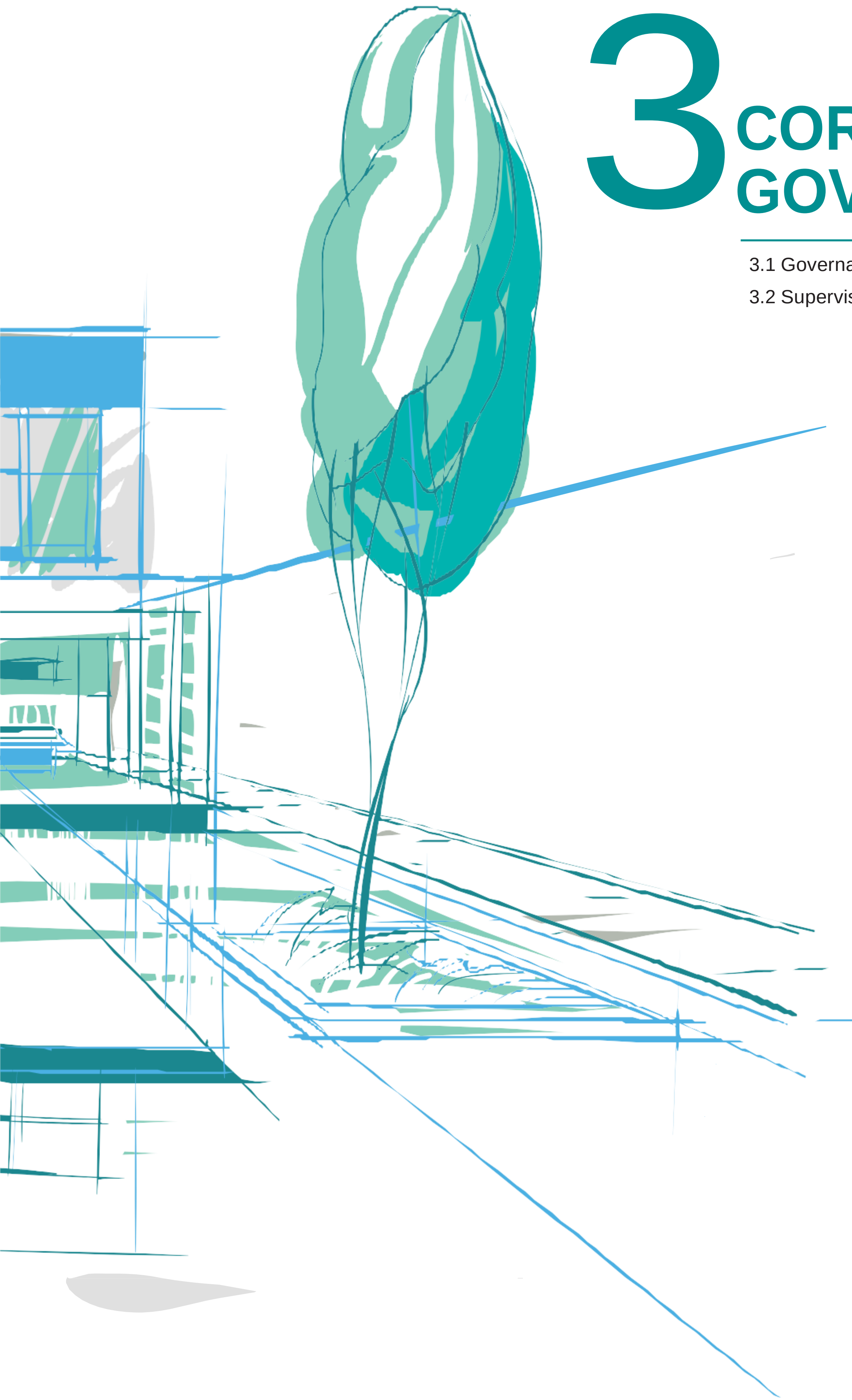
15
Sale of a package of loans secured with industrial assets

31
Sareb announces additional write-downs to its portfolio with provisions of EUR 2,044 million, requiring it to convert EUR 2,171 million of its subordinated debt into capital

April

4
Sareb concludes the migration of its assets to the servicers with the transfer of loans from Liberbank to Servihabitat

3 CORPORATE GOVERNANCE



3.1 Governance bodies

Sareb 's governance bodies are the General Meeting, composed of the shareholders of the Company, which meets to debate and resolve on issues that are its responsibility, and the Board of Directors.

In 2015 the Board of Directors comprised 14 members, five of whom were independent: Antonio Merino García, Emiliano López Atxurra, Isidoro Lora-Tamayo Rodríguez, José Poveda Díaz and Luis Sánchez-Merlo Ruiz.

The rest of the Board of Directors is composed of eight proprietary directors, who represent the main shareholders of the Company -Remigio Iglesias Surribas, Rodolfo Martín Villa, Antonio Massanell Lavilla, Enric Rovira Masachs, José Ramón Montserrat Miró, the Fund for Orderly Bank Restructuring (FROB) (represented by Jaime Ponce Huerta), Rafael de Mena Arenas and Francisca Ortega Hernández-Agero-, and one executive, the Chairman of the Company, Jaime Echegoyen.

Following the resignation of Belén Romana in January 2015, the Board of Directors appointed Jaime Echegoyen as Chairman and the position of CEO was not filled in 2015. In addition, the Board accepted the resignations of the proprietary director Ana Sánchez Trujillo, the independent director José Ramón Álvarez-Rendueles and the proprietary directors Antonio Trueba and Miguel Montes.
At the General Meetings held on 14 April, 10 June and 25 November, to replace them the shareholders appointed the Fund for Orderly Bank Restructuring, as a proprietary director, represented by Jaime Ponce Huerta; Antonio Merino García, as an independent director; Francisca Ortega Fernández-Agero, as a proprietary director; and Enric Rovira Masachs, as a proprietary director.

After the 2015 reporting date, the director Remigio Iglesias submitted his resignation with effect from 1 April 2016. At the date of this report the Sareb's Board of Directors has submitted a proposal to the General Meeting to appoint Javier García-Carranza as a proprietary director representing Banco Santander.

The candidates were chosen following the criteria established in the Bylaws and the Board of Directors Regulations in accordance with their competencies, knowledge and experience, as required by the dedication and availability needed, and after verifying that no potential conflicts of interests existed. Also included in the assessment was whether the candidates were persons recognised for their commercial and professional honour.

In 2015 the Board of Directors met on 20 occasions and examined 150 matters, and the meetings were regularly attended by the directors who, in the exceptional event of their justified absence, delegated their vote to another director.

The Board of Directors of Sareb has two committees -the Audit Committee and the Nomination and Remuneration Committee- both of which are chaired by independent directors. In 2015 these Committees met on 10 and 11 occasions, respectively. The structure, operational rules and main duties of the Board of Directors, the Audit Committee and the Nomination and Remuneration Committee are set out in their respective Operational Regulations, which can also be found on the Company's corporate website (www.sareb.es).

In addition, Sareb has a number of Support Committees, formed by members of its management team and representatives of the shareholders, the main duty of which is to assist the Board of Directors.

The Support Committees are as follows:

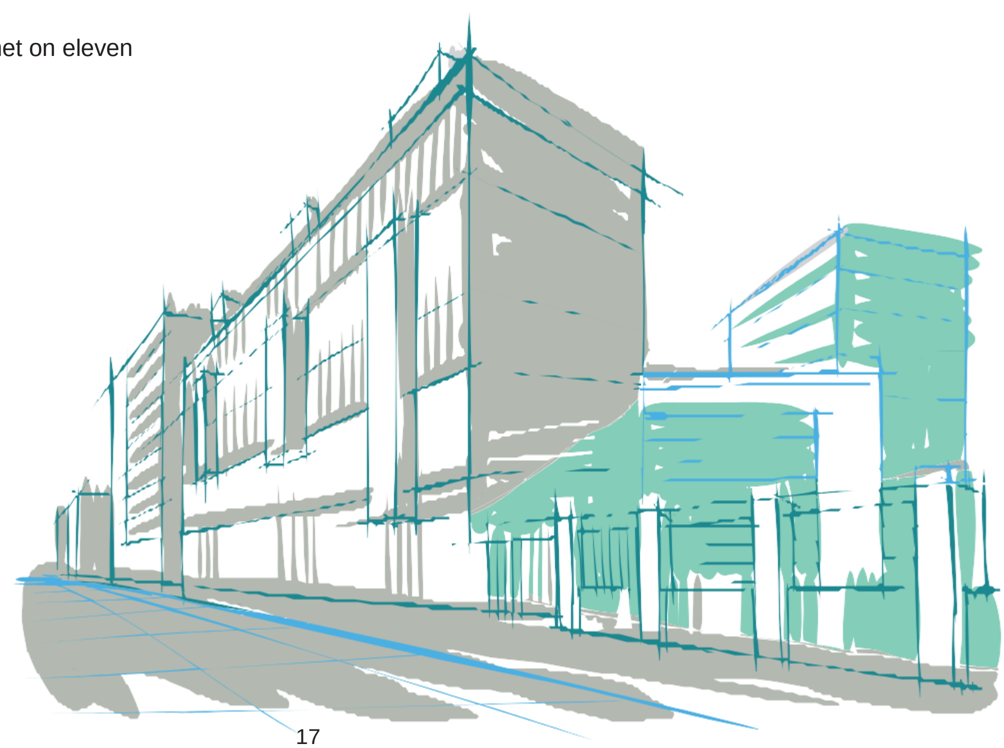
- Management Committee: this committee assists with the Company's financial and operational management and the duties of budgetary and management reporting;

- Risk Committee: this committee oversees and proposes actions to respond to situations or activities that may lead to excessive levels of risk;

- Investment Committee: this committee evaluates and proposes investment and divestment strategies or actions;

- Assets-Liability Committee: this committee advises on any factor that could affect the Company's balance sheet and, in particular, those related to the equity, financing and liquidity structure.

In 2015 the Support Committees met on eleven occasions.



3.2 Supervisory regime

Sareb was incorporated as a public limited liability company although it has certain special features relating to its particular company object and the public interest associated with its activity. Consequently, its operating framework is based on principles of transparency and professionalism and is subject to a comprehensive supervisory regime.

On the one hand, the Bank of Spain, under Law 9/2012, is responsible, inter alia, for overseeing compliance with:

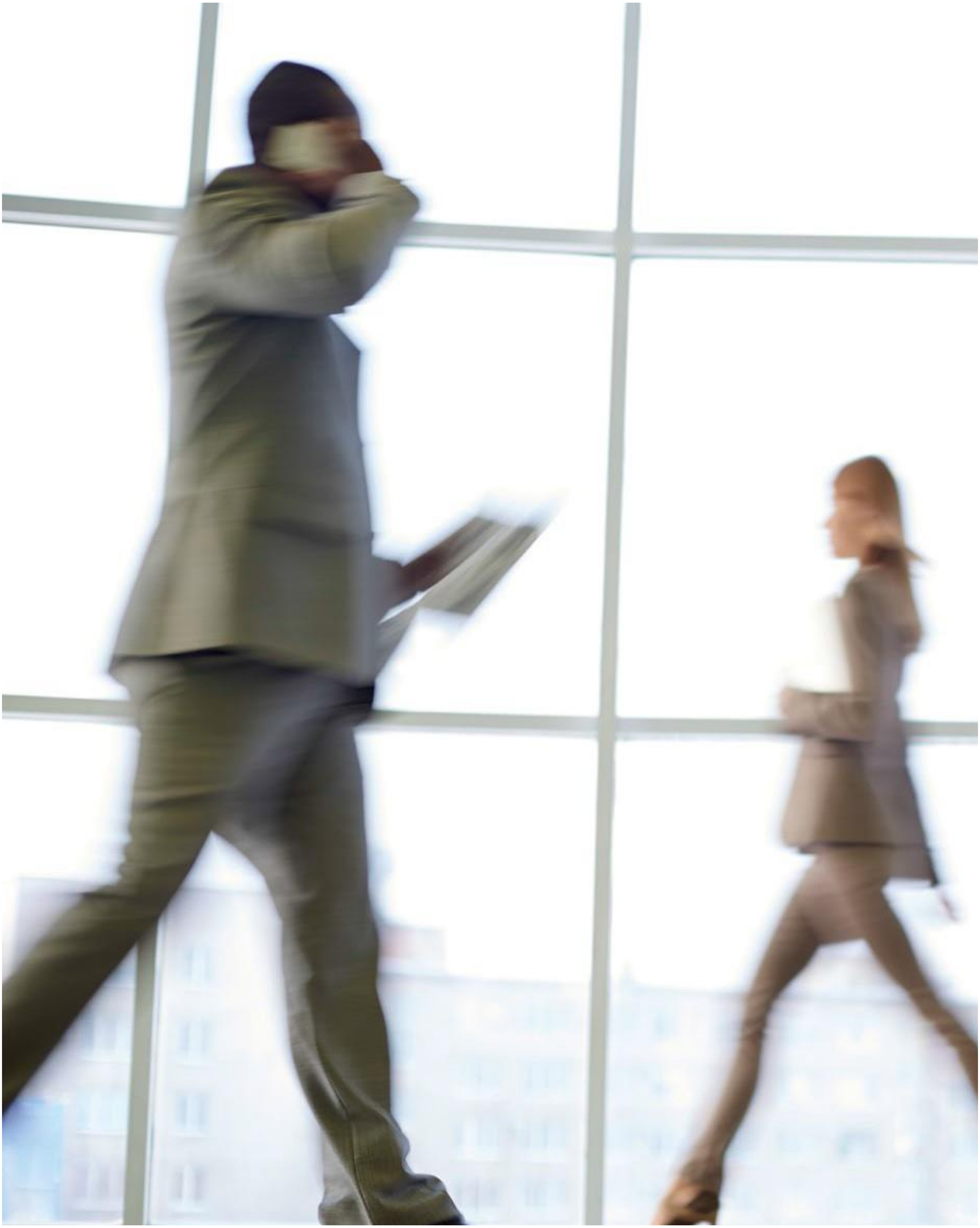
- Sareb's sole object.
- the specific requirements established for assets and, where appropriate, the liabilities to be transferred to the asset management company.
- the regulations relating to transparency and the establishment and composition of the Company's Governance and Control Bodies.

On the other, Sareb is supervised by the Spanish National Securities Market Commission (CNMV) in relation to its business activity as an issuer of fixed-income securities. In addition, the CNMV is responsible for creating a register of Bank Asset Funds (FAB) and overseeing compliance by companies that manage them with the related legislation.

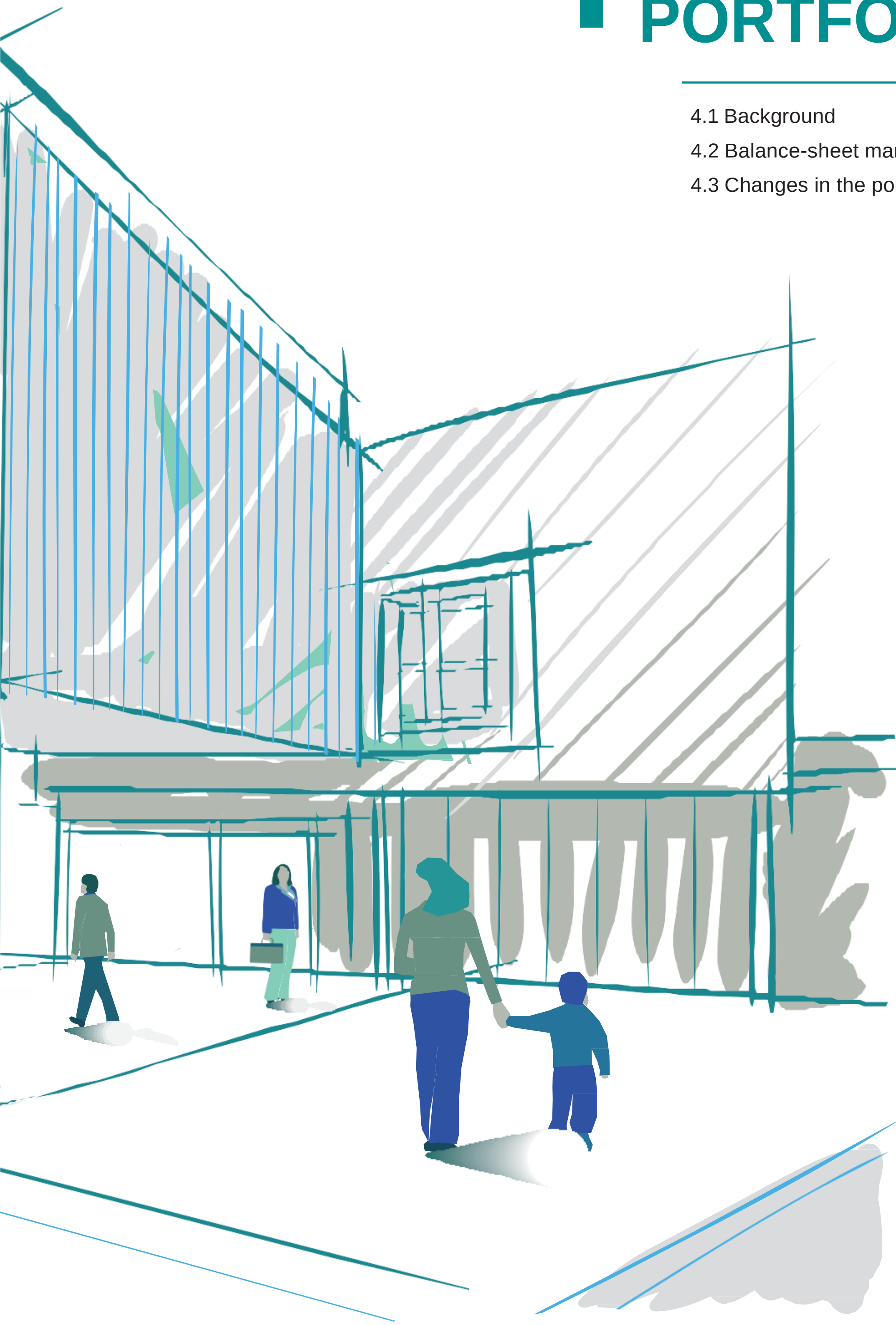
Also, pursuant to Law 9/2012, a Monitoring Committee was created to oversee fulfilment of Sareb’s general objectives. Its functions include analysis of the Company's Business Plan and any possible deviations from it, as well as the divestment plans and plans for the repayment of the secured debt. The Company provides the Monitoring Committee with regular reports detailing its activities.

The Monitoring Committee comprises four members, appointed by the Spanish Ministry of Economy and Competitiveness, the representative of which chairs the Committee, the Spanish Ministry of Finance and Public Administration, the Bank of Spain, the representative of which acts as secretary, and the CNMV.
A representative from the European Central Bank also attends meetings as an observer. This Committee held six meetings in 2015.

Sareb prepares half-yearly reports on its activities, which are subject to an annual Compliance Report prepared by an independent expert. The half-yearly reports on its activities are issued to the Bank of Spain and the Monitoring Committee, and are made available to the public via Sareb's corporate website (www.sareb.es).



4 PORTFOLIO



4.1 Background

Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (Sareb) was created as part of the commitments entered into by the Spanish government and the EU authorities in July 2012 that enabled Spain to receive financial assistance in order to meet the capital needs of financial institutions with excessive property exposure.

The agreement, included in the Memorandum of Understanding on Financial-Sector Policy Conditionality (MoU), provided for the creation of an external asset management company to which a portion of these institutions' assets relating to the property sector would be transferred.

Pursuant to the MoU, the scope of the assets to be transferred to the Company was as follows:

- Credit risk exposure to the property development sector with a carrying amount exceeding EUR 250,000 per borrower.
- Foreclosed assets with a carrying amount exceeding EUR 100,000.

On 31 December 2012, the Group 1 institutions, i.e. those in which the Fund for Orderly Bank Restructuring (FROB) held a majority ownership interest (BFA-Bankia, Catalunya Banc (CX), Novagalicia Banco, Banco Gallego and Banco de Valencia), transferred the assets defined in the transfer scope to Sareb.

On 28 February 2013, this process was completed by the transfer to Sareb of the assets of the Group 2 institutions: Banco Mare Nostrum (BMN), Liberbank, Banco Caja 3 and Banco de Caja España de Inversiones, Salamanca y Soria (Banco CEISS).

In total, Sareb received almost 200,000 property and financial assets, and 400,000 collateral assets, which were valuated at a transfer price of EUR 50,781 million.


FINANCE REPORT
ACCOUNT
REPORT
DASHBOARD
INCOME
OUT GOING
DASHBOARD > INCOME
TOTAL INCOME

4.2 Balance-sheet management

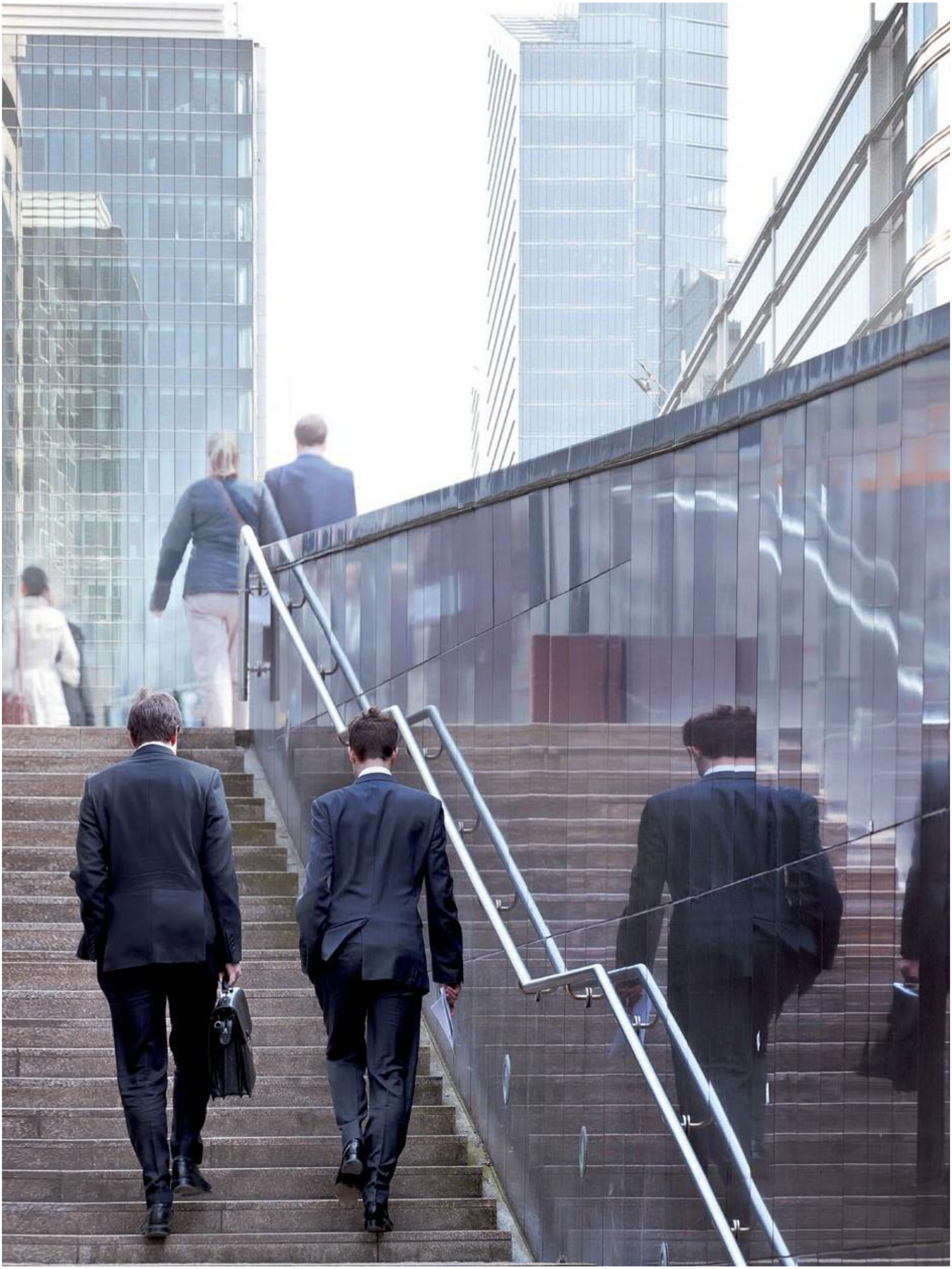
After more than three years of intense divestment activity, Sareb's portfolio mix has changed, with property assets gaining more weight than financial assets, as can be seen in the graphs in Section 4.3. Changes in the portfolio.

This was the result of the gradual, natural transformation of the balance sheet. The Company is therefore making progress with the normal repayment of loans that are current in payment and write-down from the portfolio when fully repaid, while gaining access in the last resort to property guarantees on the portfolio of loans and credit facilities in arrears transferred to Sareb through foreclosures, bankruptcy liquidations and dation in payment.

In October 2015, Sareb created the Balance-Sheet Management function in order to define the processes required to ensure that all the assets gradually become available for sale and are allocated to a commercial channel.

The scope of its object is therefore global and seeks to ensure that Sareb's strategy of transforming financial assets into property assets is achieved, in terms of both the volumes of assets to be transformed in accordance with the Business Plan and the efficiency of the process.

It also brings a transversal vision of the transformation value chain from an operating perspective and supports the business areas by including in its scope the all the necessary processes (legal, documentation, technical, etc.) to enable an asset to be made available to the retail or wholesale commercial channels.

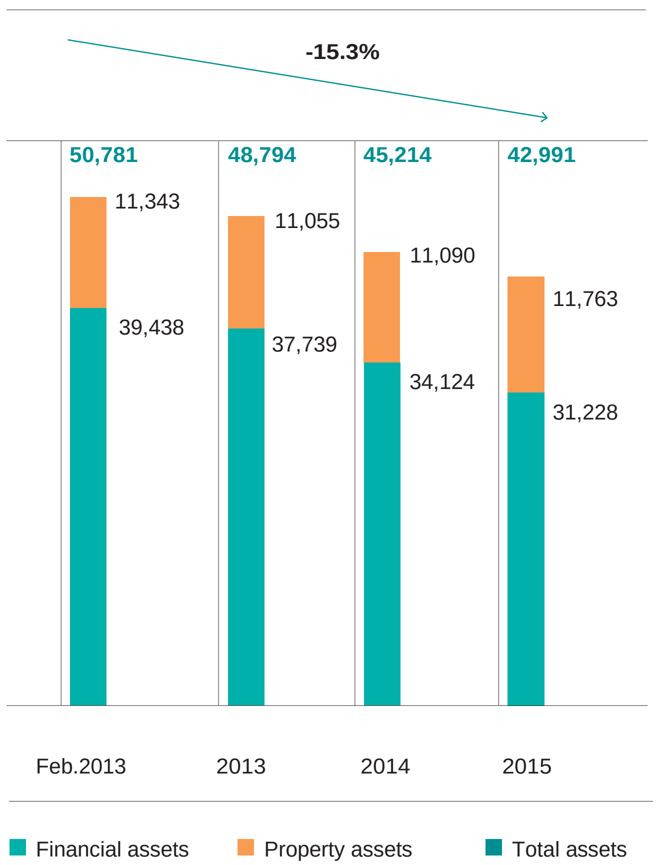


4.3 Changes in the portfolio

In its first three years Sareb has reduced its portfolio by 15.3%, and its composition has also changed, due to the divestment effect and also to the transformation of financial assets into property assets.

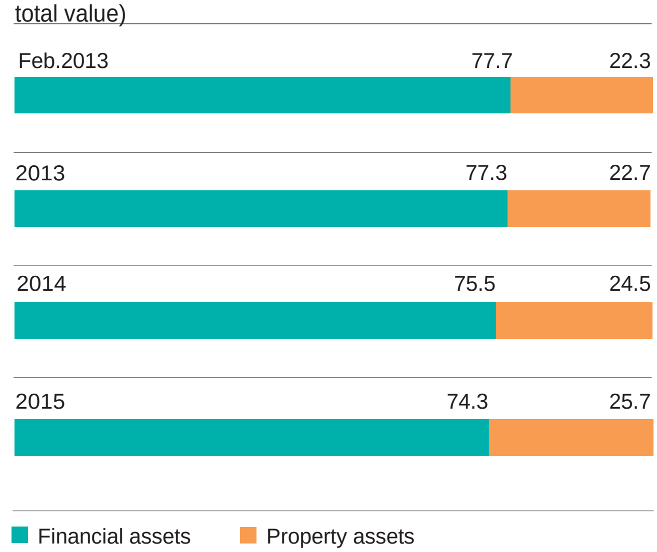
The changes in Sareb's portfolio and the detail at 2015 year-end were as follows:

Changes in the portfolio* (€MM)

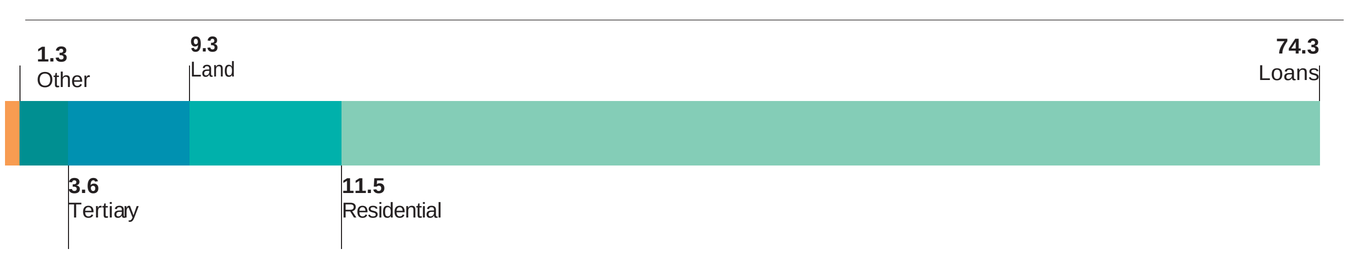


* At transfer prices

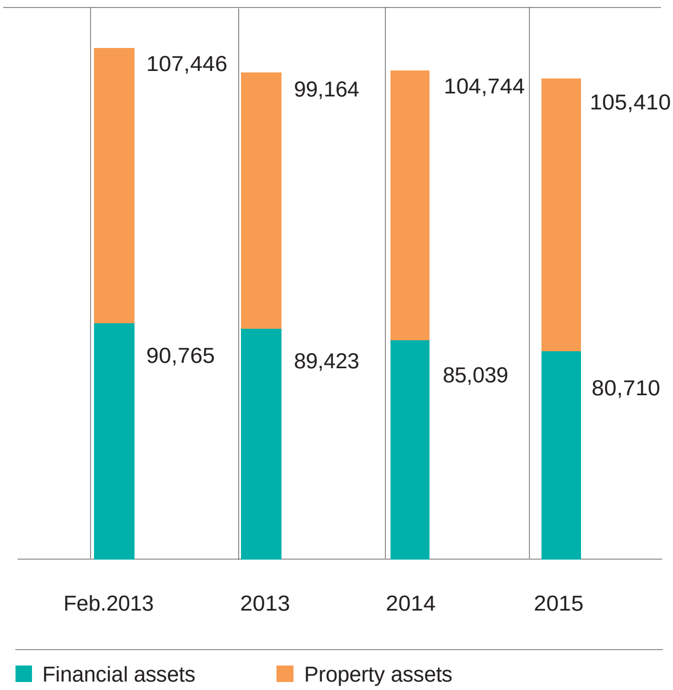
Changes in the composition of the portfolio (% of portfolio total value)



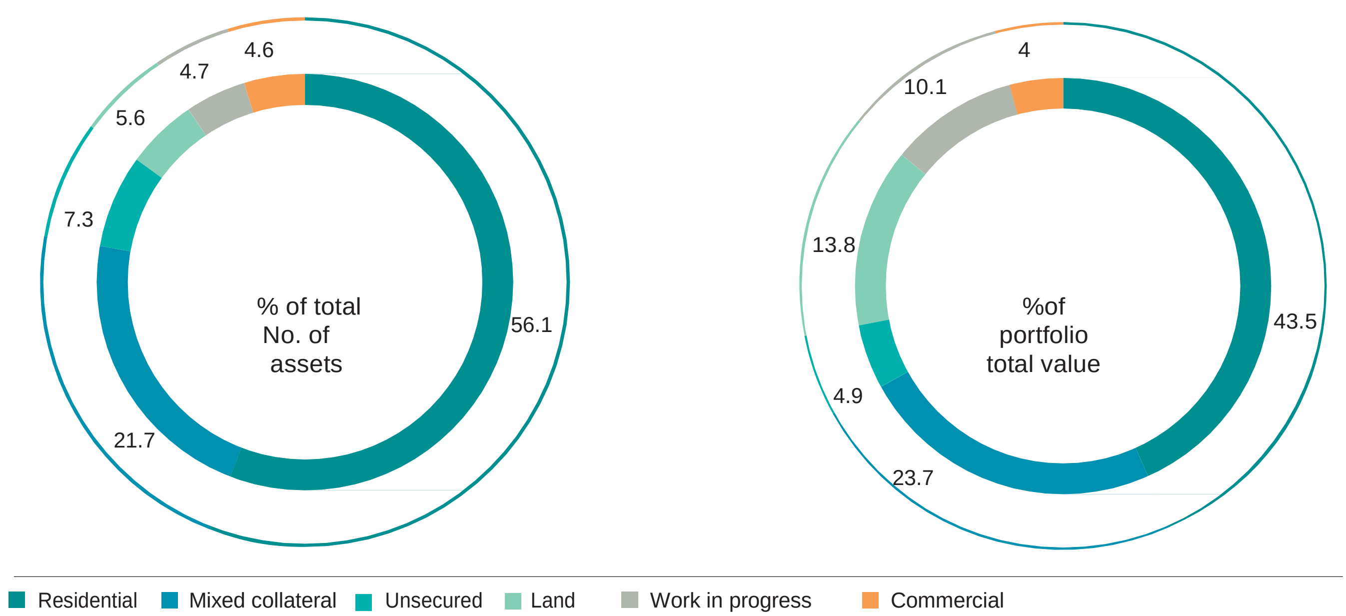
Breakdown of the portfolio at 2015 year-end (% of portfolio total value)



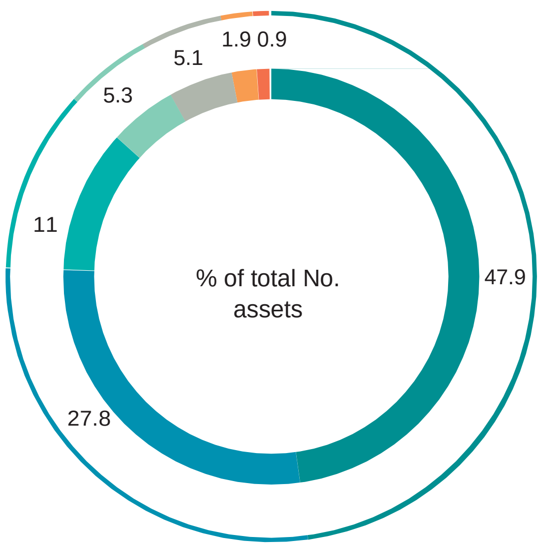
Changes in the portfolio (no. of assets)

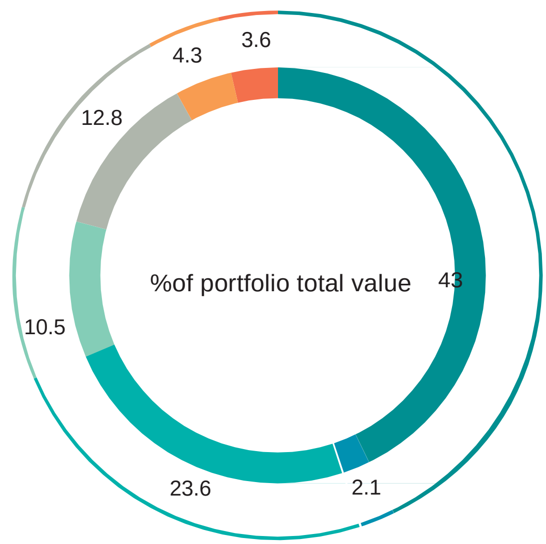


Financial assets by type of guarantee



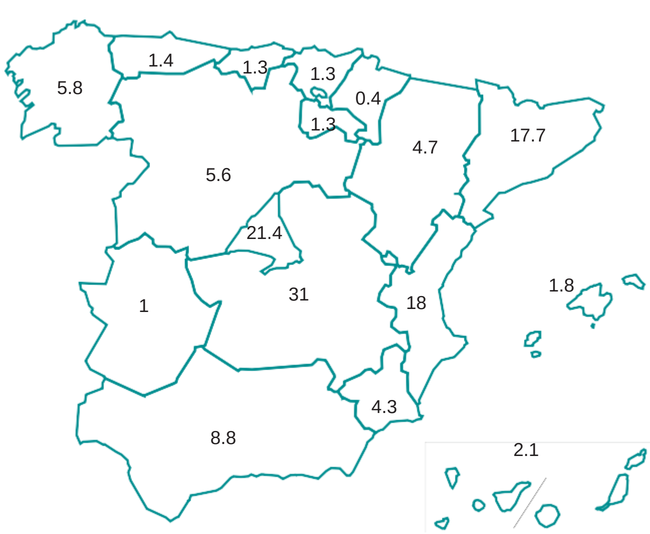
Property assets by type





Housing | Outbuildings | Land under development | Tertiary | Land ready to built | Other | Industrial

Detail of primary borrowers by geographical area
(% of gross carrying amount)



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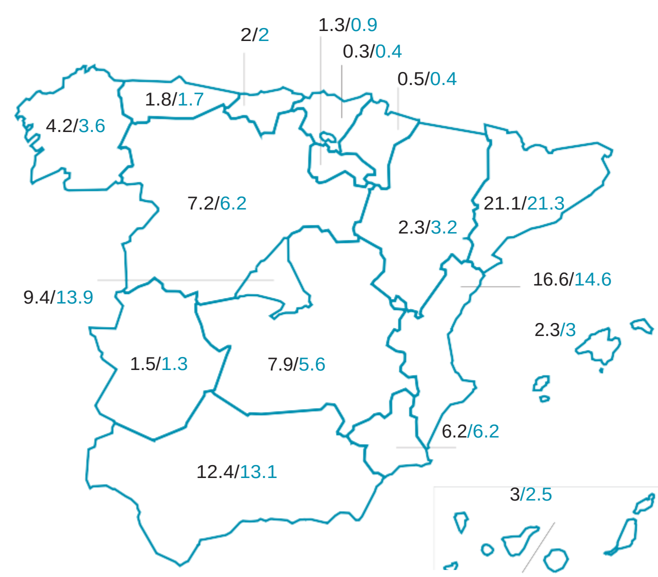
Detail of the property asset portfolio by geographical area
(% of total No.of assets - % of portfolio total value)



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5 THE NEW SERVICERS

5.1 The new servicers

When Sareb was incorporated at the end of 2012, the decision was taken to enter into management and administration agreements with the nine institutions that generated the balance sheet.

Months later, many of these institutions sold their property platforms to third parties, giving rise to the appearance of new professionalised managers in the market. This situation, combined with the expiry of the agreements in December 2014 led Sareb to reconsider its servicing and optimum technology model (Colossus Project). Finally the decision was made to call a tender to select new suppliers for the management of the balance sheet in the coming years. The selection process was carried out under the principles of competitiveness, transparency and best practices in awarding the contract, since it relates to a critical service for the Company, i.e. the management and administration of its assets.

The aim of this tender process, which was called "Íbero" and was supervised by an independent auditor, was for Sareb to obtain a professional and efficient service for the management of its assets. Accordingly, following a long competitive process in which the main market operators participated, in November and December 2014 the Company awarded the asset administration, management and sale service to four servicers: Altamira Asset Management, Haya Real Estate, Servihabitat and Solvia.

Obtaining these agreements, for terms of between five and seven years, enabled Sareb to award the new servicers the administration and sale of 177,000 assets, including property and loans, although this required a complex technological migration process, which was carried out between February 2015 and April 2016.

The agreements entered into with the new servicers include specific commitments to make the sales activity more dynamic, manage the land on a more hands-on basis and boost the retail market, an area considered strategic by Sareb.

The framework of action also requires more intense management of the loans, more direct contact with the property developers that hold the loans with the Company and swifter proposal processing.

From an operational point of view, the changeover to the servicers will enable the Company to increase its ability to control its portfolio by providing management indicators and by making the processes established with the servicers more automatic and integrated.

At 2015 year-end, the portfolio managed by the four servicers is as follows:

- The portfolio awarded to Altamira represents 29% of the value of Sareb 's assets and consists of 49,000 properties and property developer loans, originated by Catalunya Caixa, BMN and Caja3;

- At 2015 year-end Haya managed a package of 49,500 loans linked to the property sector originated by Bankia and acquired subsequently by Sareb, which account for 39.7 % of the value of the assets of the total portfolio;

- Servihabitat manages 32,000 properties and loans of NCG, Liberbank and Banco de Valencia (18.7% of the portfolio value);

- Solvia manages 46,500 assets. These are properties transferred from Bankia and loans and properties acquired from Banco Gallego and Banco Ceiss, which account for 12.6% of the value of the total assets.

The internal transformation process

The transfer of management of the assets of the former transferor institutions to the new servicers resulted in a transformational process at Sareb which, logically, led to organisational changes. A Global Transformation Area was created to this end to ensure an orderly migration of the portfolios awarded and an appropriate transition from the previous managers to the new ones.

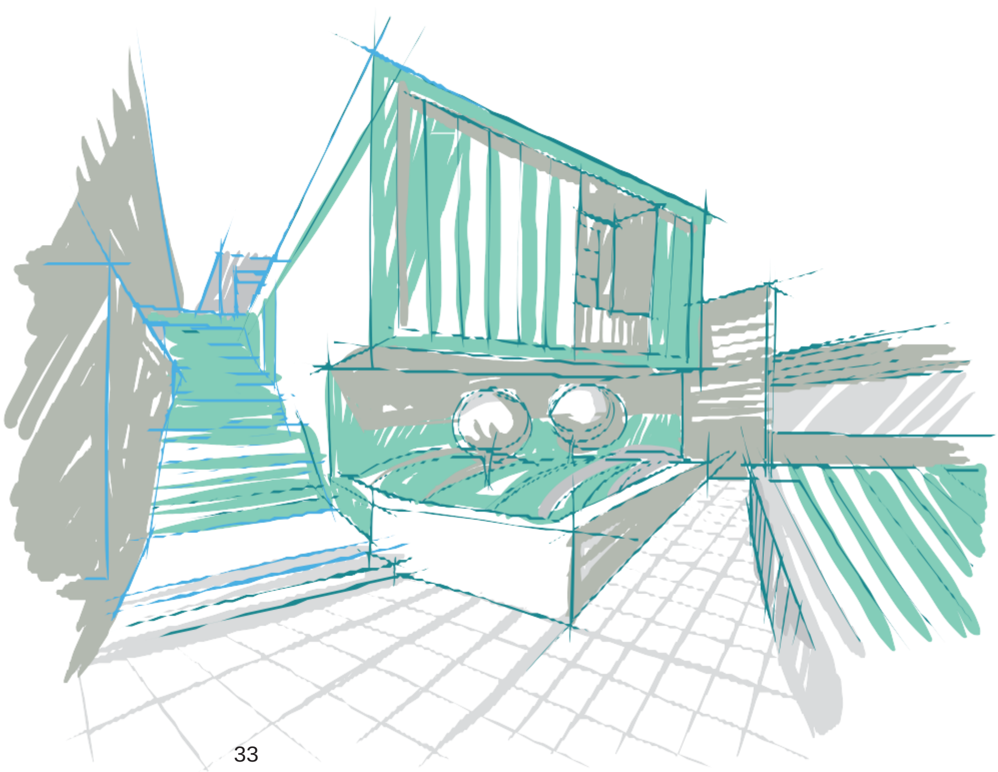
In 2015 Sareb took on a particularly complex challenge, the Hispalis Project, which involved the migration of assets, with more than four million associated documents and 352,000 keys.

The Hispalis Project also required the implementation of over 20 sub-projects, the participation of around 200 Sareb employees and the coordination of more than 1,000 employees managing the assets at the servicers.

To help adapt to the new marketing model, focusing on the servicers, in the first six months of 2016 Sareb reorganised its structure and created three general management areas: Corporate Development and Legal Affairs, Global Resources and Business.

The Business area, in turn, has been divided into two further areas: a Network area, in charge of supporting, boosting and monitoring the work of the new servicers; and a Products and Services area responsible for establishing the commercial strategy.

The Hispalis Project is one of most demanding, global challenges for Sareb which will transform its processes in view of the management requirements involved, its transversal nature and the change in the relationship model with third parties, which have changed from suppliers to partners.



5.2 Migration and transformation

The change in Sareb's asset managers has involved two separate processes:

- Migration: implying the transfer of the service from the transferor institutions to the servicers in all respects: service, technology and documentation.

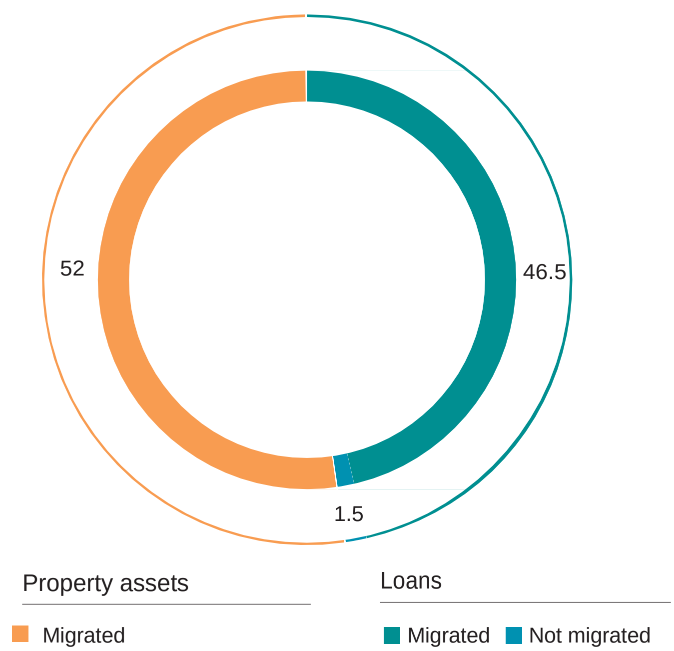
- Transformation: tasks which aim to achieve the target model established in the agreement which consists basically of the integration of the servicer and Sareb in various areas: the business process management (BPM) system, the information system and the document management system.

The project therefore includes the monitoring and control of the migration tasks associated with the awarded assets, as well as any internal transformation processes taking place at Sareb and the servicers.

Migration

The entry into operation of the new partners, the servicers, has been gradual in 2015. The migration was also achieved on schedule and was led by the Global Transformation department. At 2015 year-end only the migration of the portfolio of financial assets of BMN to Altamira and that of Liberbank to Servihabitat were outstanding and both were completed in the first quarter of 2016.

Migration (%)



Altamira Asset Management

Altamira Asset Management was awarded the complete portfolios of Catalunya Caixa, BMN and Caja3, consisting of over 49,000 property and financial assets and accounting for 29% of the value of Sareb's total portfolio.

Altamira has faced the challenge of migrating the second largest portfolio awarded by Sareb while also undertaking internal transformation projects to provide the service.

In 2015 it took control of all the portfolios it was awarded, migrating in full the portfolios originating from Catalunya Caixa and Caja3, as well as the property portfolio of BMN, relying on the support of its back office to provide the service relating to the loans from this institution.

The technological migration of this last portfolio was carried out in February 2016.

Altamira migration (%)

Haya Real Estate

Since Haya Real Estate was the servicer engaged by Bankia to manage practically its entire portfolio, the migration only affected the management of the borrowers performed directly by the bank.

Since completion of the migration, the work with Haya has focused on the provision of the established service and on the internal transformation projects at the servicer, which progressed according to schedule in 2015.

Haya is managing and administering the 49,500 loans linked to the property sector originated by Bankia and acquired subsequently by Sareb, which account for 39.7 % of the total value of the Company's assets.

Haya is also undergoing a process to change its internal technological platform in order to achieve technological independence from Bankia and minimise the effects on the service and integration projects. This process began with the creation of a NPL manager at the end of 2015 and will end in 2016 with the implementation of systems as property and financial asset managers.

Servihabitat

Servihabitat

Servihabitat was awarded the entire portfolios of Banco de Valencia, NovaGalicia Banco and Liberbank, representing a total of over 32,000 loans and properties.

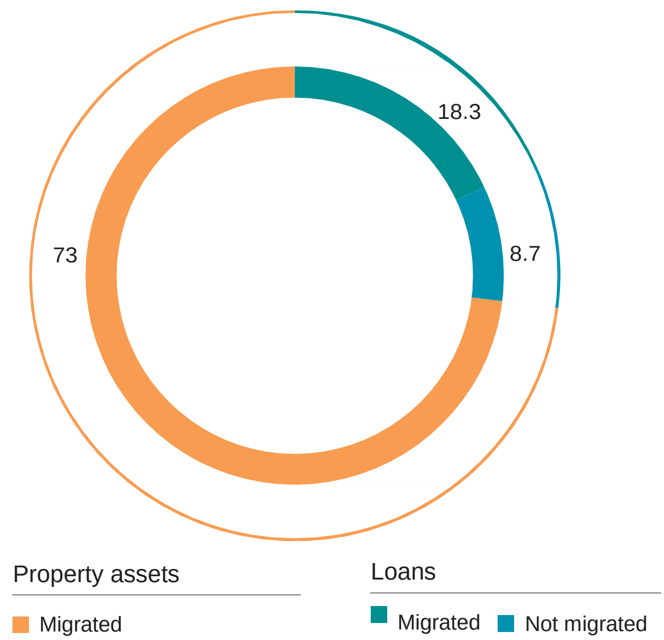
In 2015 Servihabitat migrated 91% of the awarded portfolio:

- Since 2012 Servihabitat has managed the portfolio of Banco de Valencia, engaged by CaixaBank, which accounts for 16% of the total package assigned by Sareb to Servihabitat;
- The portfolios originating from NovaGalicia Banco, the largest with 47% of the property and financial assets, were migrated in May and July;
- The migration of the property assets of Liberbank took place in September, while the loans portfolio was migrated at the end of March 2016.

The last migration to be performed represents 8.7% of the total portfolio awarded to this servicer and 1.5% of Sareb's total portfolio.

The value of the assets awarded to Servihabitat represents 18.7% of Sareb's total portfolio.

Servihabitat migration (%)



Solvia

Solvia

Solvia was awarded the portfolios from Banco Gallego and Banco Ceiss, as well as the property assets from Bankia. The sum represents a total of 46,500 assets.

At the end of the first six months of 2015, the entire portfolio awarded had been migrated:

- Solvia had already been managing the portfolio of Banco Gallego, engaged by Banco Sabadell following the acquisition of the institution in 2013 and, therefore, the migration was not necessary.
- The portfolio of property assets from Banco Ceiss was migrated in February and its loans were migrated in March. In July the managers' information and documentation was migrated.
- At the end of May the migration of the properties from Bankia took place.

Solvia was the first servicer to enter into the services agreement with Sareb and also the first to migrate its portfolios.

The platform manages 41.2% of the property assets of Sareb and 10% of its loans. The value of these assets represents approximately 12.6% of the Company's total portfolio.

Solvia migration (%)

Transformation

The transformation process begins after the migration of the portfolios, according to the schedules set in the agreements as regards the achievement of the target models.

The four servicers are already working on adapting to the first three systems that should be operative: the process automation system using the business process management (BPM) tool, the information system and the document management system.

The second level of priorities includes the native accounting system for awarded assets and the ticketing system at the call centre.

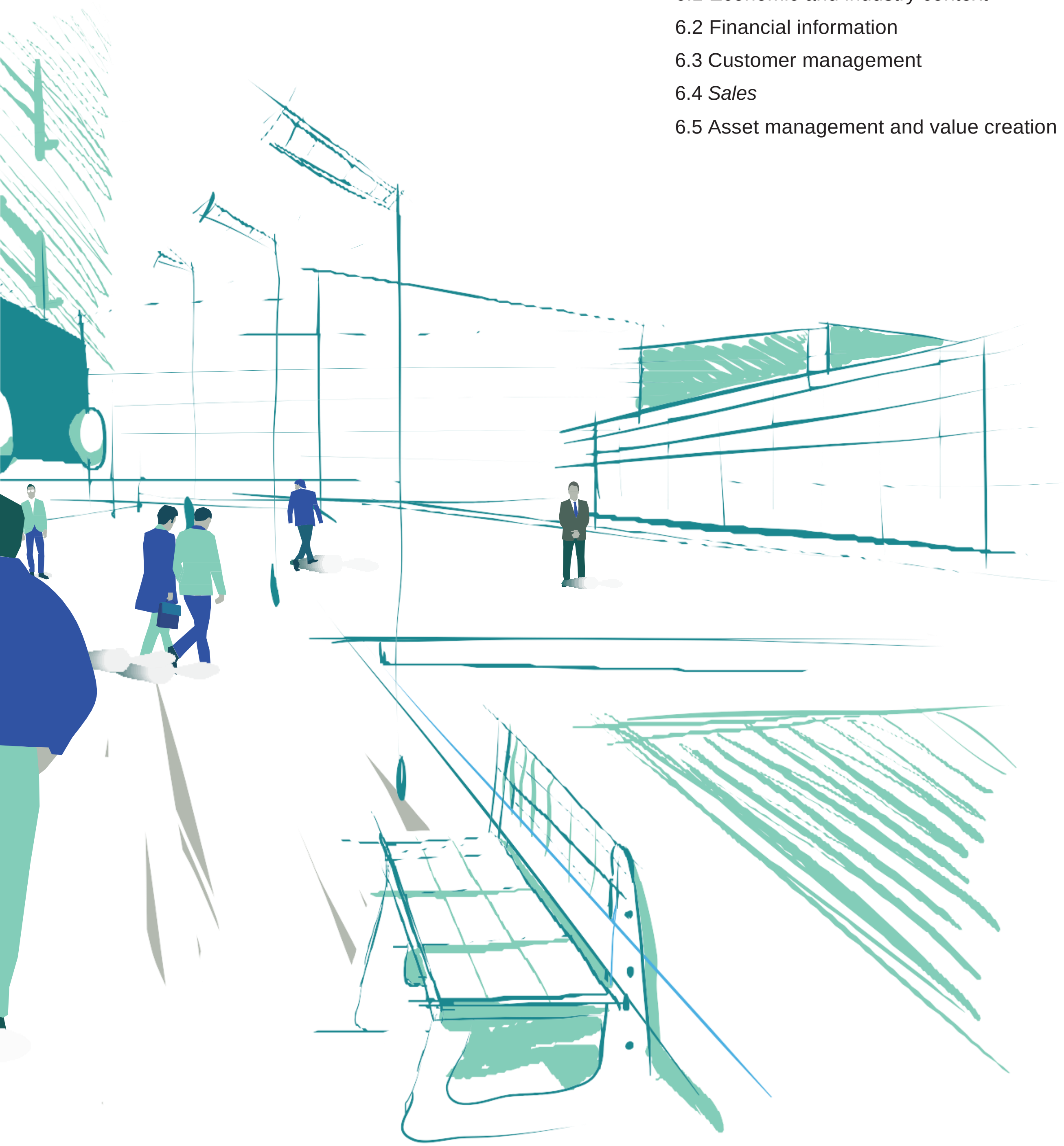
The culmination of the migration and transformation phases with each of the servicers will not represent the end of the transformation of Sareb's management model, but it will practically begin with it.

The migration represents a qualitative leap for the development of a new relationship framework in which Sareb will cease treating the servicers as providers and start moving ahead together with its new management partners.

In the near future, the Company and its partners will have to carry out a gradual process of acquiring actual knowledge of the migrated assets and the conditions required in their agreements to ensure optimum commercial activities and results that are in line with Sareb's projections.

The actual leap will take place when the so-called target models have been achieved, the first phase of which should be completed in 2016. For that purpose, the Company has allocated resources and significant effort to the Global Transformation team, in order to obtain an integrated vision of the contractual milestones, of the internal transformation at Sareb, of the servicers and the migrations and integrations, which ensures that the targets are met.

6 SAREB AND ITS BUSINESS

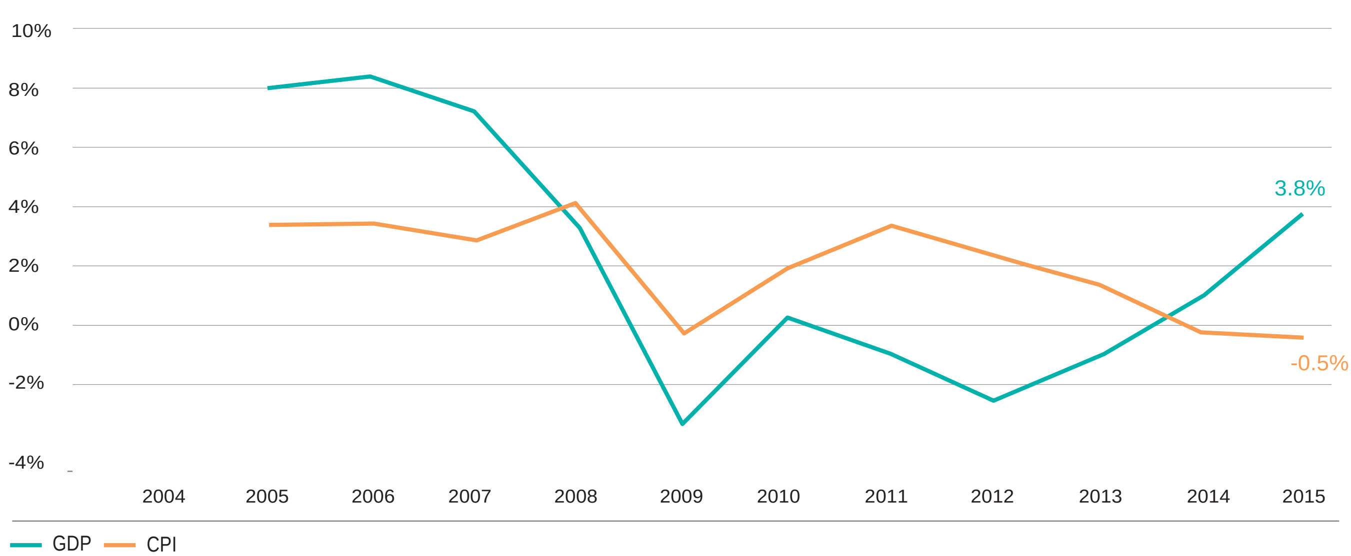


6.1 Economic and industry context

6.1.1 Economic situation

The Spanish economy has been recovering since mid-2013, when the first positive gross domestic product (GDP) figures began to emerge. In the fourth quarter of 2013, this indicator recorded a slight increase of 0.2%, a trend that continued in 2014, with positive and increasing growth of up to 1.7% in the final three months of the year. In 2015, this improvement took hold and increased, reaching levels of around 3.8%, which put Spanish annual GDP growth above the euro zone and European Union average.

GDP growth and inflation

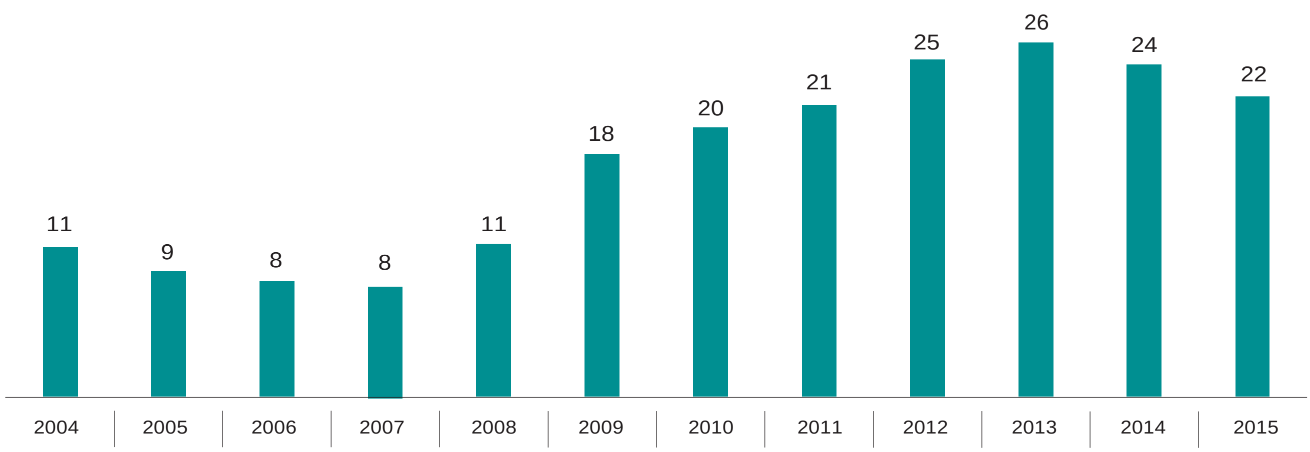


Source: Spanish National Statistics Institute and in-house data.

Practically all GDP components -both on the demand and on the supply side- have turned around from a downslide to experience positive growth.
From a demand perspective, gross fixed capital formation experienced growth at the beginning of 2014 and stood at 8.1% year-on-year in the final quarter of 2015. In terms of supply, industry, construction and services continued showing positive year-on-year growth rates of 1.8%, 4.6% and 3.6%, respectively at the end of these years, reversing the negative performance of 2013.

As for inflation, since 2011, no price increases have been recorded in the overall CPI, which is currently experiencing an annual variation rate of -0.5%.
The CPI components that are most influencing this performance are transport, food and non-alcoholic beverages and communications. Analysing price changes, without considering these variables, would put growth in prices at approximately 1%.

Change in unemployment rate (%)



The improvement in economic activity is being seen in the labour market, which is showing signs of improvement. Based on the Economically Active Population Survey (EAPS) conducted by the Spanish National Statistics Institute (INE), the unemployment rate peaked in 2013 at 26.1% and since decreased to 22.1% in 2015. In absolute terms, in the first quarter of 2013 the number of unemployed persons stood at 6.3 million, while the most recent data published by the EAPS indicate a decrease in the number of unemployed persons to 4.8 million, which relates to an increase of more than one million people in the number of employed persons.

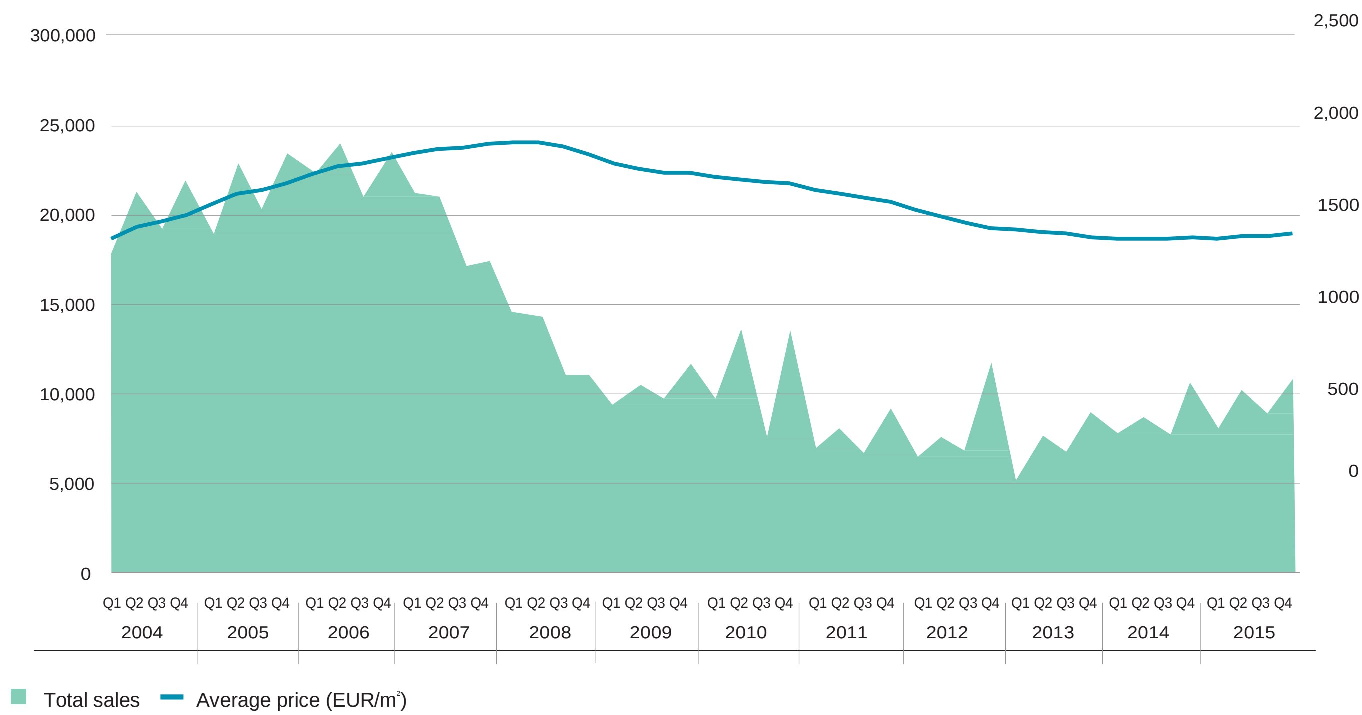
The economic forecasts of the main public bodies coincide in assigning positive GDP growth to Spain that is above the average for neighbouring countries. However, the risks existing in the environment, both from the international point of view and those arising from local political uncertainty, should be kept in mind.

6.1.2. Residential market

Variations in housing prices

The Spanish residential market reached its peak in 2007 and early 2008. Since then, it has fallen sharply by as much as 31%, although in 2015 it stabilised and now shows some signs of growth. Based on data from the Spanish Ministry of Public Works, the price of unsubsidised housing closed 2014 with a year-on-year change of -2.4%. A slight 1.1% year-on-year increase in prices was recorded in 2015.

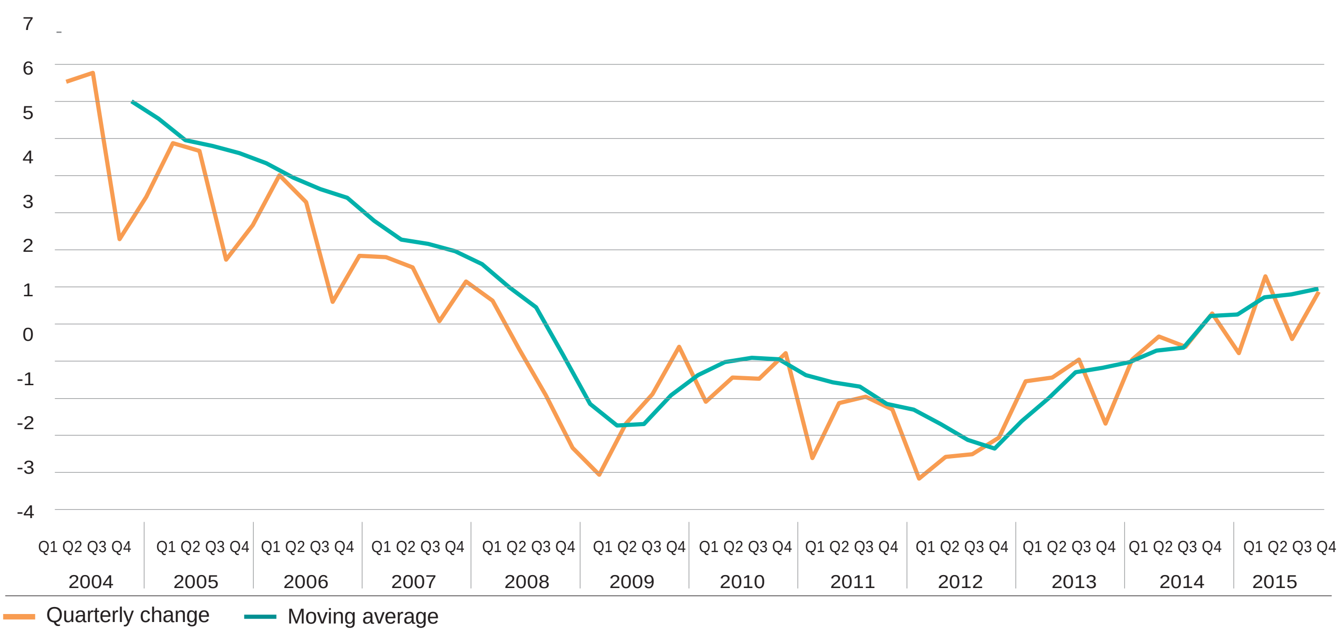
Unsubsidised housing (price/transactions)



Source: Spanish Ministry of Public Works and in-house data.

Quarterly changes in housing prices remained negative from early 2008 until the end of 2014, when the upwards trend starting in early 2012 resulted in these changes becoming positive.

Changes in national average price of unsubsidised housing (%)



Source: Spanish Ministry of Public Works and in-house data.

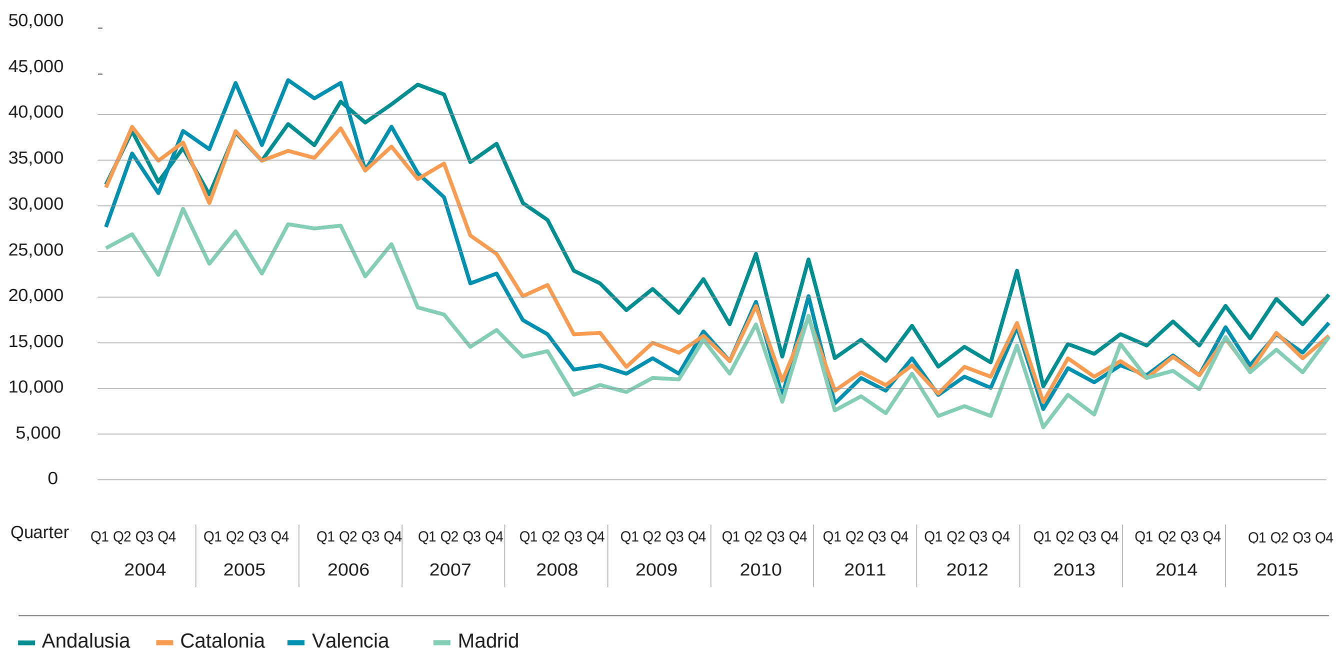
In 2015, the autonomous communities where Sareb has the highest concentration in its portfolio experienced growth in housing prices: Madrid (3.0%), Valencia Community (1.4%), Catalonia (1.3%) and Andalusia (0.7%).

Change in housing transactions

In 2014 the number of unsubsidised housing transactions totalled 347,170, representing a 21.7% increase in transactions on 2013, when they hit bottom with 285,304 transactions. 2015 saw the consolidation of this growth trend in transactions, with a total of 382,691 transactions recorded, higher than the figures for the last four years.

The good performance of the housing market, accompanied by a stabilisation in prices, is explained by the performance of macroeconomic indicators: an improvement in practically all GDP components and a fall in unemployment, inter alia.

Unsubsidised housing (number of transactions)



Source: Spanish Ministry of Public Works and in-house data.

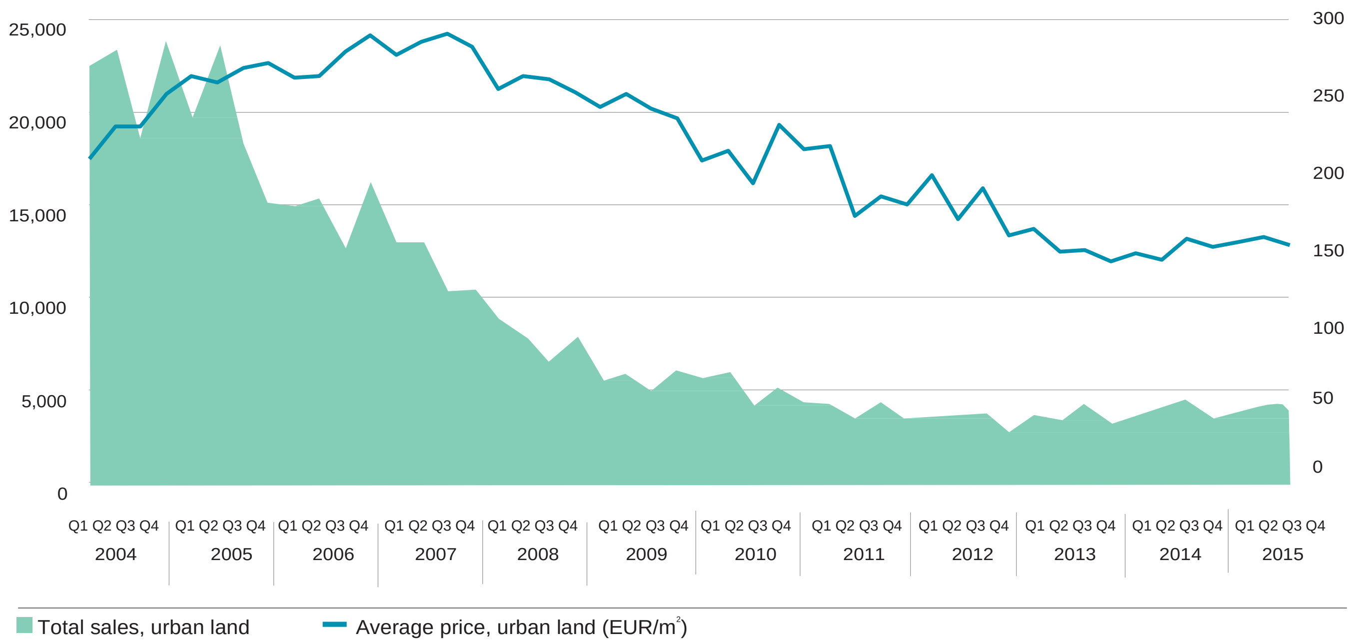
The greatest number of 2015 transactions was recorded in Andalusia, with a total of 72,881, followed by Catalonia (59,945), Valencia Community (57,537) and Madrid (54,038). These autonomous communities, which have proven themselves to be the most dynamic, are where Sareb also has most stock, both in terms of property assets and financial assets.
Each of these autonomous communities bottomed out at the beginning of 2013 and have since shown growth.

Change in land prices and transactions

The land market was affected to a greater extent than the housing market. Prices declined from a high of EUR 280/m^2 at the pivotal point of the cycle in mid-2007 to EUR 153/m^2, representing a correction of more than 45% (in the case of housing, the correction was around 30%).

Figures show that the fall in the number of land transactions was earlier and sharper than the fall in the number of housing transactions. The number of land transactions plummeted 85% from their peak and, despite rebounding 9.2% last year, no stability was observed in the trend in 2015, which saw a not particularly significant 1.1% decline. Following this correction, in 2015 land prices triggered three straight quarters of year-on-year growth, showing a 9.7% increase in the third quarter of 2015.

Urban land (price/transactions)



Source: Spanish Ministry of Public Works and in-house data.

The 15,718 transactions in 2015 exceeded those of previous years, with lows in 2012 and 2013 of 14,908 and 14,555, respectively. Although prices at the end of 2015 were 1% lower than 2014, positive growth in land transactions is expected for 2016.

Comparatively, both the housing and land markets reached a low in terms of transactions in the first quarter of 2013, marking the start of a growth trend that was clearer in the housing market.

Housing-land transactions (number)

Source: Spanish Ministry of Public Works and in-house data.

6.1.3. Non-residential market

The non-residential market includes the other types of properties, mainly offices, industrial and logistics properties, commercial property, shopping centres and hotels. The performance of these products generally follows the same pattern as the macroeconomic variables, given the correlation between the performance of GDP, employment and the property needs arising from economic, industrial and commercial activity.

The available analyses of these products are generated by specialised consultancy firms with information taken from their participation in transactions in these markets and the information generated by their study departments. The figures generally follow the same trends, although the numbers may vary, depending on the source used.

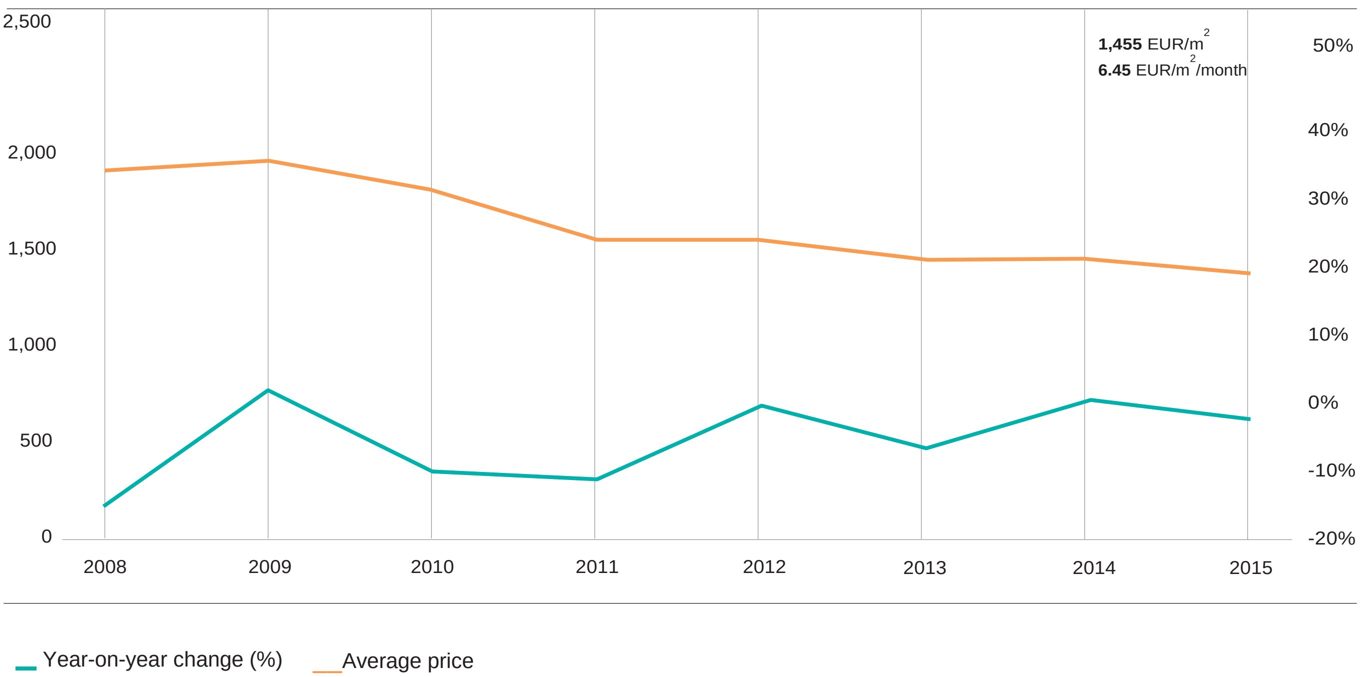
Office market

The largest office markets in Spain are concentrated in Madrid and Barcelona. The highest levels of absorption, transactions and prices and the lowest availability rates were reached in 2007. These indicators fell drastically in 2008 and 2009 to reach their lows, and subsequently slowed their descent and regained a certain stability.

From 2012 to 2013, based to the sources used, rental prices began to show signs of recovery, picking back up throughout 2014 and in the first half of 2015, especially in prime areas.

In recent years, this market has followed an upward trend despite not having reached the prices of the previous cycle. This trend has been influenced by high levels of contracting, especially in areas with substantial economic activity where the stock is not sufficient to meet demand.

Average office rent price (EUR/m²) **year-on-year change**



Source: Spanish Ministry of Public Works and in-house data.

Madrid and Barcelona are the cities that have recorded the highest rise in prices. Madrid, with an average rent of 13.16 EUR/m^2/month, has the highest office rental prices, reaching EUR 33.00 /m^2/month in prime areas. Barcelona, with an average rent of EUR 12.25 /m^2/month, does not have such a such a stark difference in prime areas, where prices reach EUR 19.75 /m^2/month.

As regards the number of transactions, the same trend is being seen, with growth in gross office space rentals in Madrid and Barcelona reaching 32.6% and 41.6%, respectively, in 2015. The shortage of available space, combined with increased rental demand, has led to a decline in availability, placing office market availability rates at 12%, the lowest since 2012.

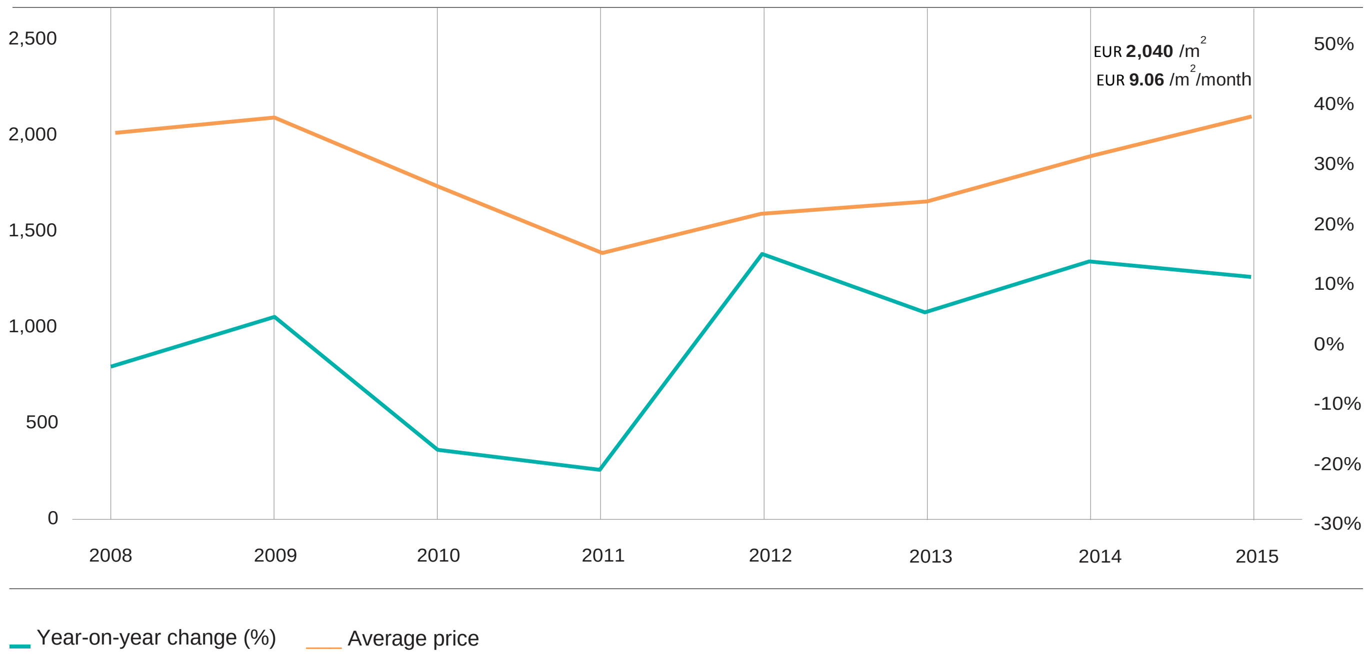
Notable in 2015 were the transactions performed by REITs (Merlin and Axiare) which account for 45% of the investment and include the acquisition of 77% of Testa following the agreement reached by Merlin and Sacyr last June.

A moderate increase in supply is expected for 2016. Madrid, for example, will add 90,189 m2 (central offices of Banco Popular, 70,000 m2), of which 88% is already reserved and Barcelona will add 56,700 m2, of which 64% is still available. Positive growth is also expected in this market and, although supply will continue to outpace demand, good financing conditions will remain in place.

Commercial and shopping centre market

The Spanish economy experienced a turnaround in 2015, which is encouraging an increase in spending and, consequently, an improvement in the commercial premises market. This situation positions Spain in the crosshairs of the major international operators, pushing up average rent in the major markets.

Average price for commercial premises (EUR/m²) **and year-on-year change**



Source: Spanish Ministry of Public Works and in-house data.

In analysing the major capitals, such as Madrid and Barcelona, and areas with a substantial tourist presence, such as Valencia and Palma de Mallorca, rental prices of between EUR 60 /m²/month (Calle Colón - Valencia) and EUR 270/m²/month (Portal del Ángel - Barcelona) can be seen.

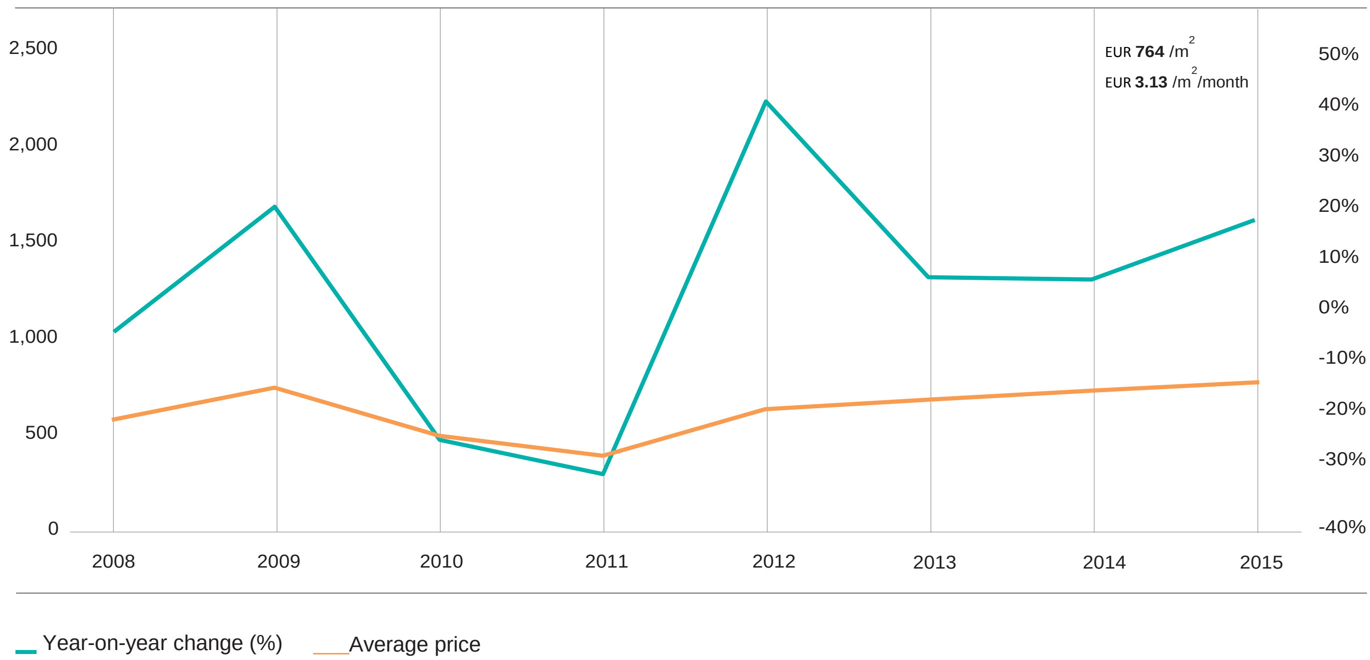
Madrid has the highest rental prices, particularly on calle Preciados and calle Serrano, which have average prices of EUR 250 /m²/month and EUR 230 /m²/month, respectively. The rental of spaces in prime areas of major cities is resulting in almost non-existent supply levels: Barcelona has full occupancy in the areas of La Rambla and Paseo de Gracia; Madrid only has 6% of its premises available and the coastal areas, such as Valencia and Palma de Mallorca, have no availability on their high streets.

Industrial and logistics market

The average rental price of industrial buildings since 2008 has been EUR 3.64 /m²/month, and has followed an upward trend since 2012. However, in 2015 rent stood at EUR 3.13 /m²/month. The average rent of industrial buildings in Madrid is EUR 6 /m²/month, which is slightly lower in Barcelona (EUR 5.81 /m²/month).

In 2015 new rents grew by more than 3% (more than 10,000 m²). Also, the availability rate fell by 41% from 2014 to 2015 due to new rents in the third metropolitan band.

Average industrial building price (EUR/m²) **and year-on-year change**



Source: Spanish Ministry of Public Works and in-house data.

6.1.4. Outlook

Since the financial sector was restructured in 2012 (which led to the creation of Sareb), the country's situation has been stabilised, to such a point that many of the macroeconomic and property indicators are now positive or very nearly positive.

Property as an investment is growing increasingly attractive with direct transactions involving properties or indirect investments through companies or other vehicles. Transactions are structured by acquiring property portfolios, portfolios of loans secured by property, mixed portfolios or portfolios specialised in one single type of property (housing, land, commercial, hotel, etc.) and portfolios of loans not secured by property.

The momentum of this institutional market is being driven at European level. Buyers are large international investment funds and individual investors, who buy either directly or through family offices or similar arrangements. In addition, international investors have in many cases acquired controlling percentages of financial institutions' property management companies or platforms.

The institutions holding the assets, in addition to the portfolios, manage and perform transactions involving singular assets and borrowers' complete positions and competition situations are resolved, among other actions, until management of all the assets is complete.

A particular case is that of the Spanish Real Estate Investment Trust ("SOCIMI", in Spanish) created in the likeness of REITs in other surrounding countries. The first two were first listed at the end of 2013 on the Spanish Alternative Equity Market (MAB), followed by many others, both on the MAB and the Spanish stock market interconnection system. They all hold a substantial position, with a high percentage of property investment.

6.2 Financial information

6.2.1. Accounting regulations

Bank of Spain Circular 5/2015

Since Sareb is a company subject to the accounting framework established in the Spanish National Chart of Accounts, the publication in October of Bank of Spain Circular 5/2015, of 30 September, was of particular relevance. In the circular the supervisor develops the methodology Sareb must use to valuate its assets and, as appropriate, recognise the related impairment allowance.

The circular is applicable for the year ended 31 December 2015, but also retrospectively provides for a change in accounting policies and, therefore, has required the restatement -not the reformulation- of the financial statements for 2014 (which will implicitly include the effect on equity from prior years) as a result of these criteria.

In its transitional rule it establishes the obligation to valuate the entire portfolio based on a uniform methodology that is stable over time, although it indicates that by 2015 at least 50% of the property (owned property or held as collateral) must be valuated in accordance with these established procedures, which are based on what is called the mortgage value. This value is most evident in the appraisals conducted in accordance with Ministry of Economy Order ECO/805/2003, and there is the possibility for certain sufficiently fragmented types to be valued using automated valuation models (AVMs). In both cases such valuations are to be carried out by approved appraisers. A total of fifteen approved appraisers participated in the process.

For the part of the portfolio that meets the requirements contained in Rule Four d), internal automated valuation models were used, taking as a reference in certain cases the valuations performed in accordance with Ministry of Economy Order ECO/805/2003. These models have been validated by an independent third party and are calibrated by the Company's property experts in such a way as to ensure that detailed evidence is systematically recorded in the tools developed as part of the aforementioned methodology. The use of spatial autocorrelation techniques, geographic segmentation methods and geolocation has been included in what we have come to define as an EVM (expert valuation model), which represents an evolution in the traditional AVM valuation techniques.

This circular establishes the existence of different asset units, although only two of them apply to Sareb - the property asset unit and financial asset unit (including properties foreclosed over Sareb 's existence). In each of them (and this is the main new feature of the regulation), the gains and losses arising from the valuation of each and every asset composing the unit can be offset. However, the possible gains or losses arising in the category of financial assets and property assets cannot be offset.

Result of the 2015 valuation

To apply the new circular, in the final months of 2015, Sareb undertook an intense valuation process for each of the assets it acquired at the end of 2012 and in 2013 from the nine transferor institutions that received State aid. Achieving this required a complex effort involving logistical, human and economic resources and numerous teams and the mobilisation of much of the valuation industry in Spain. This was not surprising, since the effort involved the valuation of a portfolio of 105,000 properties, 80,000 loans and 375,000 assets pledged as collateral.

This valuation exercise revealed different situations in the property asset unit and the financial asset unit. In the former, it was found that, following the circular's methodology, Sareb had accumulated gains that had no accounting effect and could not be used for offset. By contrast, in the financial asset unit there were losses of EUR 3,012 million (approximately 9% of their carrying amount and 4.5% of the contractual debt), which gave rise to the recognition of an impairment allowance for this same amount at 31 December 2015.

It should be recalled that Sareb recognised provisions to the impairment allowance in the prior two years amounting to EUR 978 million, of which EUR 10 million were released in 2015 as a result of various transactions. Accordingly, excluding the EUR 968 million already recognised, new provisioning needs stood at EUR 2,044 million.

The breakdown of the total impairment allowance of EUR 3,012, taking into consideration the collateral securing the financial assets, is as follows:

(in millions of euros)

Type	Debt	Fair value	Carrying amount	Gain or loss
Secured loans	55,675	27,367	28,016	-647
Secured loans with ineffective collateral	3,618	41	1,474	-1,433
Unsecured loans	6,743	210	1,461	-1,252
Participating loans	782	0	275	-275
Foreclosed or received in Payment		3,279	2,684	595
TOTAL	66,819	30,899	33,897	**-3,012**

The above table shows that the losses are concentrated in financial assets that do not have effective collateral or directly lack collateral. The circular establishes that most of them, unless shown otherwise, are assumed to have no value. The scant value of these exposures would be based on the existence of certain actions concerning the debtor's solvency that can be effectively demonstrated.

Distribution over time of impairment

In the year restated pursuant to the accounting regulation, the recognition of impairment was distributed over the three years of Sareb 's existence. The accompanying table shows the effect of this distribution, taking into consideration those provisions that were recognised in prior years following the Bank of Spain's recommendations.

Restatement 2013-2015
(in millions of euros)

	2013	2014	2015
Provisions to the impairment allowance*	259	719	-
Additional impact	1,348	349	-
Provision to the impairment allowance due to circular	1,607	1,068	337
Total impairment allowance: 3,012			

* Includes EUR 10 million released as a result of various transactions

This breakdown shows how the main effect occurred in prior years, especially in the first year of SAREB's incorporation. This effect is even greater if it is taken into account that in 2014 a substantial portion of the effect occurred as a result of the application of the schedule established in the circular for unsecured assets, the effective value of which would have been impaired practically from the outset.

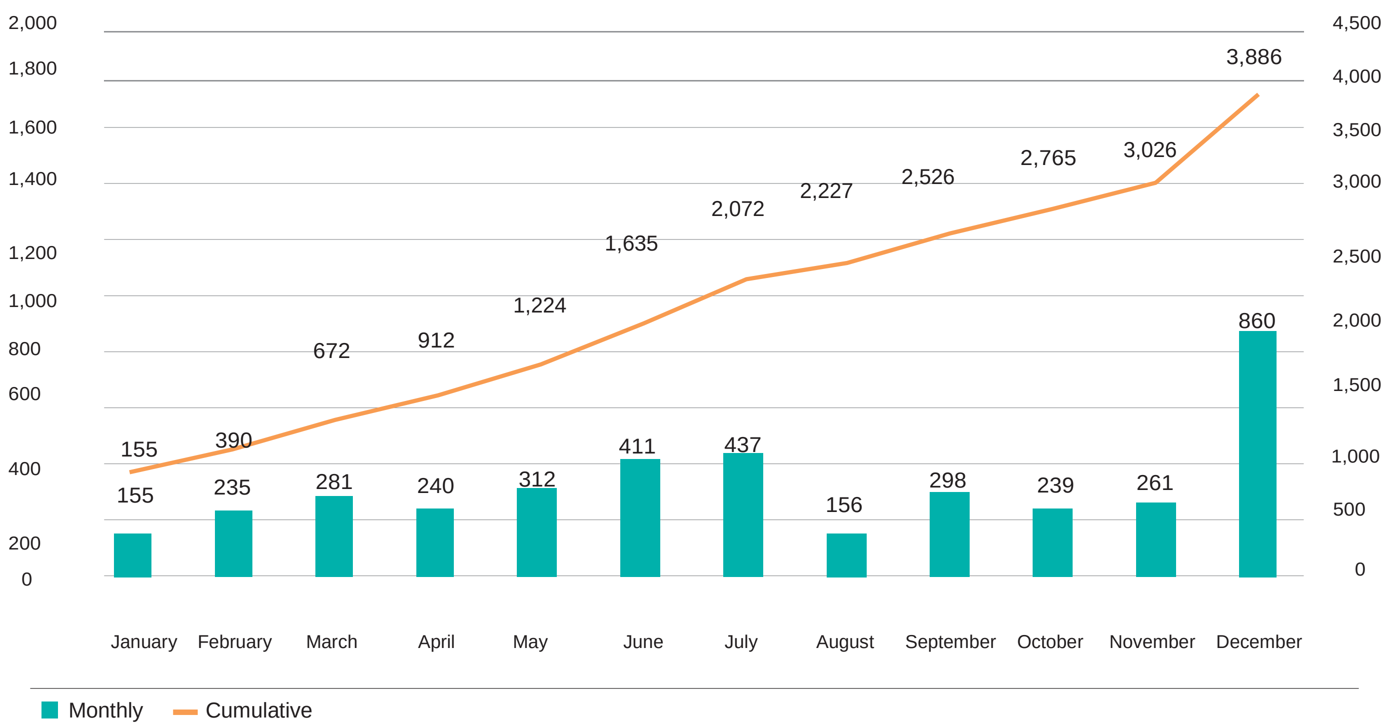
6.2.2. Management and accounting information

Business performance

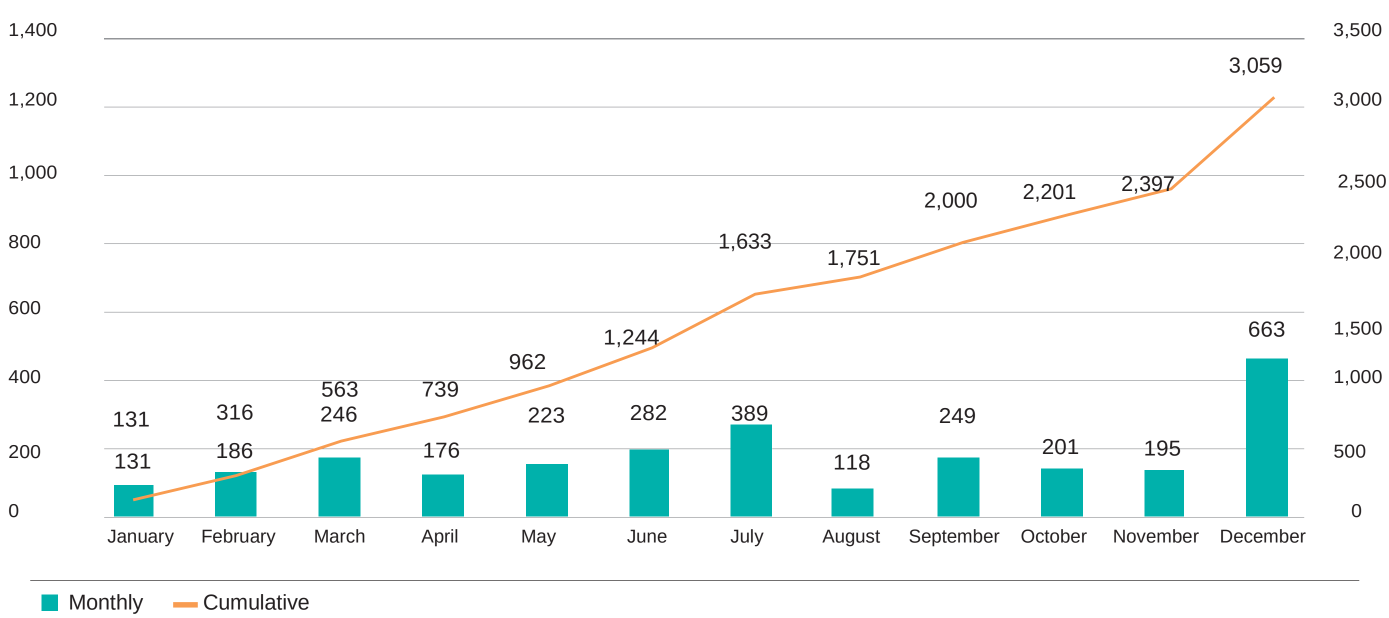
2015 saw the completion of the Íbero project, in which the servicers took control of the portfolios that were awarded. The complexity of the process -with 15 migrations in parallel- was a challenge for the Company that was resolved satisfactorily, as explained in prior chapters of this report. In most cases the servicers began to manage the assets in the second half of the year or in the final quarter, when the proportion of revenues was 58% compared to 42% in the first half.

2015 closed with total revenue of EUR 3,886 million, and gross income of EUR 1,215 million. Of total revenue, EUR 3,059 million relate to financial asset transactions and EUR 827 million to property asset transactions.

Revenue performance (in millions of euros)



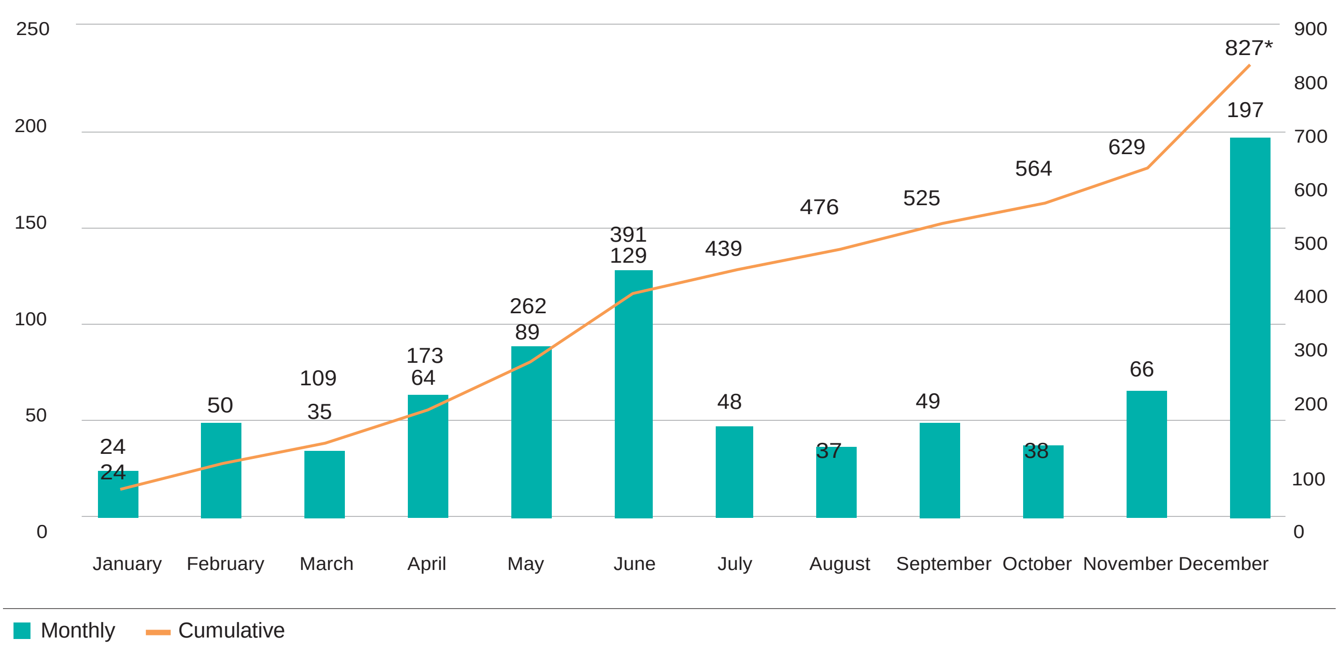
Performance of revenue from financial assets (in millions of euros)



The performance of the income arising from financial assets was even over the year, except for the effects of the institutional sale.

Note should be made of the impact of the Sales Growth Plans (PDVs), the name given to the bilateral agreements reached with debtors with the aim of facilitating the sale of properties securing loans. In total, approximately 1,000 borrowers or debtors of Sareb have benefited, of which more than 80% are SMEs. These initiatives have become a stimulus for the local economy and, have helped to maintain the business fabric to a certain degree. Through the PDVs, Sareb has facilitated the sale of more than 6,000 housing units, with revenue of EUR 748 million.

Performance of revenue from property assets (in millions of euros)

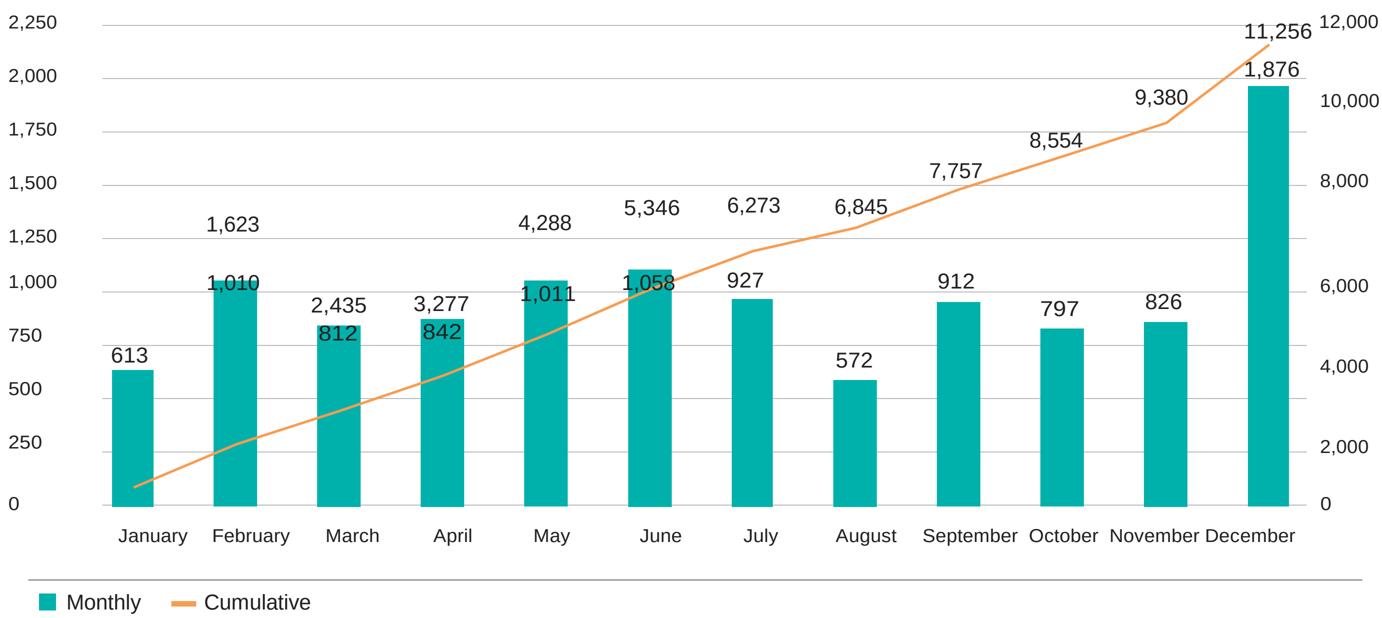


(*) The income from the FABs is the net amount

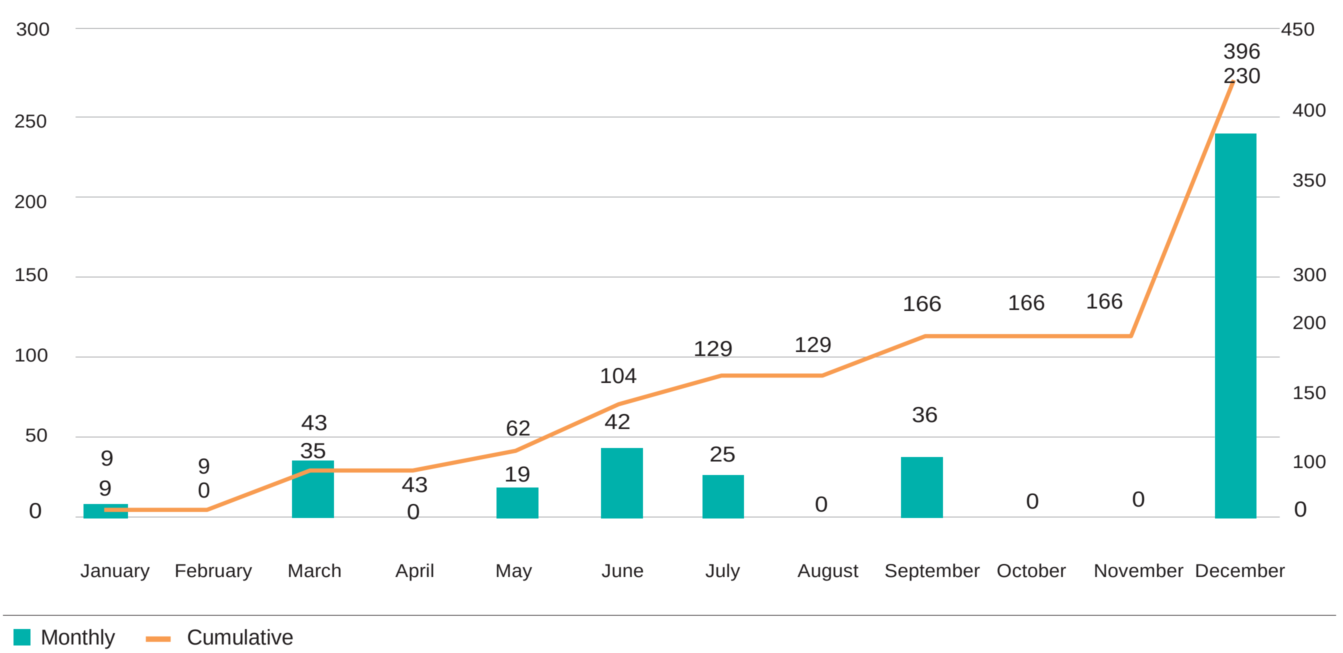
There was a difference in the performance of the income from property transactions between residential and non-residential assets. The marketing of the former was impacted by the various migration processes, since the changeover of management increases the time between when control is taken of the portfolios and when an asset is sold. By contrast, non-residential stock and land sales performed slightly better than expected.

Sales were made in 2015 of 5,162 own units for EUR 785 million, in addition to the 6,094 units sold through the PDVs. EUR 42 million from rent paid in relation to property assets are also included in this line.

Performance of revenue from property assets (no. of units)



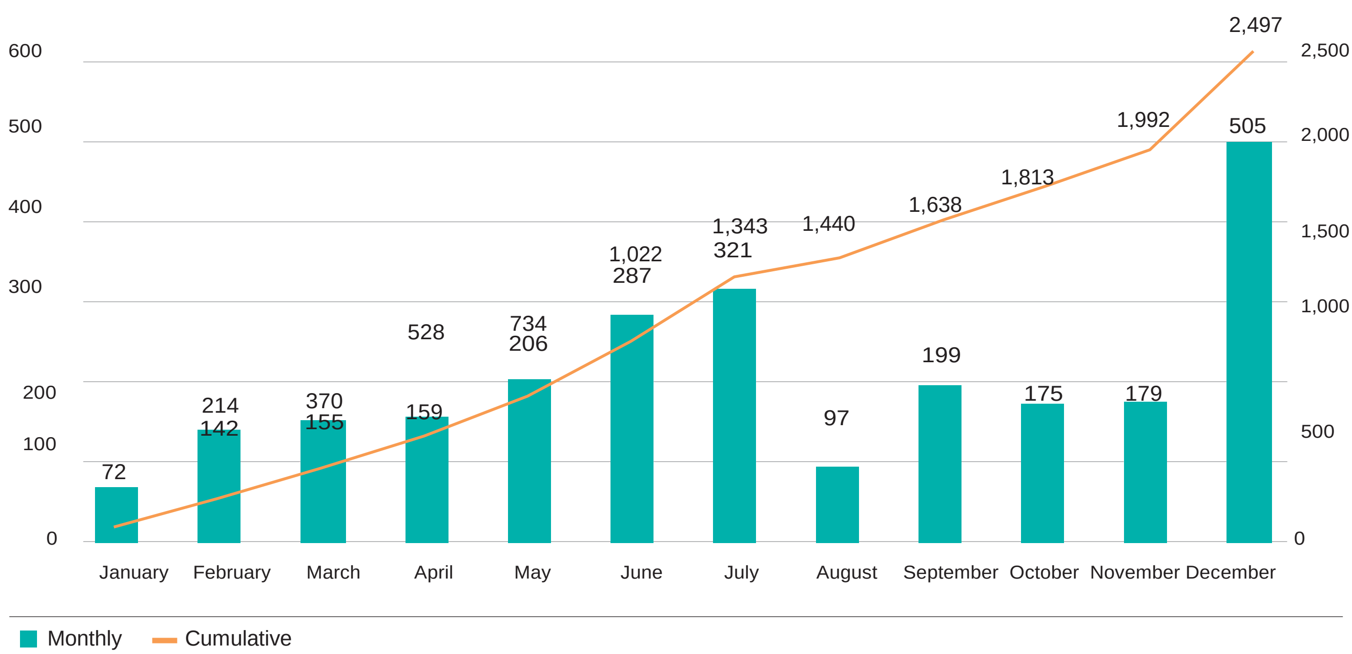
Wholesale sales performance (in millions of euros)



(*) Including wholesale of both financial assets and property assets.

Wholesale sales generated income of EUR 396 million, 74% of which was concentrated in the second half of the year. This circumstance is a result of the average periods required to prepare, market and close wholesale portfolio sales.

Retail sales performance (in millions of euros)



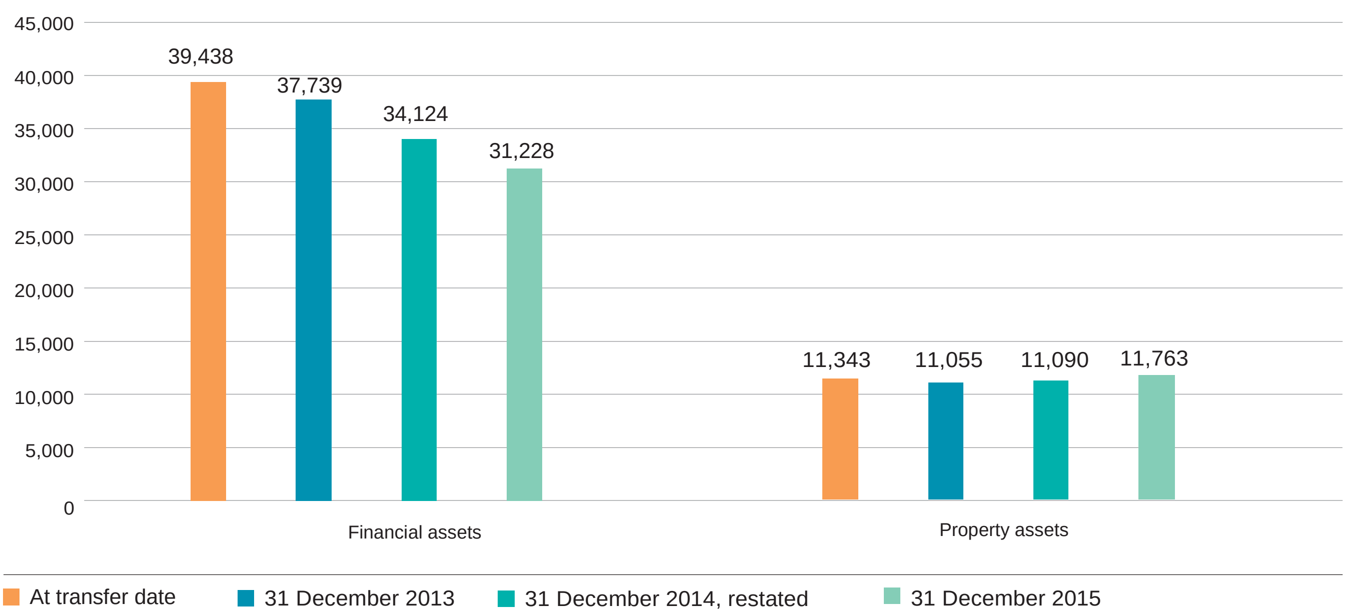
This channel includes sales of collateral, agreements reached for full repayment and sale of loans, retail sales and sales of singular assets, and rental income.

The increase in activity in December was due to the signing of a high volume of full loan repayment and loan sale transactions, amounting to EUR 204 million, and to the sale of land amounting to EUR 125 million. In this regard, it should be noted that for the first time in Sareb 's existence, in 2015 the volume of land sales exceeded residential asset sales, showing that after several years of correction, there was a turnaround in 2015 in transactions involving this type of asset.

Portfolio performance

The detail at 31 December 2015 of the performance of the portfolio in 2015 is as follows:

Portfolio performance (in millions of euros)



In its three years of existence Sareb has reduced the value of the assets that were transferred to it by 15% (taking into consideration the cost of transfer).

As shown in the foregoing table, the volume of property assets has remained practically constant over time. This is due to the additions arising from the foreclosure and dation in payment processes that Sareb has launched as part of its loan recovery processes, which in 2015 amounted to EUR 1,330 million.
An additional factor are the investments that Sareb itself makes in work in progress, which in 2015 accounted for approximately EUR 31 million.

This dynamic of adding properties to the portfolio makes for a permanent and diversified stock of assets available to be marketed. It also facilitates a reduction of the balance sheet, since it is easier to market a property asset than a financial asset.

Another factor in the reduction of the balance sheet was the corrections of the transfer of assets from the transferors, which in 2015 amounted to EUR 76 million, most of which (EUR 75.2 million) were performed through the redemption of bonds.

Period earnings

The statement of profit or loss for 2015, compared to the statement of profit or loss for 2014, restated pursuant to Circular 5/2015, includes the following lines:

Statement of profit or loss (in millions of euros)

Millions of euros	2015	2014
Revenue	**2,202**	**3,313**
Property assets	835	1,133
Property asset sales	783	1,074
Rental income	42	49
FABs and other	9	9
Financial assets	1,367	2,180
Financial asset sales	396	853
Interest income on loans (margin)	971	1,327
Cost of sales	**-987**	**-1,586**
-Financial assets	-370	-850
-Property assets	-617	-735
Gross income	**1,215**	**1,727**
Provision to the impairment allowance for loans, credit facilities and foreclosed assets	-337	-1,068
Gross income after impairment losses	**878**	**659**
Other operating income	6	1
Management, marketing and maintenance costs	-611	-495
Depreciation and amortisation charge and other	-36	-71
Profit from operations	**237**	**94**
Net financial loss	-709	-1,095
Loss before tax	**-472**	**-1,001**
Income tax	473	197
Net profit (loss)	**0.3**	**-804**

In 2015 Sareb substantially increased profit from operations, before allocating borrowing costs, to EUR 237 million, compared to EUR 94 million in 2014. This profit is based on gross income after impairment losses of EUR 878 million, compared to EUR 659 million in 2014, while taking into account that the positive effect of the market's performance in 2015 is estimated at EUR 386 million. These figures do not alter the trajectory forecast in the Company's business plan.

However, high borrowing costs, which in any case have been reduced in line with the performance of the interest rates accrued to cater for the liabilities in the form of senior debt, give Sareb a loss before taxes of EUR 472 million, notably lower than the EUR 1,000 million loss in 2014.

Lastly, this loss is mitigated by the amount of tax assets accrued due to the recognition of impairment losses, which results in a profit for Sareb of EUR 0.3 million.

Detail of the statement of profit or loss: income and margins

The statement of profit or loss shown above follows the guidelines of the Spanish National Chart of Accounts which, for the purposes of revenue, does not consider the amount received but rather the margins generated on the PDVs, debt reductions and principal repayment. Considering all the amounts received and accrued, revenue would total EUR 3,886 million (down 26% on 2014), with which Sareb earned gross income of EUR 1,215 million, relating mainly to the management and marketing of financial assets.

(in millions of euros)	Revenue	Gross income
Financial assets	3,059.4	997.4
Retail	2,663.5	937.0
Wholesale	396	60.4
Property assets and FABs	826.5	217.8
TOTAL	3,885.9	1,215.2

Property asset and FAB margins

Gross margin	Millions of euros
Residential	68.8
Singular/tertiary	107.7
Rental income	42.0
Total property assets	217.8

In 2015 singular transactions, relating mostly to land, were particularly dynamic. This land-related activity exceeded the residential business not only in terms of revenue but also margins.

Financial asset margins

Gross margin	Millions of euros
Loan sale and repayment	210.2
Partial repayment and recovery	189.6
Interest	389.2
PDVs and liquidation of collateral	148.0
Wholesale sales	60.4
Total financial assets	997.4

There was a fall in margins on financial asset transactions, due mainly to the decrease of repayments as a result of the logical reduction over time of the volume of assets catering for these contractual payments. For the same reason, interest earned and collected also decreased as a result of a lower number of assets catering for these payments and a certain deterioration in the payment of those which continued to exist. The final factor was the reorientation of wholesale transactions. In the other lines no significant changes in volumes or margins took place.

In prior years, the greater revenue earned resulted in gross margins that were clearly higher than in 2015. The margin relates the selling price to the acquisition cost -mostly equal to the transfer price in the transfer- which was established as an average of the whole.

The corrections relating to the impairment of financial assets due to the circular had a substantial effect on the margin. These corrections adjust the margins obtained, which are now affected by the fact that circular's values are relatively close to market value. Accordingly, the gross margin for 2015 is clearly lower than in 2014.

(in millions of euros)	2015	2014
Gross margin	1,215	1,727
Impairment losses	-337	-1,068
Gross margin after impairment losses	878	659

Operating expenses

The detail of "Operating Expenses", excluding impairment losses, in 2015 is as follows:

(in millions of euros)	
Management and marketing costs	222
Asset management fees	95
Asset marketing costs	126
Upkeep and maintenance costs	191
Community association charges	45
Property tax (IBI) and other taxes other than income tax	90
Other upkeep and maintenance costs	55
Non-deductible VAT	103
General expenses	97
Staff costs	37
Overhead costs	60
TOTAL	611

The Company's non-financial costs amounted to EUR 611 million. 36% relates to the fees arising from the management contracts of the prior contracts and to management and administration fees and sales commissions relating to the Íbero Project.

The property asset upkeep and maintenance costs account for 31% of the total, due mainly to community association charges and property tax (IBI).

Financial loss

The financial loss for 2015 comprises:

- Income of EUR 15 million earned from the active management of the Company's unrestricted cash, mainly though liquidity auctions.
- Finance costs of EUR 724 million relating practically in full to the servicing of the senior debt issued by Sareb.

In 2015 Sareb generated sufficient cash to meet interest payments on the debt and to generate unrestricted cash, of which 92% was earmarked to repay a portion of this debt, following the agreed cash protocol.

Comparative results, 2013-2015. Effect of impairment

For the purposes of understanding the changes in Sareb 's financial statements and the impact of the recognition of impairment losses established under the circular, the table below shows the changes in the profit or loss for the three years before and after tax.

In this regard, the profit or loss before tax shows the trend in the Company's management and reflects a clear reduction of losses. In 2015 this figure stood at EUR 472 million, and a key factor contributing to it was the reduced need for provisioning in the year, as Sareb has progressively optimised the margins obtained considering the economic values of the transferred assets.

Comparison with restated figures (in millions of euros)

	2013*	2014	2015
Provision to the impairment allowance due to the circular	1,607	1,068	337
Loss before tax	-1,751	-1,000	-472.3
Profit (loss) for the year	-1,609	-804	0.3

Senior debt activities and performance

In 2015 Sareb continued to fulfil its primary commitment acquired on incorporation, which is the payment of the debt it issued to acquire its assets, amounting to EUR 50,781 million, which is backed by the Spanish government.

As well as meeting the interest payments generated by this debt, in 2015 Sareb redeemed a total of EUR 1,976 million of its senior debt in cash, albeit a portion related to the allocation of the 2014 cash flow surplus.

In order to analyse the total redemption that relates to the 2015 cash flows, regard should be had to the repayment of the senior bonds to Group 1 institutions in December 2015 and the repayment to Group 2 institutions on 2 February 2016, the latter amounting to EUR 382 million, which would make a total of EUR 1,858 million.

Corrections

In 2015 Sareb continued to correct assets transferred incorrectly to the Company, since they did not meet the requirements to be included in any of the related asset categories in accordance with Article 48 of Royal Decree 1559/2012, of 15 November, and with the Resolution of the Governing Committee of the FROB on the conditions of the transfer.

In other words, these assets did not fall within the scope of transfer on the effective transfer date and, therefore, were outside the scope of the legal duty of transfer established in Additional Provisions Eight and Nine of Law 9/2012 on which the transfer agreement is based.

Accordingly, the nominal amount of the Group 1 bonds was reduced, due to corrections, by EUR 74.4 million in 2015. As regards Group 2, the nominal amount of the bonds was reduced by EUR 0.8 million, and, therefore, total corrections amounted to EUR 75.2 million.

The detail of the bonds redeemed by means of correction in 2014 is as follows:

Corrections of bonds in 2015

Thousands of euros				
	Maturity			
	31/12/15	31/12/16	31/12/18	Total
Group 1	29,700	39,600	5,100	74,400
	28/02/16	28/02/17		
Group 2	400	400		800

Redemptions

As regards redemptions in cash, in February 2015 a total of EUR 500 million was redeemed with a charge to the cash generated in 2014.

On 31 December 2015 Group 1 bonds with a nominal amount of EUR 1,476 million were redeemed this time with a charge to the cash generated in 2015. The redemption in February related mainly to the issues of Sareb 3-year bonds, which are the issues with the highest spread on 3-month Euribor. This same criterion was applied to the December redemptions. The bond chosen to be redeemed was the 2-year bond.

The detail of the bonds redeemed in cash in 2015 is as follows:

Redemption of bonds in 2015

Thousands of euros		
	Maturity	
	31/12/15 31/12/16	Total
Group 1	1,510,000	1,510,000
	28/02/16	
Group 2	465,800	465,800

In February 2016, an additional EUR 382 million, relating mainly to the Group 2 2-year bond, were redeemed with a charge to the cash generated in 2015. The detail of the bonds redeemed in cash in February 2016 is as follows:

Redemption of bonds in 2016

Thousands of euros		
		Maturity
	28/02/16	Total
Group 2	382,00	382,000

Performance of bonds in 2015

The following tables show the performance in 2015 of the various bonds issued and delivered to each of the groups:

Performance of Group 1 bonds issued and delivered in 2015

Figures in euros

Nominal amount issued	Balance at 31 December 2014	Current maturity	Current coupon	Corrections	Redemptions in cash	Balance at 31 December 2015
11,008,100	10,284,900,000	31/12/16	3-month Euribor + 0.199%	22,300,000		10,262,600,000
16,512,600	15,427,500,000	31/12/16	3-month Euribor + 0.428%	33,500,000	1,476,000,000	13,918,000,000
9,173,600	6,622,500,000	31/12/18	3-month Euribor + 0.389%	18,600,000	34,200,000	6,569,700,000
36,694,300	32,334,900,000			74,400,000	1,510,200,000	30,750,300,000

Performance of Group 2 bonds issued and delivered in 2015

Figures in euros

Nominal amount issued	Balance at 31 December 2014	Current maturity(following 2016 issues)	Current coupon (following 2016 issues)	Corrections	Redemptions in cash	Balance at 31 December 2015
4,225,900,000	4,085,700,000	28/02/16	3-month Euribor + 0.288%	200,000		4,084,500,000
6,339,200,000	6,104,100,000	28/02/17	3-month Euribor + 0.263%	400,000		6,103,700,000
3,521,600,000	3,003,900,000	28/02/19	3-month Euribor + 0.516%	200,000	465,800,000	2,537,900,000
14,086,700,000	13,193,700,000			800,000	465,800,000	12,726,100,000

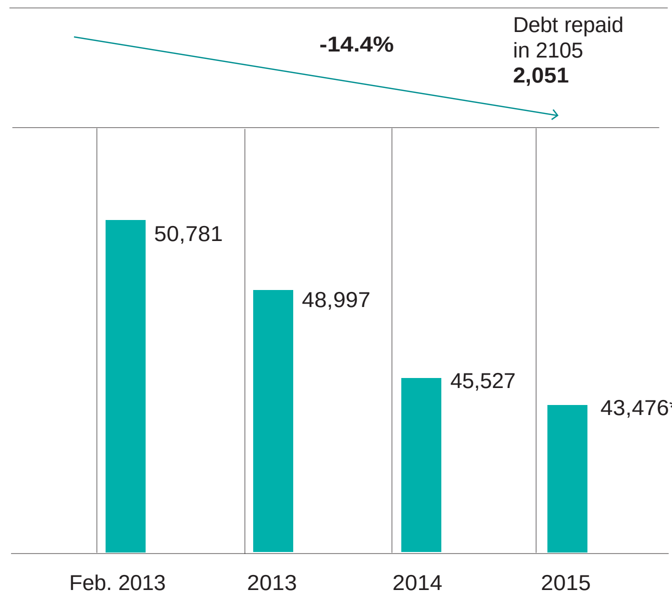
(*) In February 2016 there were additional redemptions of EUR 382 million of Group 2 bonds.

In accordance with the underwriting agreement, on the maturity date of the various senior bond issues, the Company redeemed at maturity the Sareb 2012-3 and Sareb 2014-2 issues by issuing new senior 3-year and 1-year bonds, maturing on 31 December 2018 and 31 December 2016, respectively. The spreads set for these issues were 38.9 basis points and 19.9 basis points, respectively, as compared with 296.4 basis points and 29.7 basis points, respectively, for the redeemed bonds.

Performance of senior debt over Sareb 's existence

In its three years of existence, the cash inflows from the sales of its various assets and the collection and recovery of financial assets have enabled Sareb to reduce the amount of the senior debt issued by 14.4%, which would be over 15% if the redemption carried out in February 2016 with the liquidity generated in 2015 was taken into account.

Senior debt
(in millions of euros)



* Data at 31 December 2015. Does not include EUR 382 million repaid in 2016 with a charge to 2015

Shareholders' equity

Equity position and future conversion of subordinated debt

As a result of the additional provisions of EUR 2,044 million recognised by Sareb, at the end of 2015 the Company had an equity deficit of EUR 1,218 million as a result of cumulative losses net of the related tax effect of EUR 2,418 million, compared to EUR 1,200 million in share capital and reserves.

The equity position will be restored as a result of the existence in the Company's liabilities of an issue of EUR 3,600 million of subordinated debt that can be converted in the event of an equity deficit.

In this regard, in 2016 Sareb will convert, subsequent to approval by the shareholders, EUR 2,171 million of subordinated debt in 2016 which, will restore EUR 1,218 million of its equity deficit and provide EUR 953 million of new shareholders' equity, equal to 2% of the total balance sheet. Accordingly, Sareb will have share capital of EUR 953 million, in addition to the remaining EUR 1,429 million of convertible subordinated debt. The Company will also have provisions in relation to its assets of EUR 3,012 million, which it will recover as the value of those assets recovers

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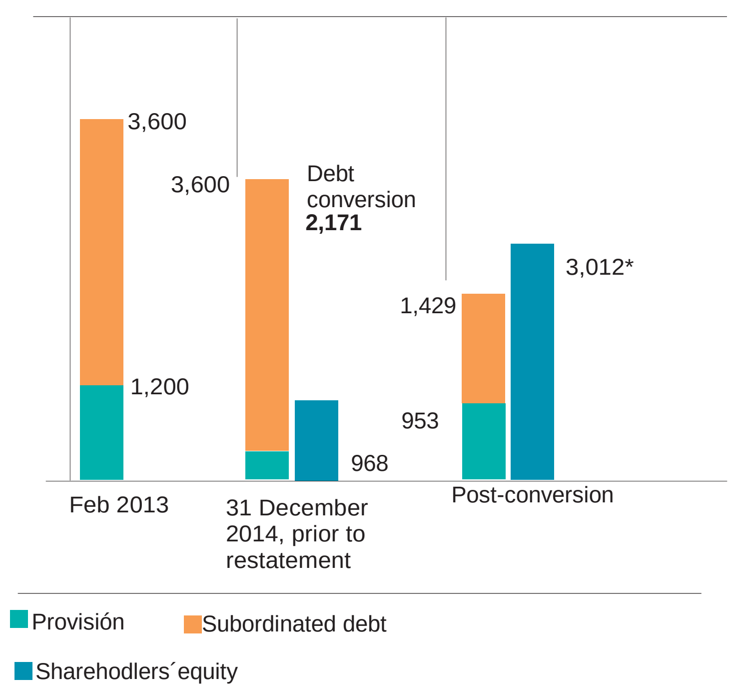
Key equity figures (in millions of euros)



* Includes EUR 968 million already recognised and an additional EUR 2,044 million

Current and future capital structure following conversion

With regard to Sareb 's current capital structure, its shareholders' equity amounted to EUR 1,200 million at the incorporation date, made up of share capital (EUR 300 million) and a share premium (EUR 900 million). Shareholders' equity was fully paid in February 2013, with the transfer of the assets of Group 2 institutions. The largest shareholder is the FROB, with 45% of the share capital, and the remaining 55% is owned privately.

This capital structure will disappear as the capital is amortised in full to offset losses, most of which arose as a result of application of Bank of Spain Circular 5/2015.

In this regard, the percentage distribution of the share capital resulting from the conversion process -the aforementioned EUR 953 million- will be the same as the unallocated subordinated debt issue (EUR 1,429 million):

Holder	%
Santander	16.6%
Caixabank	12.2%
Banco Sabadell	6.6%
Popular	5.7%
Kutxabank	2.5%
Banca March	0.4%
Bankinter	1.4%
Ibercaja	1.4%
Unicaja	1.3%
Cajamar Caja Rural	1.2%
Caja Laboral Popular	0.6%
Deutsche Bank	0.3%
Ceca	0.3%
Banco Cooperativo Español	0.3%
C.C. Caminos	0.1%
Mapfre	1.1%
Axa Seguros Generales	0.2%
Generali	0.1%
Mutua Madrileña	0.7%
Catalana Occidente	0.3%
Mutua Pelayo	0.1%
Asisa	0.1%
Reale	0.1%
Zurich	0.1%
Sta. Lucia	0.1%
Iberdrola Inmobiliaria	0.2%
FROB	45.9%
TOTAL	100%

6.2.3. Interest rate hedging

As has been seen, financial assets represent the majority of Sareb 's portfolio. Accordingly, credit risk management is key to ensuring that the divestment objective is met. In view of the volume of bonds that Sareb issued to purchase the assets, and in order to reduce its high exposure, in 2013 the floating rate profile of its borrowings was swapped for a fixed-interest structure for over 80% of the debt. Thus, in the summer of 2013 the Company arranged nine consecutive 1-year interest rate swaps (IRSs) (from December 2013 to February 2023), for which Sareb pays a fixed rate in exchange for 3-month Euribor, which is the benchmark rate for the hedged bonds. The reference initial nominal amount of the derivative was EUR 42,221 million.

The arrangement of this hedge made it possible to reduce uncertainty and risk at long term in relation to a possible interest rate rise, which would have a substantial impact on the Company's business plan and viability.

In accordance with accounting standards, changes in value of the derivative are recognised in the Company's equity and are taken to profit or loss each year over the term of the hedge. The total fair value, net of tax, of this derivative is recognised on the liability side of the Company's balance sheet at EUR 2,591 million.

From an accounting point of view, this makes Sareb 's equity negative but, as has been explained in earlier reports, this has no impact on its activity, since it does not affect results or capital in accordance with Article 36 of the Spanish Commercial Code.

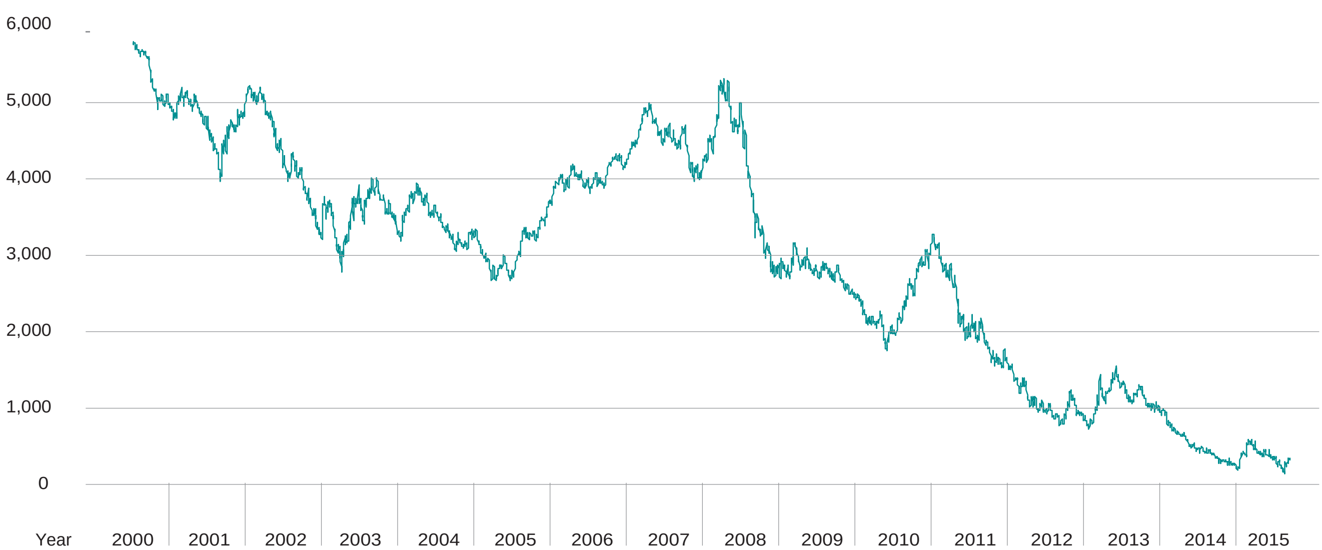
The fall in interest rates in 2015 and, in particular, the reduction in the spread on Spanish Treasury bonds enabled Sareb to enjoy a substantial reduction in the Company's finance charge, since a portion of the borrowing risk was not hedged in 2013, as shown in the following table:

Year	Nominal amount	3-month Euribor	Series I spread	Series II spread	Total interest	Successive reduction
2013	50,780,800,000	0.211%	2.551%	1.896%	1,247,868,914	-
2014	46,990,700,000	0.223%	1.659%	1.659%	1,154,067,691	-93,801,223
2015	45,027,200,000	0.011%	0.903%	0.883%	716,057,126	-438,010,565
Total savings						-531,811,788

(Figures in euros)
(Weighted average interest rate and spread)

The weighted average fixed rate of the transaction over the term of the hedge is 1.586% and at the end of 2014 it was 0.322%.

Performance of 5-year swap rate



From the standpoint of the interest rate risk of the bonds issued, the risk associated with the variable spread on the bonds that depends on the Treasury asset swap at the maturity of the bonds and the 3-month and 6-month Euribor spread is limited to 2%.

The Company's liquidity investment policy has been one of the mainstays in risk management and it was implemented within a strict framework approved by the Board of Directors.

All Sareb 's financial risk factors are the subject of ongoing analysis and at the same time the strictest and most sophisticated stress techniques are applied to them, in order to take into account at all times the extreme scenarios with which the Company might be faced.

In 2015 progress was made in the implementation of additional risk valuation and valuation models that strengthened monitoring and specific actions were carried out in all significant risk clusters.

6.2.4. Performance of the business plan in 2015

Apart from the effect generated by the publication of Bank of Spain Circular 5/2015 relating to the valuation of the assets in Sareb's portfolio and the consequent recognition in the balance sheet of the impairment of financial and foreclosed assets, the performance of the divestment business itself was marked by the technological migration processes between the former transferors and the new servicers.

A direct effect of these processes was the reduction of the commercial activity of the transferor institutions in the months prior to the transfer. This effect was combined with the slowdown in the handover of control to the new servicers of the migrated portfolios since, despite the successful completion of the technological migration, the process of gaining knowledge of the assets received, the design of the sales teams and understanding of the sales strategies set by Sareb took place more slowly than expected.

In addition, 2015 was also characterised by the regearing of the institutional and wholesale sale processes towards retail sales, in response to the strategy of maximising the profitability of the transactions.

The combination of these three effects (decreased activity of the outgoing institutions, slower handover of control to incoming servicers and decreased institutional sales) resulted in lower than expected revenue, amounting to 72% of the volume of sales envisaged in the business plan for 2015.

However, net operating income -as a measure of the commercial profitability of asset sales, i.e. disregarding impairment for accounting purposes- stayed close to the levels established in the business plan, meeting the target by 94%. This was due mainly to the positive performance of loan repayments and sales, since in 2015 transactions were performed with higher than average net margins, which made it possible for 94% of the net margin included in the business plan for 2015 to be obtained with volumes that were 28% lower than expected.

As regards other operating expenses, of particular note is a containment of overhead costs with respect to the costs estimated in the business plan, since only 84% of the forecast expenses were incurred.

On the contrary, asset maintenance costs were 18% higher than estimated. The volume of tax costs arising from foreclosure and dation in payment processes that Sareb cannot pass on exceeded the budgeted volume by EUR 42 million. In this regard, an increase took place in expenses associated with the singular processes of turning loans into property.

As regards the finance costs generated by Sareb 's debt, the business plan was met, due mainly to a successful forecast of the performance of the benchmark rates, which did not fluctuate significantly in 2015.

Lastly, in order to evaluate Sareb 's activity without considering the restatement of the financial statements and the impact of the circular for accounting purposes (issues that could not be taken into account when preparing the plan), the actual net losses before tax amounted to EUR 73 million, compared to the target of EUR 6 million.

6.3 Customer management

At the end of 2015, Sareb had a total of 32,941 debtors, between holders and guarantors. Of these, 15,835 were primary holders or representative borrowers, nearly 3.5% less than at the end of 2014.

The breakdown of Sareb 's portfolio, with three quarters of its assets in the form of loans, makes the management of debtors -its main customers- critical to generating income and profit. At the end of 2015, Sareb 's loan portfolio represented 74.3% of its portfolio, compared to 77.7% following completion of the transfer of assets in February 2013. In other words, it has decreased by EUR 8,505 million.

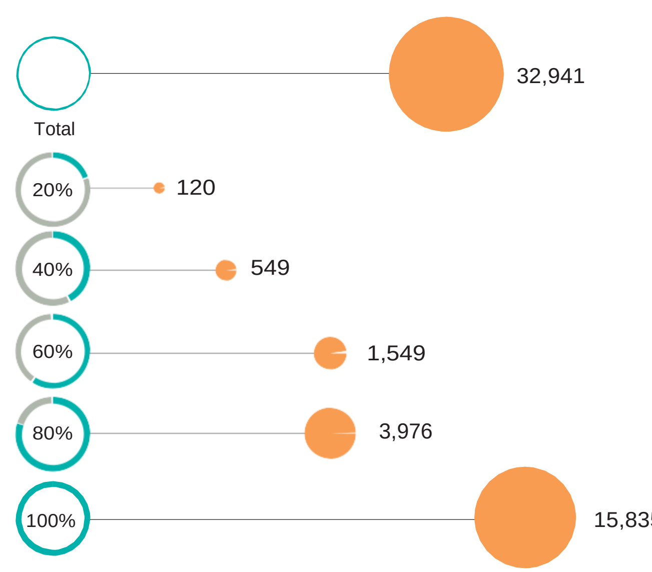
The breakdown of the portfolio of debtors shows a significant disparity by volume of risk: 45% of borrowers have less than EUR 1 million in debt, while the 1,000 largest borrowers account for over 60% of the total debt.

Breakdown of primary borrowers by range of total debt

Category	Level
< EUR 0.5 million	24.3%
EUR 0.5-1 million	21.5%
EUR 1-2 million	20%
> EUR 2 million	34.2%

Breakdown of assets by range of debt (%)

Percentile | No. of debtors (holders and guarantors)



Active management of the borrowers is aimed at recovering the maximum value of each asset. To this end, the recovery strategy must be adapted to each borrower's situation and take into account the particular features of the transactions, specifically, factors such as the value of the collateral, the borrower's solvency, its position in respect of the rest of the credit system and the existence or absence of court or insolvency proceedings in process. This makes it possible to define a distinct strategy in each situation and a scenario based on the possibility of reaching agreements with the debtor.

To recover the value of an investment, Sareb uses distinct strategies in each situation and scenario and has a capacity for adaptability, flexibility and rigour in management. To this end, each asset is valuated on an individual basis, considering the criteria defined in accounting legislation and best practices to estimate the effective recoverability thereof.

The nature of the loans acquired by Sareb -mostly developer loans- explains why much of the management procedure is related to property guarantees. In general, the aim is to avoid including the properties in Sareb 's balance sheet by encouraging arrangements with the debtor. When there is no possibility of agreement, mechanisms are sought to acquire control of the collateral.

In 2015 -a period in which Sareb was in the midst of the process of migrating assets to the new managers- one of the key objectives for the Company was to maintain dynamism in the management of the borrowers, in order to avoid compromising recoverability and to ensure an appropriate transfer of responsibilities from the transferor institutions that originated the portfolio to the new managers.

In 2015, overall Sareb received more than 9,000 proposals on the loan portfolio in 2015, compared to 11,500 recorded in 2014. Of these proposals, Sareb approved approximately 65% -a figure that includes certain proposals generated in 2014- which shows the stringent approval requirements and confirms the intense recovery effort in spite of the limitations imposed by the migrations.

Sareb has assisted the servicers in this process, by providing relevant information to take advantages of its structures and working methods, such as an analysis of the solvency of all the borrowers or information on the debtor position vis-à-vis the financial system registered in the Bank of Spain's Central Credit Register.

This information and history of procedures undertaken prior to the transfer of management of the portfolio to the servicers meant that the capacity to generate proposals did not decrease in 2015.

In fact, the work model with the servicers ensures that all borrowers, regardless of the volume of debt, number of transactions and complexity are allocated a manager who is responsible for management.

All managers are required to keep in regular contact with the debtors and to review the recovery strategy with a frequency based on the borrower's situation. This systematic monitoring process gives rise to the proposals that the servicers present to Sareb and which enable recovery of the investment made.

In 2015, of all the activity undertaken, the servicers presented proposals negotiated with more than 5,700 borrowers, which represent approximately 36% of all the holders and include those with the highest risk.

It should be noted that in 2015, in order to facilitate the work of the servicers on the portfolios received by them, in addition to establishing direct cooperation by Sareb 's managers with teams assigned to each of these institutions, various initiatives were launched making management more dynamic and transferring portfolio information and knowledge:

- Loan settlement plans from the sale of residential collateral identified as being the most liquid due to location, at values that enable profit generation for Sareb;

- Sales Growth Plans (PDVs), aimed at reviewing developer loans and collateral, with the aim of reaching agreements with borrowers for the settlement of their debts by selling the collateral at market conditions;

- Identification of borrowers with the best payment capacity to focus recovery initiatives, both with the borrowers themselves and with those financing the transactions;

- Loan marketing processes in which negotiation and agreements for repayment with the borrowers failed to resolve the situation and in which there are investors interested in acquiring Sareb 's positions.

In addition to the work performed in coordination with the new managers, Sareb directly manages borrowers whose transactions are of a specific nature due to their volume of debt, the complexity of the transactions, the need for multi-servicer management or the existence of incompatibilities with the managers. This area has managed nearly 2,500 proposals relating to some 560 debtors.

Also, in 2015 Sareb 's Direct Management department worked alongside servicers in the allocation process, which entailed the identification and standardisation of economic groups.

Types of transactions

The various types of loan transactions are channelled through a tool developed by Sareb that records all the procedures performed by the servicers and involves an approval process structured on the basis of the powers approved by the Board of Directors.

The largest proportion of the proposals received are collection procedures by means of the realisation of the collateral from the debtor's balance sheet, which may consist of completed developments, remains of developments or other singular assets (land, commercial premises, offices, etc.). This type of proposal amounted to nearly 3,176, 35% of the total. This category includes the proposals arising from the Sales Growth Plans (PDVs), numbering around 735, through which Sareb has eliminated exposure of approximately EUR 735 million.

This type of transaction enables Sareb to recover the value of the mortgaged collateral through the sale thereof without incurring the costs and time that could result from a mortgage foreclosure process, and allowing the developer to maintain its activity. On occasion, these developers contribute funds for recovery on the sale of the properties or in the future through the recognition of debt by the company, which will be settled following the sale of the properties.

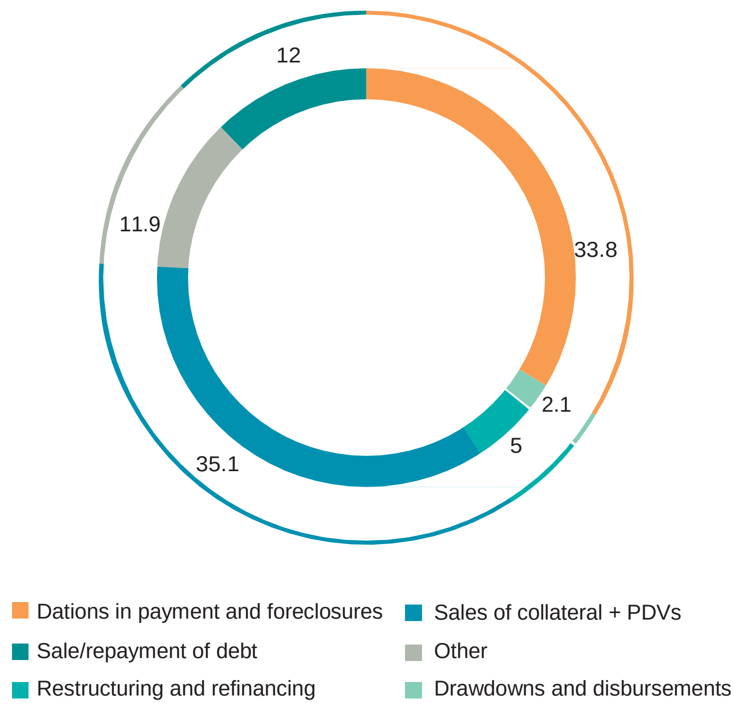
The second largest type of proposal involves acquiring the ownership of the collateral due to the debtor's situation, which is agreed through dation in payment or mortgage foreclosure proceedings. These proposals, which total 3,056, represented 33.8% of the total, and resulted in Sareb increasing its property asset portfolio.

Sareb also has the option of selling the loans and transferring its position as creditor to other investors, which can manage these transactions and enable the company to recover the investment more quickly than with other strategies. In 2015, nearly 1,100 loan repayment and sale proposals (12%) were received, which provided a significant source of income for the Company.

Borrower insolvency also takes the form of insolvency proceedings which increased in 2015, due both to the economic situation and to changes in legislation that forced many companies to recognise the impact for accounting purposes of impairment of their assets, placing them in a possible situation of mandatory dissolution. Specifically, some 630 proposals were received from servicers to manage the insolvency proceedings of Sareb 's borrowers.

Negotiations with borrowers also include restructuring transactions that contribute greater value to Sareb than the other recovery strategies. This type of proposal, which is usually associated with large companies with more complex transaction and collateral types, numbered more than 450 in 2015.

Number of proposals by type (%)



6.4 Sales

All Sareb 's activities are aimed at fulfilling its mandate, which ultimately entails the divestment of the assets transferred to the Company. Accordingly, most of the efforts of the Company's teams focus on marketing the assets received, mainly through the retail channel and the activities carried on by its four servicers - Altamira Asset Management, Haya Real Estate, Servihabitat and Solvia. As explained previously, Sareb carries on the institutional divestment activities directly, although this activity became less prominent in 2015.

It should be recalled that in 2015, Sareb was involved in the migration of its assets to the new managers, which proved to be a significant technological and logistical challenge that slowed down commercial transactions to a certain extent.

6.4.1 Retail

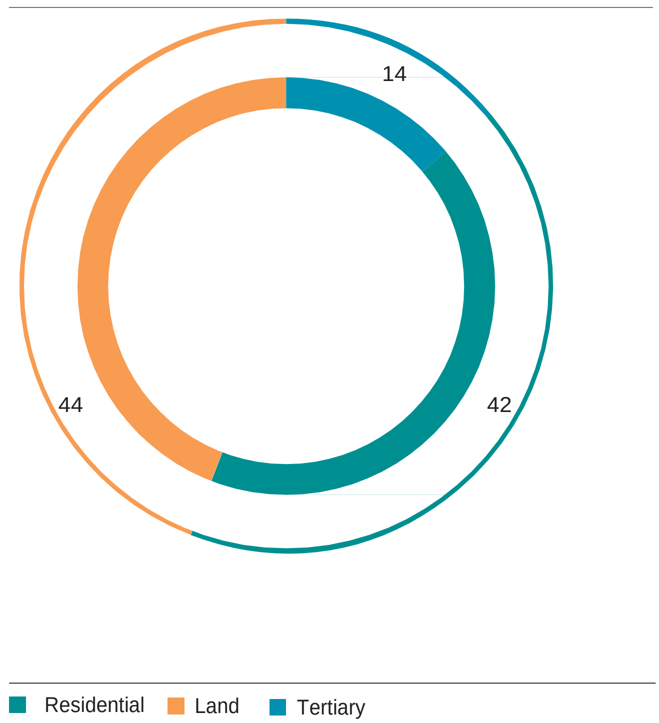
In line with the stabilisation of the housing market in Spain, property sales at Sareb replicated the positive trend of 2014.

In 2015 Sareb sold a total of 11,256 property assets (including residential units, land and tertiary assets) at an average of 30 properties per day. Of this volume, 5,162 units related to sales of owned property assets and 6,094 to properties sold from the developers' balance sheets through the Sales Growth Plans (PDVs) arranged with debtors.

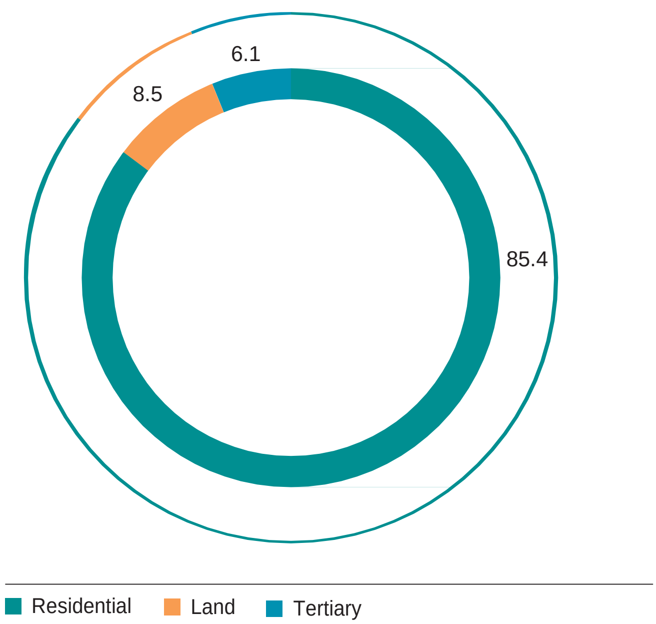
Overall, the sale of 5,162 owned properties generated income of EUR 783 million. Particularly significant was the trend in land transactions, which made a greater contribution to Sareb 's income than residential sales for the first time in 2015. Specifically, land sales contributed 44% of proceeds from sales, compared to 42% from residential sales. As in 2014, tertiary transactions continued their upward trend, contributing 14% to income.

By number of transactions, most of the sales come from residential transactions, representing 85% of the number of sales made

Sale of owned property assets by type of asset
(% of the value of sales)



Sale of owned property assets by type of asset
(% of total No. of assets)



6.4.1.1 Residential

In 2015, the Spanish residential market moved towards recovery and stabilisation.

This trend has also been seen at Sareb, although its results were affected primarily by the portfolio migration processes.

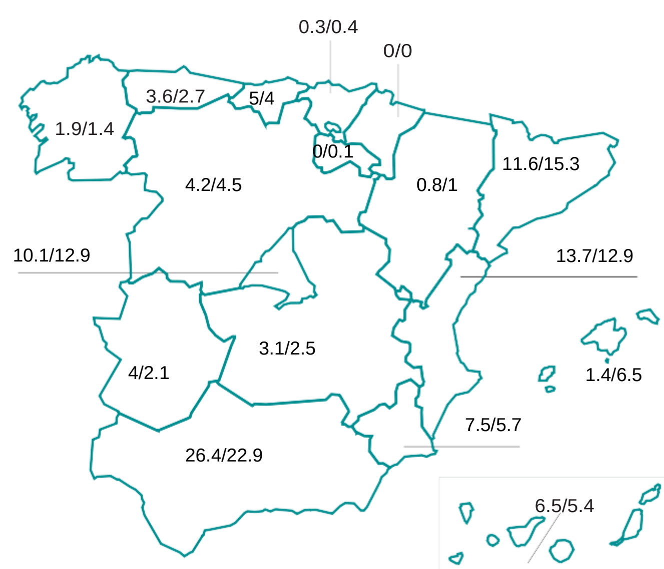
Sareb's products currently published on the servicers' websites are highly delocalised and, therefore, once the portfolios had been migrated, the new managers focused on increasing the percentage of assets for sale from the stock of the Company's balance sheet and dations in payment and foreclosures. Increasing product visibility has also been made a priority.

In 2015 approximately 4,440 owned residential properties (homes, garages and outbuildings) were sold, in addition to the 6,094 residential units from the PDVs. The sale of owned properties exceeded EUR 328 million in the year. The average price of the Sareb -owned residential units stands at approximately EUR 74,000.

The units sold, including notably second homes, were concentrated in Andalusia (26.4%), Valencia (13.7%) and Catalonia (11.6%), followed by Madrid (10.1%) and Murcia (7.5%), due to the transactions involving golf residential complexes.

After the migrations carried out in 2015 and the management of the portfolios by the servicers, in 2016 Sareb will gear its commercial strategy towards the retail sale of residential assets. To this end, the sales processes and channels at the servicers will be optimised and the volume of marketable product increased.

Geographical breakdown of owned residential sales
(% of total No. of assets sold - % of selling price)



6.4.1.2 Land

The upturn in land purchases also had an effect on Sareb, which significantly improved its results in respect of 2014. This had a favourable impact on the achievement of business targets.

At the end of 2015, the Company had sold 421 land units, which contributed sales amounting to EUR 335 million.

Foreign investor interest through partnerships with local investors has been the predominant model that has ensured the upturn, combined with sound developers with a national presence that have been equally active.

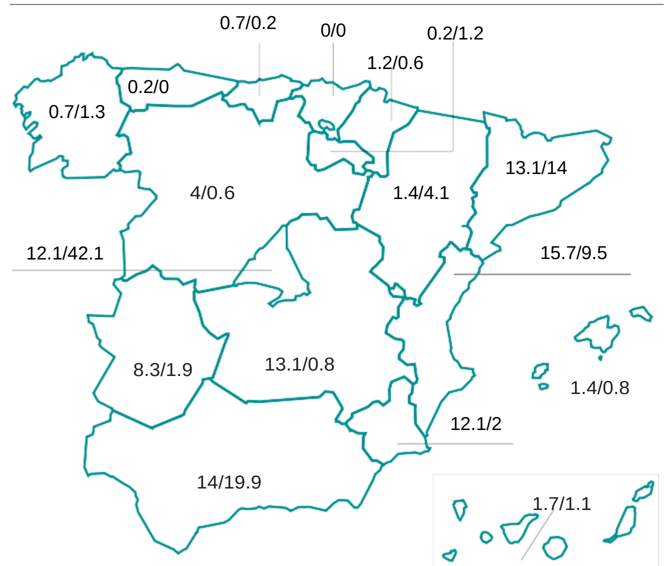
As in prior years, Madrid is the autonomous community in which Sareb performed the highest number of land transactions and those involving the largest amounts. It is followed by Andalusia, Catalonia and Valencia, where land in secondary locations has emerged as an asset in high demand for property development by long-term investors.

The consolidation of Sareb 's land sales is explained by large-volume transactions, mainly of land earmarked for residential or quasi-residential use that has attracted demand.

In 2016 Sareb will continue to pursue the sale of this type of asset through competitive sale processes in order to generate competition and maximise prices.

Geographical breakdown of land

(% of total No. of assets sold - % of selling price)



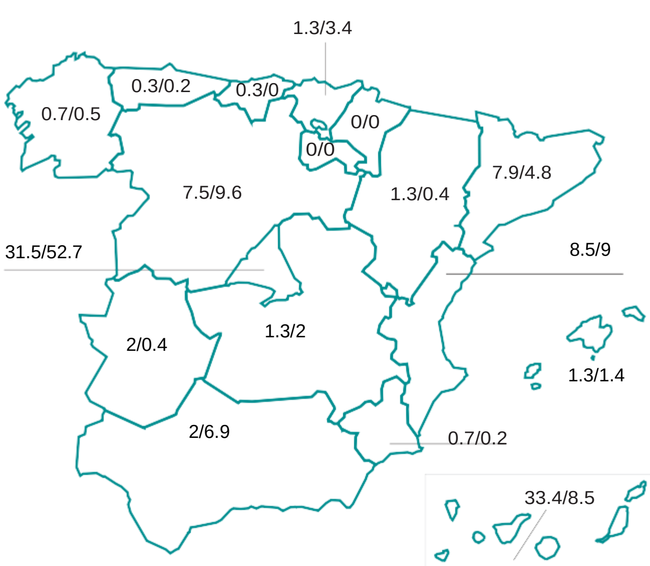
6.4.1.3 Non-residential market

In 2015, in line with the recovery in economic activity, the sales of offices, industrial/logistics properties and commercial property/shopping centres continued to show signs of a certain upturn, although transactions were concentrated in singular transactions. Overall, 305 tertiary units were sold for EUR 108 million in 2015.

Sales in the office sector accounted for 70% of the total sales, followed by the divestment of commercial assets, which account for 20% of this type of sale. The most singular transaction was the sale of the office building at calle Padilla 17 in Madrid to the REIT AXIA RE. Other notable transactions included the sale of an office building on calle Pintor Sorolla in Valencia and of commercial premises in Burgos and Ibiza.

By number of units, the largest sales were made in the Canary Islands, Madrid and Valencia.

Geographical breakdown of tertiary properties
(% of units) and (% of selling price)



Commercial and marketing activity

In 2015 Sareb 's marketing department supported the residual commercial activity of the transferors and the activity of the new servicers, conducting a total of eleven campaigns, seven of which focused on residential product, three on land (the "SEM Suelo", ("SEM Land") "Fincas Rústicas" ("Country Properties") and " Sareb Selección de Suelos ("Sareb Land Selection") campaigns) and one on tertiary properties (commercial premises). All the initiatives were instrumented through exclusive microsites and supported on their launch by actions carried out by the Communication Area.

Notable residential campaigns include those focused on coastal properties ("Tu casa a toda costa" ("Your house on any coast at any cost")), the National II campaign (Sareb home sales throughout Spain), the WIP campaign (new build homes), the Bargain Sales campaign (residential properties with substantial discounts) and the National III campaign (“Seas como seas, tenemos tu casa ("Whoever you are, we've got your home")).


GRANDES
Rebajas
GRANDES
Rebajas
Sareb
VIVIENDAS EN ALMAZORA
Sareb
Tengas gato o perro
Buscar
SOLICITAR INFORMACIÓN
Nombre
Email
Teléfono
Me gustaría recibir más información
Sareb
TU CASA A
TODA COSTA
VIVIENDAS EN LA COSTA A UN
PRECIO QUE TE PUEDES PERMITIR
CERCA DEL
AR?
Sareb
Provincia
Buscar
TENEMOS LA
BUSCAS
TENEMOS
TU FINCA
TENEMOS LA
FINCA QUE
BUSCAS

These social media campaigns achieved good results in terms of visibility and lead generation, which contributed to the sale of more than 700 assets, amounting to nearly EUR 70 million in 2015.

The use of the Sareb brand as a trusted sales boosting feature was another marketing milestone in the year. The Sareb Guarantee Seal was created along these lines to reinforce the attributes of trust, guarantee and opportunity underlined in all the Company's campaigns.

The creation of the "Sareb Corner" -a space where Sareb's product is displayed on the servicers' websites- was another initiative aimed at consolidating the brand as a driver of sales.

Also, investor interest in land led to an SEM campaign to position Sareb's property website -showcasing the catalogue of land and tertiary properties- as the leading result in Google searches for land.

In 2015 the webpage www.inmuebles-sareb.es and traffic driven by the campaigns experienced notable growth:

No. of visits: 436,201 (+191%)
No. of users: 235,672 (92%)

In 2016 Sareb is working on renovating and improving its corporate website with the introduction of a search engine allowing users to browse Sareb's entire published portfolio. In 2015 Sareb's corporate website registered a total of 409,000 visits and 329,000 users.

6.4.2 Institutional

The institutional sales team deals with the sale of portfolios or orderly sale processes and the divestment of singular assets, both financial and property assets. Sareb also has an investor relations department which, among other functions, provides support to this area.

In 2015 Sareb was visited by a high number of potential investors of various types and nationalities, who provided their view of the most-sought-after types of asset and/or transaction. Altogether requests were handled from around 780 investors in 2015, including those handled in the meetings held in London, New York and Prague.

Sales to institutional investors are carried out as part of a divestment strategy that analyses factors relating to market demand, types of investor, amounts to be invested, expected returns and special features of investment vehicles. The preparation of the sales processes requires coordination with the organisation's different departments that participate in each stage of the process, from identification of the strategy, designation of the scope, the sales process and conclusion of the transaction.

In 2015 numerous institutional sale processes were performed that contributed income of more than EUR 395 million, representing 11% of Sareb 's total income, down from 20% in 2014. Most of the transactions led by the institutional sales department were performed in the second half of the year.

In 2015 six large loan sale transactions were closed that represented approximately 76% of the transactions performed by the institutional sales department.

In addition, various singular transactions were performed involving the sale of land and emblematic assets, which confirms the interest shown by investors in long-term investment.

Transactions	
Grupo Empresarial San José	Syndicated and bilateral borrowings Grupo Empresarial San José
Promociones Hábitat	Syndicated(ordinary) borrowings
Aecus	Tertiary collateral
Pegasus	Sale of total exposure of various groups
Vega	Sale of the exposure of Riofisa Este
Macarena	Loans with residential collateral
Other singular transactions	Singular land and emblematic assets

The department's challenges for 2016 include:

- Working with servicers as expert advisors to identify joint strategies to maximise value.
- Protecting the value of the assets, seeking sales strategies that generate synergies for investors while providing added value.
- Optimising returns, seeking processes aimed at each type of investor while tailoring the number of investors and schedules involved in the process.

6.5 Asset management and value creation

In 2015 Sareb continued the work started in prior years by managing property assets on its balance sheet with the dual aim of creating value by optimising the proactive management of land and property development and protecting value, maintaining assets earmarked for sale,, renting others and managing the rental income from the contracts.

As regards land development, nearly 200 units were prepared to drive various initiatives in the medium and long term. Among other actions, the inclusion of land in general plans, procedures for partial plans, land parcelling and urban development projects and the performance of urban development works were undertaken.

Sareb's actions in this area are instrumented through the promotion of three strategies performed in cooperation with the new managers:

- Net value creation: this is the case for rezoning, changes in use and planning procedures, medium- and long-term transactions, which can create substantial value levers if realised.
- Value protection: protection against land declassification and removal from development plans by working actively with local authorities to obtain joint solutions.
- Improvement of liquidity: elimination of uncertainties in relation to issues such as costs that could affect the final selling price of a plot of land. Facilitation of land reparcelling procedures and urban development projects to ensure planning rights become vested and the promotion of land sales in smaller and more liquid portions. Performance of the functions of the new managers in relation to the valuation of land in its current situation and at the end of the work required.

Actions involving other types of assets focused mainly on work in progress and singular assets. In addition, other lines of work have been activated, such as the completion of hotels or the conversion thereof into tourist apartments, the improvement of offices for rent, the conversion of lofts, etc.

Also, actions taken to create value entailed the analysis of assets subject to dation in payment and auction in order to prioritise the legal and technical clean-up of assets with greater liquidity and to identify those that can be included in specific value management plans.

6.5.1 Rental property

Sareb's rental strategy is twofold:

- Create the greatest value through the divestment of certain assets - tertiary, commercial, residential.
- recover costs in relation to properties for which there is no market demand to recover the investment made.

Taking into consideration the migration of the new servicers performed in the year, the rental management strategy is aimed at defining a portfolio of assets earmarked for rent, both residential property and tertiary assets, such as offices and commercial premises. Also, progress has been made in adjusting the portfolio of rental property that was received in the transfer, included in Sareb's balance sheet due to foreclosure or received in payment while still containing tenants.

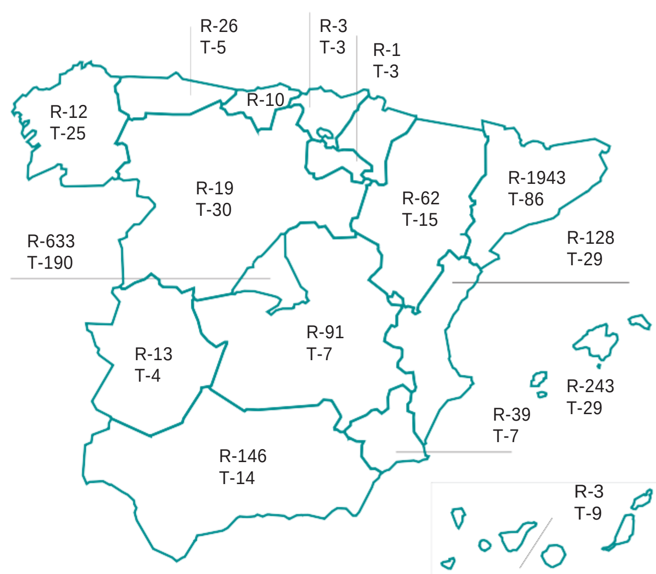
The aim of creating a rental portfolio is to market properties that, once leased, have greater value, such as commercial premises and offices, in addition to a portfolio of residential properties with lower demand for sale on terms that are profitable for Sareb. This scope is defined using an efficiency-based approach that ensures that maintenance costs are appropriate.

These properties are marketed based on criteria applied by the servicers which require the selection of similar types of tenants to ensure that late payment of rent is in line with the market situation.

The rental property portfolio remains at a similar level to that at the end of 2014, with 3,372 homes rented in the market, in addition to a volume of up to 4,000 homes earmarked for social rents through agreements entered into with autonomous communities and municipalities. This portfolio also includes 459 tertiary properties.

The optimisation of the rental activity will enable properties to be put on the market and sold in the coming years on better terms than those currently offered by the market.

Residential and tertiary assets for rent



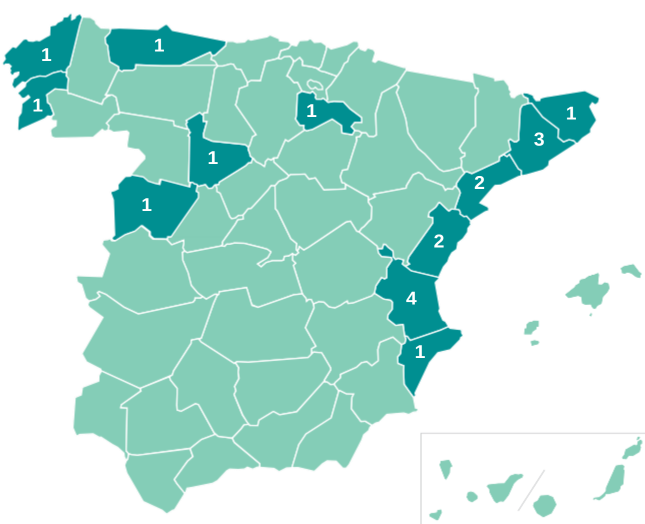
6.5.2 Value creation

Development of halted work

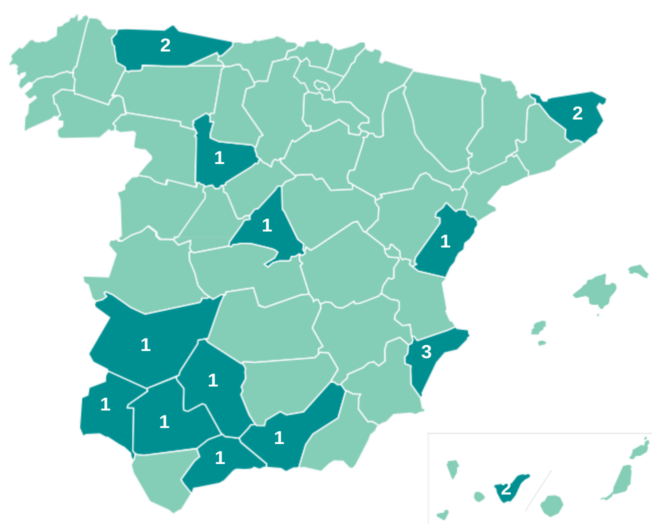
In 2015 Sareb completed 17 of the 52 developments approved in 2014 which, in addition to the 19 developments already completed in 2013, results in a total of 783 completed homes for sale. The Company invested EUR 4.9 million and earned income of EUR 18.2 million in relation to this type of development. In addition, work was completed on nine other developments where deeds for the properties have not yet been executed due to legal issues.

Furthermore, 16 new developments (409 homes) were approved, which are expected to be completed in 2016. These works represent an investment of EUR 8 million and income of EUR 41.9 million. Of these developments, work has been completed and they are pending legalisation to execute the related deeds.

Completed developments (no.)



Launched developments (no.)

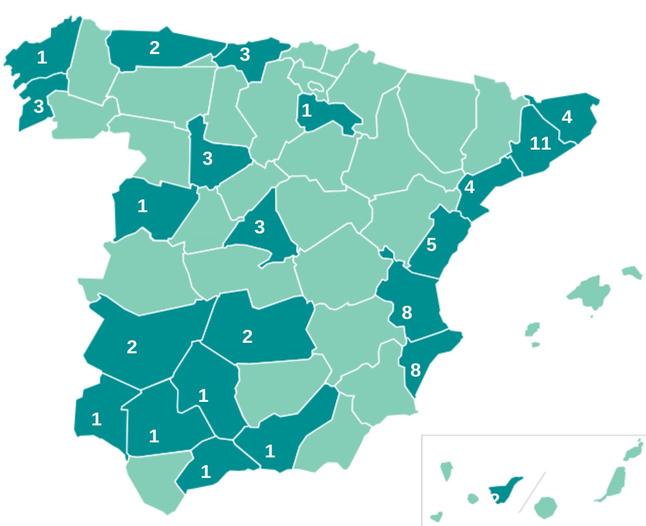


Accordingly, Sareb has launched 68 developments in the last two years and has completed 45 developments, of which 36 are for sale and 9 are pending the completion of procedures to be legalised. The launch of some 20 new developments of halted work is forecast for 2016.

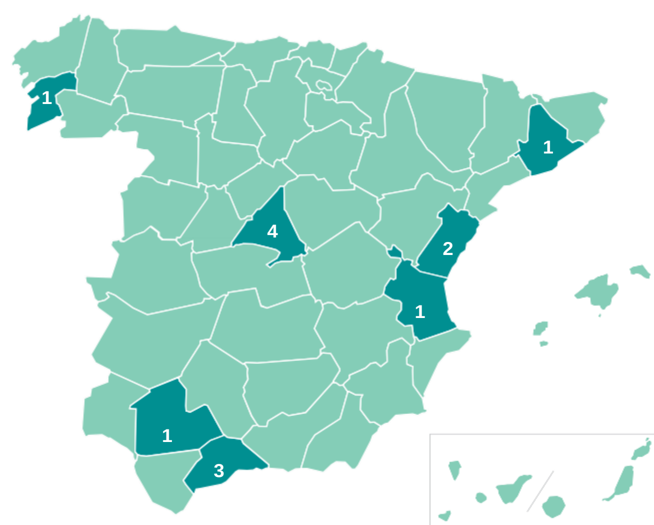
New property developments

Sareb is managing the development of 13 plots of land approved in 2015, representing a total investment of EUR 110 million. Building permits have been requested for all plots, and three have already been granted. All construction work will commence in the first half of 2016 with a view to completion in 2017. One of the plots of land approved in 2015 is also being studied with a view to launching it in the first half of 2016.

Developments launched in 2014-2015 (no.)

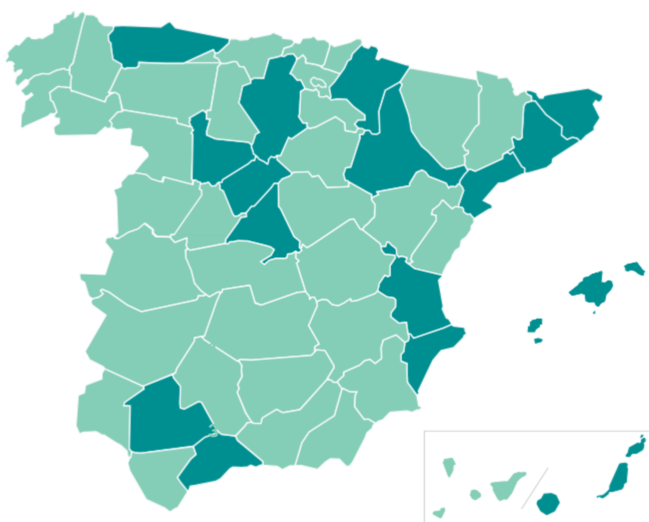


Approved plots of land under development (no.)



Currently, new land is also being studied for development in 2016. In order to generate additional sales, facilitate divestment and contribute to the dynamism of the property market, efforts are being made to enter into agreements with local developers segmented by geographical location.

Regions studied for land developments in 2016



Bank Asset Funds (FABs)

The business development activity is geared towards establishing lines of cooperation with third parties, aimed at the development of assets and the analysis, control and monitoring of the Bank Asset Funds (FABs) created by the Company. At the end of 2015, five FABs had been created, of which two were developed in the second half of 2014.

The performance of these funds, with Sareb ownership, was as follows:

- FAB Bull: created in December 2013, at the end of 2015 it obtained cumulative income from sales of EUR 22 million, from a total of 389 units sold (206 housing units, 137 garages, 42 storage rooms and 4 premises). At the end of 2015, 452 units had not yet been sold, of which 60 had been reserved. Sareb has a 49% ownership interest in this FAB, which is recognised in the Company's financial statements.

- FAB Teide: created in December 2013, it reported sales in 2015 of EUR 54 million, as a result of the sale of 891 units (346 housing units, 345 garages, 185 storage rooms and 15 premises) and one plot of land in Valencia. Two residential developments are currently under development - one in Madrid and another in Alicante. Sareb has a 15% ownership interest in this FAB.

- FAB Corona: created in December 2013, wholly owned by Sareb, it had no property assets remaining at year-end following the sale of the four office buildings of which it was comprised. The sale was made for EUR 81.3 million and in the first half of 2015 the financing granted to the FAB on creation was repaid and Sareb obtained returns on its securities. The process to commence liquidation of the FAB has been approved.

- FAB May: created on 8 July 2014, and Sareb holds a 5% ownership interest. The assets included in the FAB are urban land located in Madrid, Barcelona, Alicante and the Balearic Islands. The FAB's assets are not planned to be marketed until 2016.

- FAB Crossover: created on 2 December 2014 with a portfolio of eight plots of urban land, in which Sareb initially held a 20% ownership interest. In November 2015, at the same time as the urban land in the portfolio was sold Sareb acquired all the ownership interests. The process to commence liquidation of the FAB has been approved.

Insurance coverage

Sareb continues to maintain its policy of covering the risks arising from its activity that may affect its assets by taking out various insurance policies that cover the damage that may be caused to any of its property assets.

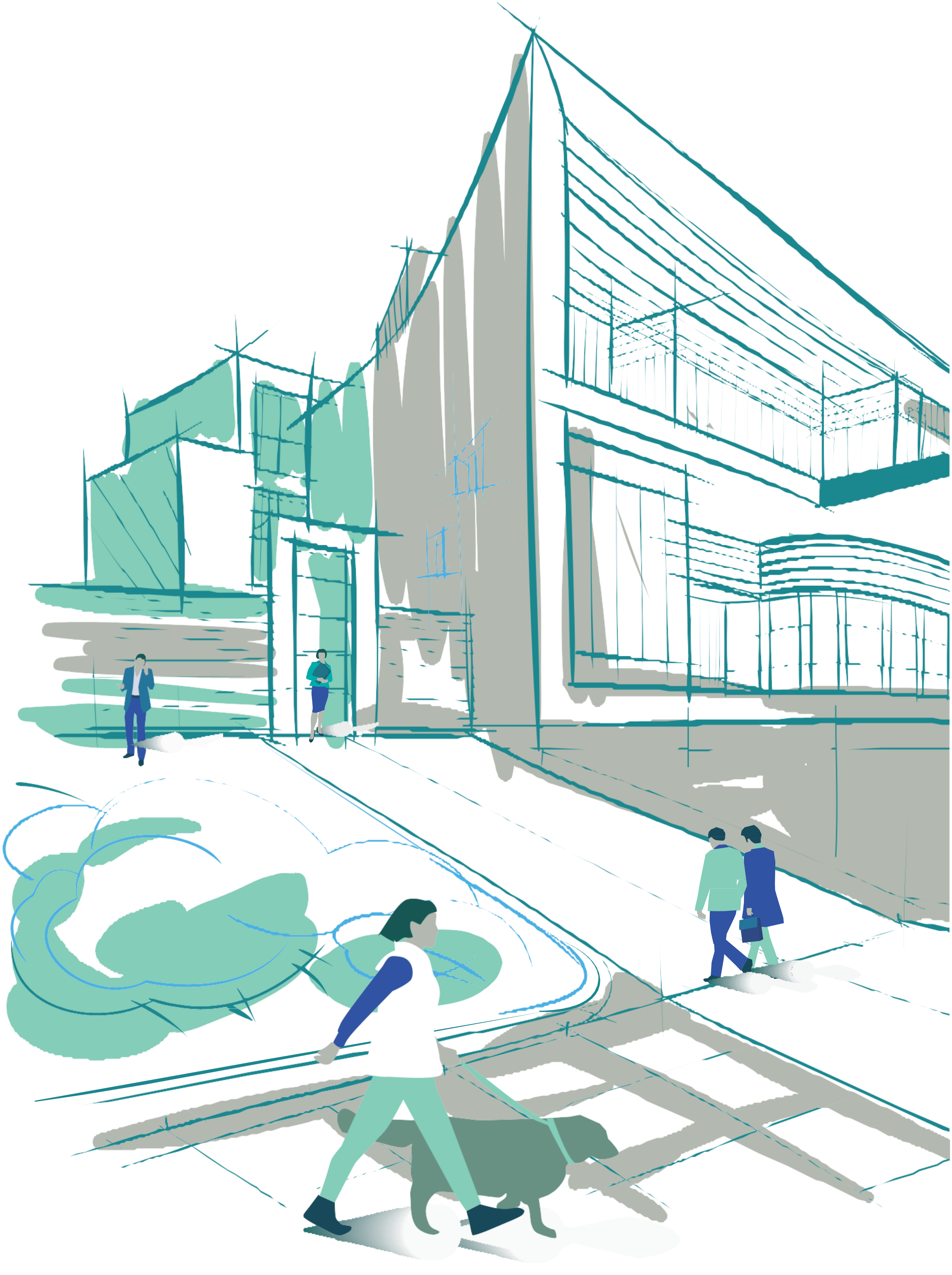
In particular, the property development activity is insured through "contractors' all risk" insurance policies and liability for construction defects is covered through "ten-year warranty" policies.

Also, Sareb has established procedures relating to the arrangement of insurance aimed at contractors, subcontractors, project managers and all contracted personnel on-site in accordance with the Criminal Risk Model approved by the Company. The Company has arranged a third-party liability umbrella policy that covers all manner of damage to third parties as a result of its activity.

The policy to cover risks also requires providing extensive coverage with low deductibles and arranging policies with highly solvent companies of renowned prestige. Insurance is taken out in line with the most rigorous provider selection procedures.

In this regard, in 2015 Sareb renewed its property damage and third-party liability insurance programme and its contractors' all risk and ten-year warranty policies.

After two years, the insurance brokerage and advisory service agreement ended and in October 2015 Sareb called a new tender, in which leading providers took part, which was ultimately awarded to the broker Aon.



7 SAREB's COMMITMENTS

7.1 Introduction

Sareb's corporate responsibility policy forms part of the fulfilment of its mandate: the management and orderly sale of the assets acquired from financial institutions which received government assistance, thereby becoming a cornerstone in the clean-up of the Spanish financial system.

The unique nature of the Company and the time limit on its mandate (the Company must cease its activities in 2027) determine its commitment to carry on its activities on the basis of a management model that is sustainable and beneficial for society as a whole and responsible vis-à-vis the Company's stakeholders.

Sareb's corporate social responsibility means, therefore, translating its values into a series of commitments to its stakeholders, under the general principle that these commitments must be aligned with its legal mandate, which represents the Company's most significant contribution to society.

Sareb's main commitments are as follows:

- Transparency and accountability: Sareb assesses its performance and is accountable for its activities and for the fulfilment of its legal mandate to the authorities and society as a whole. The Company undertakes to maintain a permanent dialogue with the authorities charged with its supervision and to abide faithfully by their recommendations and demands.

- Its commitment to transparency extends beyond mere compliance with the legislation requiring it to report on certain aspects relating to its business activities and its financial information. For Sareb, transparency is a mechanism whereby it submits its ordinary activities to critical assessment by the various agents in the markets in which it operates, as well as by the general public.

- Thus, the Company maintains an active institutional presence and participates regularly in industry and corporate meetings, and in meetings with other civil society bodies. Also, it seeks regular contact with the media and uses its own channels to communicate its performance to society.

- In 2015 Sareb appeared in public to explain its results, participated in 51 events and meetings, issued 27 press releases and its executives took part in 18 interviews or meetings with the media.

- Society: Wherever possible, Sareb supports the actions taken by the public authorities to relieve the pressing housing problem affecting Spanish society. Sareb is also committed to the application of the contents of the Universal Declaration on Human Rights and the United Nations Global Compact, in which it is a participant.

- Ethics and good governance: Sareb has a commitment to corporate governance, and it implements the regulations it deems necessary in order to work ethically and with integrity. In this connection, Sareb's employees and external collaborators are subject to an obligatory Code of Conduct, and Sareb is governed by Corporate Governance regulations that are stricter than those applicable to public limited liability companies.

- Also, it adopts advanced corporate governance practices that are acknowledged in international markets, with particular emphasis on the management of institutional conflicts of interest that arise in its governance bodies.

- Stakeholders: Sareb's responsibility requires the transfer of its values to a series of commitments to its stakeholders, i.e. the public, its team, its suppliers and companies with which it collaborates, its investors and debtor companies.

- Environment: Sareb's commitment to the environment is set out in the principles and approaches contained in its specific environmental management policy.

The Company became a participant of the Global Compact in 2014 and since then its policies and guidelines are tied to the ten principles that this initiative promotes in relation to human rights, employment rights, the environment and the fight against corruption.

7.2 Mission, vision and values

Sareb's strategy is directly linked to its commitment to act as a key element in achieving an adequate and sustainable recovery of the Spanish economy.

Its Mission, Vision and Values embody the guiding principles that will allow it to successfully complete the tasks with which it has been entrusted.

Sareb's Mission is to divest its assets within 15 years, whilst maximising their value. It is committed to managing and selling the property and financial assets received within the set timeframe, aiming to obtain the maximum value for them and repay its Spanish government-backed debt. Sareb must ensure its viability as a company in order to fulfil its commitments to its shareholders, investors and society as a whole.

As regards its Vision, Sareb works to improve the Spanish economy, in order for it to have a favourable effect on society as a whole. Sareb is a private company committed to fulfilling its mandate, thereby contributing to the clean-up of the financial system and the Spanish economy.

As part of this process it is essential that its employees are professionally and ethically competent.

The values which govern Sareb's day-to-day activities are integrity, transparency and civic duty:

- Integrity means that the actions and behaviour of all of Sareb's employees must conform with the regulations and ethical standards of the Company's business culture.
- Transparency implies that Sareb commits to being open with regard to its policies and procedures and is conscious of the fact that it acts under the watchful eye of society as a whole.
- Civic duty entails performing the task with which it has been entrusted in accordance with ethical standards and in a socially responsible manner.

7.3 Ethics and governance

The uniqueness of Sareb's company object and the public interest associated with its activities have resulted in the implementation of a wide range of internal regulations that are based on corporate governance best practices applicable to listed companies and are even stricter than those applicable to standard public limited liability companies. The Company has implemented a stringent Code of Conduct, with ethical standards based on the values framing its business culture, which include notably:

- Respect for human rights and dignity;
- Equal treatment and the eradication of any form of discrimination on grounds of ethnic origin, religion or political ideology, gender, age, disability, sexual orientation, nationality or citizenship, marital status, family background, or economic status;
- Strict compliance with the law and undertakings to third parties;
- Professional objectivity and impartiality in all the Company's decisions and actions;
- Honesty in all the Company's dealings;
- Zero tolerance of any kind of corruption.

Sareb's internal regulations require it, inter alia, to appoint a specific number of independent directors to its Board of Directors and establish several committees that report to the Board. Also, in relation to directors' remuneration, these regulations require the establishment of a remuneration policy and the issuance of an annual remuneration report, which is subject to a vote by the General Meeting. In addition, all members of the Board of Directors are required to meet strict requirements with regard to their professionalism, integrity and relevant experience.

Given the significance of its activities, the Company has also adopted a specific policy to manage any institutional conflicts of interest that may arise in its governance bodies. The contents of this policy supplements the contents of the Code of Conduct. In 2015 the policy was applied on 36 occasions, 24 of which took place in the second half of the year.

In addition to its corporate governance regulations, Sareb continues to adopt advanced corporate governance practices that are consistent with the good governance recommendations widely acknowledged in the international markets, based on business transparency and mutual trust with shareholders and investors.

7.3.1 Policies and procedures

Following the approval of Sareb's regulatory framework in 2014 and the approval of its general policies, it became necessary to advance with the contribution of a greater level of detail to enable the specification and implementation of the guidelines resulting from these policies In this context, the Company continued to prepare the procedures and instructions established in its work model, thereby ensuring the implementation of its strategy and the establishment of an adequate control environment.

With the basic aim of implementing a relationship model with the servicers, in 2015 the Company defined, implemented and approved the business procedures which support the requirements of the Íbero agreement and establish the guidelines for the management of the assets by the new managers. At the same time, the Company has worked to implement the model using automated process management systems which ensure fulfilment of Sareb's policies and instructions and facilitate control over all the transactions.

Accordingly, Sareb's regulations are contained in over 200 internal (policies, procedures, technical notes, etc.) and external (mainly operating management instructions and functional guides) documents which establish the operating model and the principles that should govern the Company's activities.

The correct communication of this regulatory framework is supported by a specific area in the Company's intranet called Normasite, where the most recent version of the summary of regulations in force is located and made available to all employees.

7.3.2 Compliance and regulations

System of Internal Control over Ethical Standards (ICES)

The System of Internal Control over Ethical Standards (ICES) includes all the policies, manuals and procedures that contribute to Sareb carrying on its activities ethically, with integrity and in accordance with current legislation, with the ultimate aim of safeguarding the Company's reputation and establishing a business culture based on its values.

Sareb's unique and public-interest-related company object requires it to carry on its activities, recruit employees and contract suppliers in an exemplary fashion. To do so, the Company has a strict Code of Conduct, which was updated by the Board of Directors at their meeting held on 27 May 2015, in order to adapt it to the changes made at the Company.

The Code of Conduct is applicable to all employees, who are required to expressly declare to abide by its rules. It is also applicable to individuals involved in the provision of services by third parties, who, in the Company's opinion, should be required to participate in order to safeguard Sareb's reputation or ensure that they fulfil their commitments.

The Code of Conduct is a reference framework for the policies and procedures established by the Company and contains the statement of the principles of corporate culture.

It establishes:

- The commitments assumed by Sareb in its relationships with customers, employees and executives, suppliers, third parties and society as a whole. The principles governing these relationships are integrity, transparency and civic duty;

- The ethical guidelines that should govern individual relationships between employees and executives.

In 2015 the Company also continued to implement the model of control over ethical standards. The most noteworthy actions performed were as follows:

- On 30 March 2015, an amendment to the Spanish Criminal Code was published, which came into force on 1 July, and which includes significant changes that should be applied to the prevention models. It introduces new offences, modifies the provisions of certain others and establishes new organisational and operating requirements.

- In this context, on 22 June 2015, the Internal Control Body (OCI) approved the new Manual for the Prevention and Detection of Criminal Risks, with the amendments required to adapt it to the changes in the Spanish Criminal Code and the organisational and asset management changes made by the Company. This update, which was preceded at the end of 2014 by the validation of the model by an expert, provided an analysis of the system based on the residual risk and incorporated into the Company's risk map, thus achieving a clear distribution of functions and responsibilities and supplying a catalogue of effective controls;

- On 27 February 2015, the final report was issued on the review by the external expert of the prevention of money laundering and terrorist financing model, which is regulated by Article 26 of Law 10/2010 and should be adapted to the provisions of Ministry of Economy and Finance Order EHA/2444/2007. The review report did not give rise to any rectification or proposed improvement in this area that the Company should implement;

- In 2015 the Company worked with the servicers to align their policies and procedures on the prevention, detection and management of conflicts of interest with Sareb's standards in this regard. Matters relating to the inappropriate use of insider information were prioritised in particular and, in this connection, the Company implemented additional safeguards to ensure that none of its tender processes (whether for the selection of service providers or for divestments) is affected by the possession of insider information by employees of any of the companies that are candidates in these processes;

- The reputational risk management strategy approved by the Audit Committee in September 2014 seeks to safeguard against reputational risk resulting from contagion due to the maintenance of business relationships with individuals whose reputation has been damaged as a result of their involvement in a criminal investigation or criminal proceedings. This strategy was implemented in full in 2015, together with the related principles and safeguards which, in turn, were transferred to the servicers' procedures with the expectation that they be fulfilled in a timely manner;

- In 2015 the audit provided for in Articles 96 and 110 of the implementing regulation of the Spanish Personal Data Protection Organic Law (LOPD) was completed. The external auditor issued an unqualified auditor's report. Sareb has continued to review and adapt its manuals and procedures in order to bring them into line with the transformation resulting from the transfer of the management of its assets and related data to the servicers. The Company also ensured that the servicers managed the information and personal data in accordance with legislation and the instructions issued by it;

- In 2015 the Policy and Protocol on Relationships with Third Parties (formerly Individual Relationships) were applied to eight relationships with third parties and the servicers were notified of the requirements to be met in this connection. The OCI is regularly informed about the application of the Protocol, and in turn reports to the Audit Committee.

In 2015 Sareb worked on the identification and analysis of legislation affecting it, thereby promoting adaptation to regulatory aspects in a manner more favourable to the interests of the Company and, therefore, to those of the taxpayer. In this connection, the Company prepared submissions and issued reports on the draft legislation affecting its business.

Throughout 2015, Sareb responded to the parliamentary questions put forward by the Spanish parliament, the Spanish senate and the parliaments of the Spanish autonomous community governments in relation to its activities and compliance with regulations.
The Company also developed and entered into cooperation agreements with both public authorities and financial institutions and other entities.

7.3.3 Internal control

ICRM - System of Internal Control over Business Risk Management Processes

This mechanism comprises the control procedures that mitigate the operational risks (faults in processes, individuals or systems) arising from business or support processes (excluding those arising from financial reporting).

In the first half of the year, the methodological approach was strengthened with the approval of the operating framework and operating procedures of the Internal Control department, which comprise the methodological control framework at its various stages. The Company also implemented two key aspects for the configuration of Sareb's risk map, the methodology for assessing the risk inherent in each risk event and the determination of residual risk based on the assessment of controls.

Also, Sareb defined and implemented the methodology for prioritising the Level 2 controls so that priority is given to controls on events with the most potentially significant impact, i.e. those which are performed most frequently (basically those relating to business processes).

In the second half of the year, the Company continued to use the pre-existing methodology and furnished the Internal Control department with a tool to manage the risk maps, either in Sareb's head office or at the servicers' premises, which will be fully operational in the first six months of 2016. The map of corporate processes is a significant starting point in the implementation of the control model through the identification of risk events. It determines whether there are controls in place to mitigate these risk events or defines any controls that should be implemented.

The Internal Control department participated in all the activities relating to the documentation of processes, reviewed the procedures defined by the departments involved and identified the risks thereof and the relevant controls.

The Company continued to implement the control model in relation to the work performed by the servicers through:

- The formation of internal control teams at each platform;
- The holding of Internal Control Committee meetings with each of the servicers;
- The performance of Level 2 controls on the aforementioned risks under Sareb's supervision.

Also, progress was made in relation to the implementation and communication of the recently created Management Incident Group, the main aims of which are the identification, declaration, recording, analysis and resolution of the risks that arise in the day-to-day operations. All of the foregoing is aimed at enhancing one of Sareb's main pillars, the control scheme.

ICFR - Internal Control over Financial Reporting system

In the first half of the year, certain risk events associated with the financial reporting process and the related mitigating controls were included in the risk inventory, through a more advanced system of controls.
All Level 2 controls that have an impact on the preparation of the financial statements for 2015 were performed, without any prioritisation on the basis of the inherent risk thereof.

In the second half of the year, prior to the 2015 accounting close, a selection of controls was performed in order to progress with the review of all the controls that must be performed in the first quarter of 2016.

Also, the Company began by identifying the controls that it must implement pursuant to Bank of Spain Circular 5/2015, of 30 September, which implements the accounting requirements applicable to the Company published in the Spanish Official State Gazette on 2 October 2015. These controls must be performed in the first quarter of 2016.

RMCG - Risk Management and Control Group

In 2015, following its approval by the Board of Directors in accordance with the Risk Management and Control Policy, the Risk Management and Control Group was created with the aim of ensuring that the areas of Sareb directly responsible for risk management coordinate their efforts to mitigate risks. The Risk Management and Control Group was also tasked with supervising the implementation of the methodologies to manage the aforementioned risks.

In addition, the first meetings of the Risk Management and Control Group were held, in accordance with the Risk Management and Control Policy in force. At these first meetings it was resolved to have the methodology of the various models used to valuate Sareb's assets validated by external experts, and the need to create specific methodological documentation for the management of the first-level risks identified at the Company was agreed.


62%
$985

7.4 Internal audit

From a functional standpoint, the Internal Audit area comes under the Board of Directors, through the Audit Committee, and reports to the Company chairman in the daily performance of its duties. Its primary aim is to provide Sareb's directors and senior executives with an independent and reasoned view of the following:

- The risks to which the Company's business and activities are exposed;
- The quality of the internal control systems, the cornerstone of the management and administration of Sareb's activities; and
- The Company's governance processes.

The internal audit function is structured around three key elements:

- The rules governing the audit function that define the object, authority and responsibility of its activity;
- The three-year Master Plan (2014-2016) as a tool used to align its structure and strategy with the organisation's medium- and long-term aims; and
- The annual audit programme, which establishes the audit function's priorities for 2015.

Sareb's first years saw the commencement of the implementation of a risk control model, which is structured around the Company's internal control system, driven by the control areas [1].

[1]The control areas comprise the Internal Control, Compliance, Risk and Internal Audit functions.

System of internal control

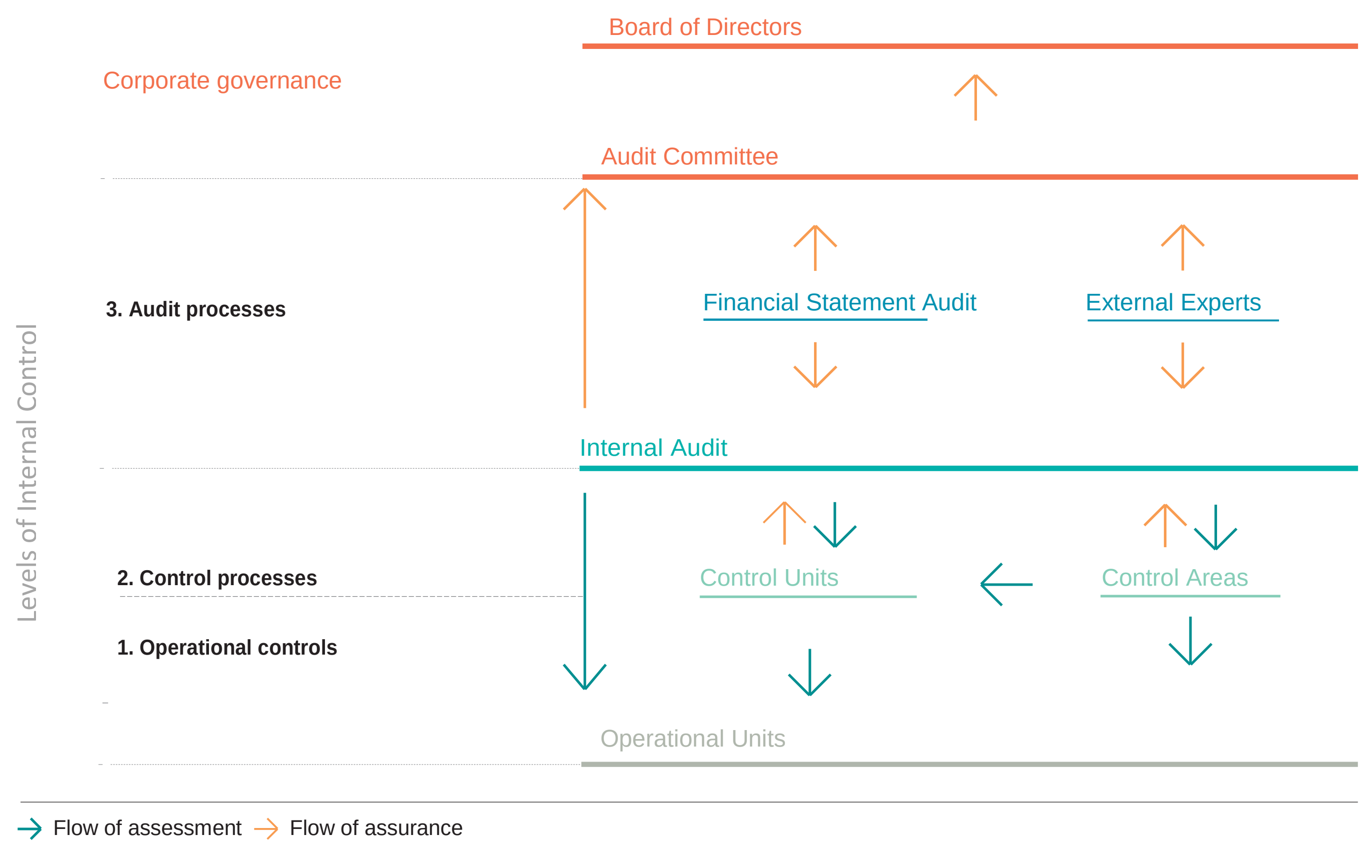
ICES Over compliance with standards and legislation	ICRM system Over risk management	ICFR system Over financial reporting
Integrity risks	Credit risks	Risks relating to the reliability of financial reporting
	Market risks	
	Liquidity risks	
	Operational risks (non-technological)	
	Technological risks (non-strategic)	
	External risks	

OVER STRATEGIC AND GOVERNANCE PROCESSES			
Strategy design risks	Development and implementation risks	(Strategic) Technology risks	Reputational risks

The Company's aim, once it has reinforced its control functions, is to create a corporate assurance system that efficiently facilitates the ongoing assessment of the effectiveness of the internal controls in place in Sareb's processes and those of its servicers.

To achieve this, the Internal Audit function must use the resources of the eligible assurance groups[2] to prepare an integrated report on the systems making up the internal control model. Since the Internal Audit area is ultimately accountable to the Board of Directors in relation to the preparation of the integrated report, it has assumed a significant role in the design and implementation of the corporate assurance process, overseeing the effectiveness of the other control functions:

[2] The eligible assurance groups are those which the Internal Audit function considers to have a sufficient level of independence and to be performing their control functions adequately.



The 2015 annual audit programme was prepared on the basis of a methodology that assigns to each Company process an estimate of its inherent risk level and relevance to the achievement of the Company's budgetary and strategic objectives.

The programme comprises the activities agreed upon with the internal audit departments of the entities managing Sareb's assets based on the order of priorities established in the methodology.

In turn, the type of activities and the strategy used to execute the audit programme took into account both the factors that have a significant impact on Íbero project transaction management processes and the audit function's obligations following publication of the Bank of Spain Circular, which regulates certain matters regarding the valuation bases used for Sareb's assets and the preparation of its financial statements.

Internal Audit's activities, conducted in accordance with its annual programme, are set out in its activity reports, which detail the most important conclusions on the work performed.

7.5 Dialogue with stakeholders

7.5.1 Properties and Society

Sareb has made a significant commitment to Spanish society. The fulfilment of its mandate within the 15-year agreed-upon period will affect the public in general, as it will help clean up the financial system without any additional cost to the taxpayer.

The Company carries on its activities through the sustainable and responsible management of its assets, and through promoting transparency, understanding and cooperation with its stakeholders, and furnishing them with various communication channels to promote active dialogue and satisfy their expectations.

This commitment was established in July 2015 with the creation of the Corporate Social Responsibility Area, the aim of which is to strengthen the implementation of specific policies and programmes provided for in the entity's Corporate Social Responsibility Master Plan. This plan, which is currently under development, and expected to be completed and approved by the Board of Directors in the first quarter of 2016, will define the operating framework of Sareb's initiatives in this area.

Sareb assumed its commitment with the current socio-economic situation in mind and has implemented various programmes aimed at the most disadvantaged groups in society. Noteworthy among these programmes are:

Social housing assistance programme, implemented in conjunction with the Spanish autonomous community governments to help alleviate, through their social housing policies, the situation of groups at risk of social exclusion.

The programme involves the temporary transfer of homes to the autonomous communities, through the signing of the corresponding agreements to transfer usufruct in the homes.

In 2015 the following milestones were achieved:

- 5 February 2015: agreement entered into with the autonomous community government of Aragón to transfer 80 homes as part of the social housing assistance programme and the establishment of contacts to analyse the possibility of transferring an additional 50 homes;

- 17 March 2015: agreement entered into with the autonomous community government of Galicia to transfer 50 homes as part of the social housing assistance programme;

- 16 June 2015: signing of the addendum to the agreement entered into in 2014 with the autonomous community government of Catalonia resulting in the transfer of an additional 300 homes, to bring the total of the social housing assistance programme in Catalonia to 900 homes;

- 30 July 2015: agreement entered into with the autonomous community government of the Basque Country to transfer 10 homes as part of the social housing assistance programme;

- 15 October 2015: agreement entered into with the autonomous community government of the Balearic Islands to transfer 75 homes as part of the social housing assistance programme;

- 27 October 2015: agreement entered into with the autonomous community government of Castilla y León to transfer 100 homes as part of the social housing assistance programme;

- 11 November 2015: agreement entered into with the autonomous community government of the Canary Islands to transfer 50 homes as part of the social housing assistance programme;

- Content of the agreements with the autonomous community governments of Cantabria, Andalusia and Murcia to transfer 470 homes agreed, although the agreements have not yet been entered into;

- Advanced negotiations with the autonomous community governments of Castilla-La Mancha and Valencia to transfer 350 homes as part of the social housing assistance programme;

- Meetings with the autonomous community governments of Extremadura, Madrid, Asturias and Navarre to explore the possibility of establishing agreements as part of the same programme.

- Exceptional circumstances assistance programme, implemented in cooperation with the councils of large cities (determined in accordance with the provisions of Law 578/2003) to contribute, through their social policies, to the programmes aimed at alleviating the situation of groups in exceptional circumstances.

The programme involves the temporary transfer of usufruct in homes to the city councils, through the signing of transfer agreements.

In 2015 the following took place:

- 16 December 2015: agreement entered into with Barcelona City Council to transfer 200 homes as part of the social emergency assistance programme;

- Content of the agreements with the city councils of Córdoba and Madrid to transfer over 300 homes agreed (the latter agreement was entered into on 28 January 2016).

- Meetings with the city councils of Valladolid, Vigo and Zaragoza to explore the possibility of establishing agreements as part of the same programme.

With the aim of strengthening these plans, on 29 July 2015, the Board of Directors approved the contribution of 1,000 homes to the cooperation programme with the city councils and the contribution of an additional 1,000 homes to the cooperation programme with the autonomous communities. 4,000 homes were contributed to this programme in total.

Of the entire housing stock to be used for social purposes, comprising approximately 4,000 units, Sareb has already committed a total of 1,765 homes and estimates that over 6,000 individuals might benefit from the agreements with public authorities taken as a whole.

- Affordable alternative rental housing programme, implemented by Sareb in cooperation with the autonomous communities and city councils to provide an alternative residential solution when vulnerable families (i.e. families with children, elderly people or people with disabilities in their care) are detected during any home repossession processes.

This programme involves the suspension of the repossession process and the activation of mediation proceedings with the occupiers of the home, permitting an analysis of the family's vulnerability and an agreement to regularise their situation in the same home or relocate them to another. This regularisation takes the form of the signing of a reduced lease amounting to up to 30% of the family's household income.

In the context of the repossession processes, over 260 proposals were studied on an individual basis with the aim of reaching an agreement to provide affordable rental housing.

Also, Sareb is working on the implementation of the entrepreneur assistance programme designed in cooperation with municipal councils to assist this group in initiating business projects. This assistance involves the lease at reduced amounts of commercial premises to entrepreneurs who have applied for them through the municipal assistance programmes.

Also, currently under development is the Complete Home Plan, a multiparty plan that will facilitate the equipping of the homes transferred to the municipal councils with the appliances and furniture required to make them habitable. In cooperation with other companies, the homes will be adapted, utility agreements will be entered into, furniture and domestic appliances will be installed and household items will be supplied so that vulnerable families can use the homes.

In addition, Sareb is studying the possibility of implementing a plan that will permit the transfer of developable or rural land plots to not-for-profit organisations for short-term use. This transfer is aimed at promoting the agricultural use of land plots so that the entities receiving them can benefit from the returns thereon, whether in kind or in income earned on the sale of the produce.

In line with its social commitment, the Company considers applications from various municipal councils and community associations for the temporary transfer for use of certain assets. Examples include the transfer of the land in the "PERI IV" area in A Guarda, Pontevedra to the "O Cancelón" Neighbourhood Cultural and Sporting Association; the land at the AEI 10 "San Juan" in Ferrol to the San Xoan de Filqueira "O Bertón" Neighbourhood Association; and the building lot at Calle Aldealengua, no. 2, Zamora, to the Zamora Provincial Fairground Business Association (INFEZA).

In 2015 Sareb renewed its commitment to the United Nations Global Compact.
As an adherent to the Global Compact, Sareb has committed to work towards the implementation of the Ten Principles of the United Nations, which are based on the protection of human rights, compliance with employment legislation, the protection of the environment and the fight against corruption, in order to achieve a more sustainable future for individuals, society and the environment.

7.5.2 Shareholders and bondholders

Sareb maintains a fluid dialogue with its shareholders and bondholders and works actively towards strengthening its communication channels and communicating the performance of its business activities and the fulfilment of its mandate.

Its commitment to transparency goes beyond compliance with the legislation requiring the Company to report on certain aspects relating to its business activities and its financial information. For Sareb, transparency is a mechanism whereby it submits its ordinary activities to critical assessment by the various agents in the markets in which it operates, as well as by the general public.

In 2015 the shareholders' website was updated with eleven directors' reports, the half-yearly report and over 20 news updates on the Company's activities.

Sareb's shareholder structure and the detail of its bondholders are included in the Financial Structure section of the Financial Information chapter of this 2015 Annual Report.

7.5.3 Supervisors

The particular nature of Sareb's business model means that the Company is subject to a special supervisory regime.

In this context, the Company assesses its performance and is accountable to the authorities and society as a whole in various ways for its activities and for the fulfilment of its legal mandate. Also, the Company undertakes to maintain a permanent dialogue with the authorities charged with its supervision and to abide faithfully by their recommendations and demands.

To do so:

- It publishes its main policies and procedures, i.e. the criteria with which it carries on its activities and operations and the way in which it administers and exercises control over them;

- It publishes important information relating to its performance in half-yearly activity reports, annual reports and public information on its most significant transactions and milestones.

The Chapter in this Annual Report on corporate governance includes more information on Sareb's supervisory regime.

7.5.4 Customers and investors

Sareb defines as customers, on the one hand, parties who purchase assets (retail and wholesale customers) and, on the other, the borrower entities as a whole with which it works directly to reduce its credit exposure and, therefore, fulfil its mandate.

Sareb's relationship with its customers is based on transparency, in the sense that the asset sale processes must ensure that all potential buyers are provided with the same information.

The Company is committed to the use of competitive and transparent sale processes in all of its sales channels and creates mechanisms so that these divestment processes, in particular wholesale processes due to the extent of the packages, are carried out under the highest standards.

Sareb has two sales channels to attend to the wide range of potential investors and customers:

- A retail channel for the sale of assets to individuals from the platforms of the servicers, partners of the Company who manage the administration and sale of its property and financial asset portfolios;

- An institutional channel for the sale of assets to professional investors and wholesale transactions.

This area actively participated in meetings and events with investment funds and market specialists in 2015, noteworthy among which were MIPIM, Inmofondos, SIMA and GRI Madrid, which helped the Company to set out its strategies in relation to the sale of portfolios and to identify the latest trends and expectations of investment funds.

The Company was also very active in communicating organisational changes and adaptations to investors and advisers, and the related effects on institutional sales, in order to provide a preferential service for investors. Critical to Sareb's asset portfolio transformation process is its relationship with the group of borrower companies.

At the end of 2015, Sareb had around 15,700 borrower companies, in the main small and medium-sized companies. The Company's relationship with this group is essential to the achievement of Sareb's divestment mission and the sustained revival of these companies' business activities. Thus, the Company maintains an open dialogue with this group in order to favour negotiations and certain drawdowns against credit facilities, dation in payment and other conversion formulae.

In 2015 Sareb managed 9,017 developer proposals. Sareb also manages directly those transactions considered to be singular transactions on the basis of the type of assets or particular features of the borrower.

As regards all its stakeholders' and, in particular, its customers' private data, Sareb has strengthened the precautions it takes in relation to data protection and information security in order to ensure all data for which the Company is responsible is processed appropriately. The Company has guidelines and procedures to manage enquiries or incidents, such as Sareb Responde and the ethics channel.

Sareb Responde

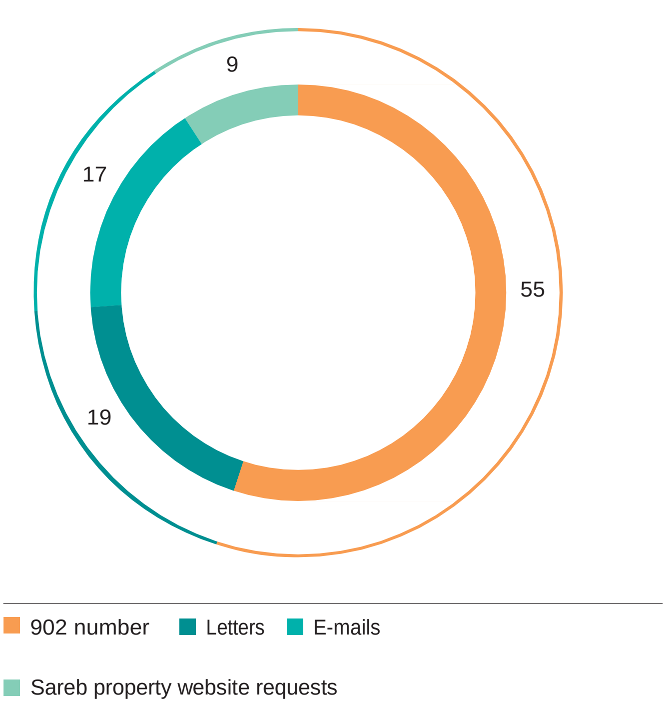
In 2015 the Company continued to consolidate the Sareb Responde service as a key tool to address and resolve queries, complaints or enquiries submitted to the Company through various channels.

The tool was implemented as a technological solution enabling the Company to monitor and trace each management procedure requested. It is now also used by the new servicers to manage customer requests.

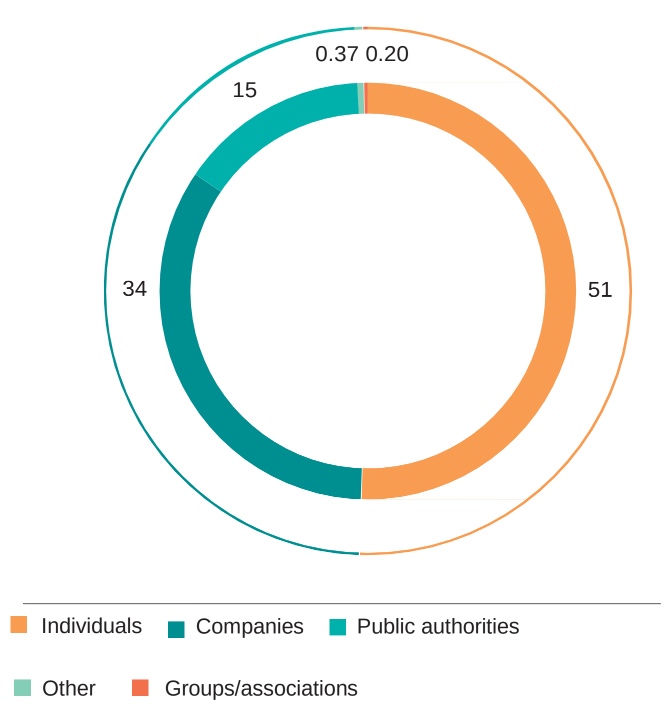
In 2015 27,372 requests were attended to, with a monthly average of 2,281 management procedures, three times the volume registered in 2014. The telephone channel continues to be the most used.

With respect to the customer profile of those who call the Sareb Responde service, 51% of calls relate to individuals, 34% to companies and 15% to public authorities (2014: 65%, 28% and 5%, respectively).

Entry channel (%)



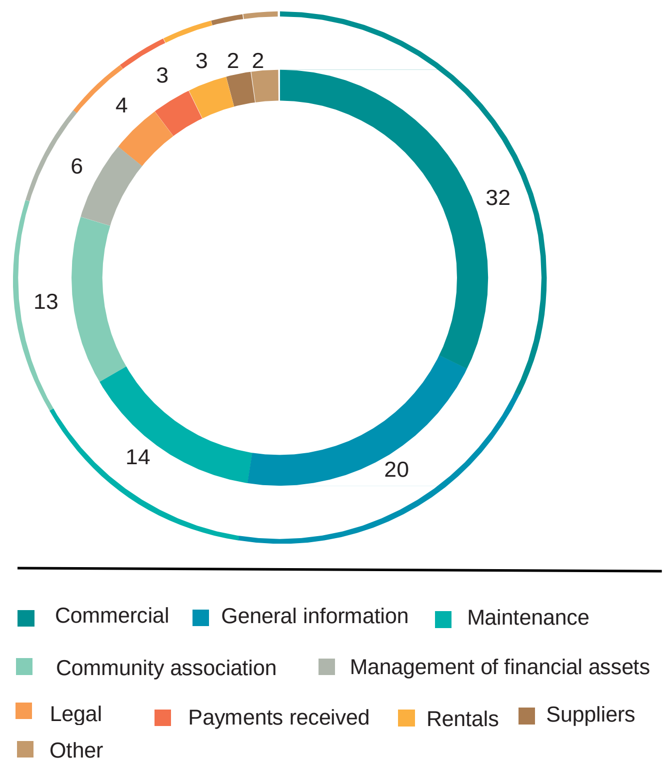
Type of customer (%)



As regards the type of enquiry:

- 32% related to commercial interest from individuals or companies in the acquisition of some type of property;
- 20% requested general information regarding assets and ownership;
- 14% related to calls regarding maintenance matters, such as the requirements for clearing up land plots, requests to repair defects in homes and incidents relating to utilities (electricity, water, gas, etc.).
- 13% related to community associations, requests in connection with the payment of community association charges, association meetings, etc.;
- 6% of the enquiries related to financial assets: information on the status of loans, requests to repay loans in part or in full and enquiries regarding the acquisition of financial assets;
- 4% of the calls reported squatters in Sareb assets or were from individuals requesting the regularisation of squats;
- The remaining 10% related to rentals, suppliers wishing to cooperate with Sareb, unpaid bills, etc.

Type of enquiry (%)



Sareb Responde has become a multichannel management model and is the single point of contact between customers and servicers.

The gradual integration into this management tool of the activity performed by each of the servicers' contact centres will provide a complete and accurate picture of all customer requests, thereby improving the service, its efficiency and the Company's public image.

Ethics Channel

Sareb's Internal Audit department is responsible for managing the process established by the Audit Committee to communicate any irregularities or ethically questionable situations, together with the mechanisms ensuring the confidentiality of the process.

Its activities include verification of whether the Ethics Channel has been communicated sufficiently and whether the servicers have in place procedures to ensure the identification, analysis and communication to Sareb of any complaint in relation to the management and administration of the assets.

7.5.5 Employees

One of Sareb's most unique features is its optimised structure with respect to the volume of assets it manages.
This strategy is key to the performance of its divestment mandate within a limited period of time, which requires the creation of an agile organisation that is able to progressively adapt to the changes in its portfolio. Over time the asset portfolio will reduce in size and its structure will change, with a greater emphasis on properties and less emphasis on loans.

Having a limited employee structure means that the Company's day-to-day activities are also reliant on the collaboration and work of a large number of external providers, which in turn requires considerable coordination.

Attraction and retention of the best candidates

One of Sareb's main principles relating to employees is to attract the best candidates and ensure they remain at the Company, promoting contribution to their professional development through the use of instruments and policies that extend beyond remuneration. These include training, increased responsibility and work experience in an important project that is key to the recovery of Spain's financial system.

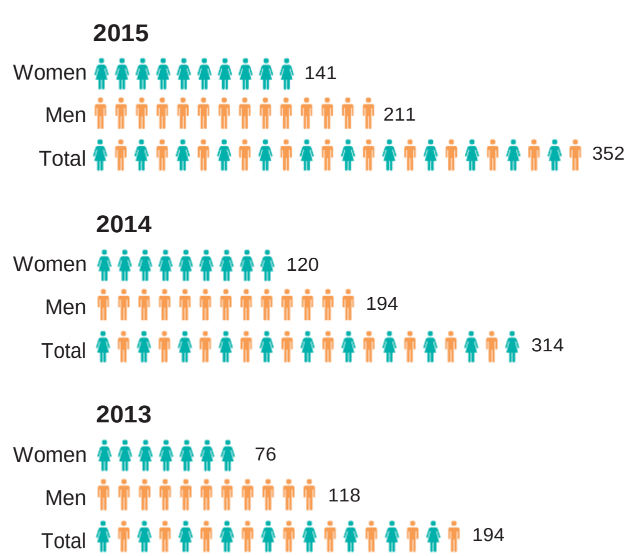
At 2015 year-end Sareb's average headcount was 325 employees (including both permanent and temporary staff), a 33% increase with respect to 2014 year-end.

This increase in the average headcount for 2015 by 81 employees was largely due to the following two factors:

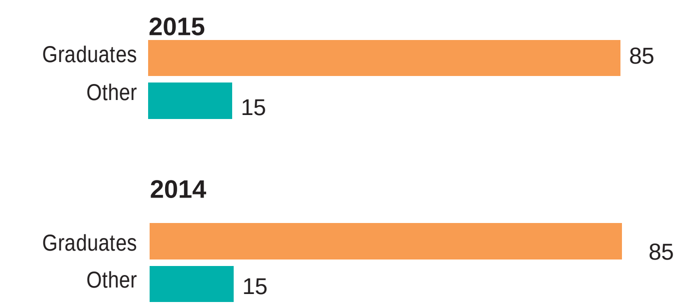
- The logical recruitment of staff at an organisation of Sareb's size that is transforming on an ongoing basis and has a new business strategy following the selection of new managers, the servicers;
- The changes in internal organisation implemented by the Company in the first four months of 2015, which required the hiring of additional employees.

A distinguishing feature of Sareb is the average experience of 17.21 years in various sectors of its employees.

Changes in the headcount by category and gender



Headcount by qualifications 2015 and 2014 (%)



Organisational development and talent management

In 2015 Sareb implemented an advanced business model aimed at the servicers that gave rise to a new organisational structure, creating new organisational areas and transforming other pre-existing areas.

A significant feature of the Company's organisational development has been the implementation, within the framework of the talent management policies and procedures, of a new internal promotion policy with objective criteria that has been communicated to the Company as a whole, resulting in the promotion of 56 employees; and a career opportunities policy, which has permitted 45 employees to follow new career paths, strengthening their professional development.

In 2015 the Company created 108 new positions and hired 66 new employees. This was performed in accordance with equal opportunity and anti-discrimination principles.

Also, the Human Resources department was given a new business-oriented structure, which included the creation of the Business Partner role to permit a closer understanding of employees' day-to-day requirements and improve the professional development of each Sareb member.

In 2015 Sareb initiated key projects in this connection:

- Development = The “Yo soy Talento Sareb” ("I am Sareb Talent") and “Sareb y Yo” ("Sareb and me") programmes, aimed at the personal and professional growth of employees and the identification of areas for improvement in order to be able to adapt the 2016 training plan to each employee;

- Second edition of the “Sareb Escucha” ("Sareb Listens"), programme which aims to listen to employees' opinions and feelings about the Company, and represents a collaborative space that promotes actions based on a realistic and informed view of Sareb's current situation.

- Creation of the “Cultura Sareb” ("Sareb Culture") programme to strengthen commitment and pride at being a member of the Company, based on commitment to the Company's mission and corporate vision, and to professionalism, flexible and adaptable teamwork, the support of more senior Sareb members and the demonstration of exceptional leadership.

- For the purposes of Change Management, the main aim of which is to work with individuals to help them adapt to new situations, the role of “Change Agent” was created, which will be filled by prominent figures in the organisation who will facilitate any type of transformation at the Company through considered actions in relation to awareness, information, monitoring, etc.

Code of ethics

Sareb develops and implements employee policies based on meritocracy, diversity, non-discrimination, equal opportunities and the freedom of trade union representation for all employees.

Sareb's Code of Conduct is an expression of its corporate culture, which establishes the commitments deemed necessary to meet the expectations and demands of this business project.

The document establishes the guidelines that must be observed by all employees and external collaborators involved in the provision of services acting on behalf of Sareb, and the framework to which the policies and procedures performed by the Company are linked.

Sareb also condemns corruption through its internal policies. The anti-corruption guidelines in the Code of Conduct state that "the individuals subject to the Code of Conduct shall refrain from offering or giving gifts to third parties that might directly or indirectly influence the obtainment of an advantage or favour for the Company".

Sareb's ethics channel is an internal and external mechanism for reporting situations that might lead to the breach of legislation or ethically questionable actions. No incidents were reported by the ethics channel in 2015.

Training

As part of its commitment to its employees, Sareb combines training specific to job positions with other more general training courses which reinforce the employees' qualifications to carry out their activities. In 2015 all employees were provided with training courses on occupational risk prevention, the prevention of money laundering and terrorist financing measures and data protection legislation.

Internal communication

In 2015 Sareb's Communication area continued to develop the Company's Internal Communication Plan and launched new channels and tools to share information on business strategies and performance, the policies upon which the Company's performance is based and the creation of collaborative spaces that foster more efficient and creative work environments.

Thus, Sareb informed its employees of organisational changes, new recruits, agreements with external companies, calls for tender, application of policies, corporate documentation, etc.

Also, the Company completed and increased the functionalities of its intranet, InSareb, which includes the Employee Portal. The Company continued to increase the number of meeting formats, including meetings to explain the work performed by the departments in classroom-based sessions or using 'Somos Sareb' ("We are Sareb"), a meetings platform through which all employees share, in an informal environment, interdepartmental information and experiences, as well as news on the performance for the year and the organisation's objectives.

In 2015 Sareb launched a new communication tool, Planeta Sareb ("Planet Sareb"), an internal newsletter that the Company prepares with the support of the communication teams of the four servicers, which details the performance of joint projects, the presentation of professionals from each management platform and the day-to-day of a management model that has transformed the manner in which the organisation and its partners work.

7.5.6 Suppliers

The aim of Sareb's procurement management policy, in accordance with its principles, is to acquire assets and services while optimising value (price-quality) and ensuring free competition based on transparency, traceability, supplier rotation and the prevention of supplier concentration.

In its contracting and procurement processes, Sareb particularly values those who share the ethical standards established in its Procurement Policy and supplier accreditation procedures.

In 2015 the Procurement department finalised significant agreements and negotiations, such as the planning and management of construction work on several plots of land, the marketing of or provision of legal advisory services in relation to several asset portfolios, agreements to provide support in the migration of the assets, the audit of financial statements, tenders relating to valuers or the selection of the new insurance broker.

The Procurement department has also continued working actively towards the development of the Íbero project, the definition of processes and in negotiations with the servicers to agree on the list of maximum maintenance, security and energy certification fees applicable to the management of the properties.

In 2015 Sareb increased savings by EUR 7.18 million, 11% of committed expenditure.

The activities of the Procurement department in 2015 were as follows:

- 1,787 procurement procedures managed;
- 413 new agreements entered into;
- 2,203 orders issued, which represents more than 8 orders per working day.

In 2015 the Procurement department and the Corporate Social Responsibility area included the supplier's commitment to CSR as a new factor to be considered in the supplier selection system.

The supplier's activity in this connection will have a weight of 5% in the supplier selection matrix, although technical matters and price will remain the key factors. Thus, the Company shall analyse documentation relating to the CSR master plan in force, the information on CSR in the notes to the most recent financial statements, information on the company's environmental management policy and the ISO 14000/14001 certification. Also, the suppliers must adhere to Sareb's Code of Conduct and demonstrate their interest in cooperating with the Company with respect to the various CSR policies that it has implemented.

Sareb shall apply this procedure to suppliers that bill over EUR 75,000 per year. The Company currently has 133 suppliers that bill in excess of this amount, representing 93% of the Company's total expenditure.

7.5.7 Respect for the environment

Sareb is committed to respecting and protecting the environment, in accordance with the principles and approaches contained in its Environmental Management Policy, which was approved in January 2014.

The principles governing its approach in this area are:

- Prioritising quality in the performance of services and construction work, eliminating costs with no value added and applying the measures necessary to prevent and correct any negative impact that the Company’s activities may have on the environment.

In 2015 Sareb commissioned an analysis of the electricity consumption of the various assets it operates, or intends to operate, in order to optimise or reduce the related expenses. Although it is not a significant electricity consumer, the Company aims to use this analysis to apply energy efficiency policies in the management of its assets. The types of property asset analysed were hotels and offices.

- Favouring preventive action over corrective action:
- Preventative maintenance of equipment in order to ensure that it not only functions correctly but also uses energy and resources efficiently.

- Office energy consumption is the most easily controlled consumption item and, therefore, Sareb implemented certain measures aimed at achieving a 50% savings target with respect to energy expenses.

  The Company installed an automated light switch mechanism on each floor. Since the installation of this system in early 2015, costs and energy consumption have fallen by 23%, lowering the average consumption per employee station and giving rise to savings in the electricity bill.

- Improvements in printing practices, with the implementation of default two-sided black-and-white printing and a reduction in the number of pages printed.

  Specifically, the measures implemented, which include a control at user and departmental level, reduced by 24.8% the average number of pages printed per employee, and increased the number of pages printed on two sides by 44%.

- Application of environmental criteria in the sustainable selection of office furniture.

  Thus, wooden furniture is manufactured using wood from forests managed sustainably. This type of material is identified by PEFC wood certification seals. The Company thereby contributes to reducing the adverse impact of tree felling on global biodiversity.

- Use of products with official eco-labelling, guaranteeing compliance with all potential environmental requirements throughout the Company's life-cycle, and enabling the Company to make its environmentally-friendly behaviour more visible.

- Making the Company's employees aware of their responsibility to preserve the environment and providing the necessary training:

- Commitment to recycle waste, sending it to specialised centres and agencies where it is separated and selected for re-use.

  To this end, recycling bins have been installed on each office floor and internal awareness campaigns are run to encourage employees to separate waste.

- Employees are made aware of practices relating to printing and the reduction of the number of pages printed per employee.

  The Company has paper recycling bins at all the print and copy stations and runs information and awareness campaigns to promote the responsible use of resources.

- Sareb encourages, through various initiatives, the efficient use of energy resources and electricity at its offices.

  It works to improve the internal procedures for the fulfilment of environmental commitments and to prevent pollution, encouraging the pursuit of innovative and effective solutions.


520
440
610
600
470
Data and prognosis of activity
activity of company and subdivisions

8 AUDITED ACCOUNTS

pwc

A free translation of the independent auditor's report on annual accounts originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

INDEPENDENT AUDITOR´S REPORT ON ANNUAL ACCOUNTS

To the Shareholders of Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A:

Report on the Annual Accounts

We have audited the accompanying annual accounts of Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A., which comprise the balance sheet as at December 31, 2015, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Annual Accounts

The company's Directors are responsible for the preparation of these annual accounts, so that present fairly the equity, financial position and financial performance of Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A., in accordance with the financial reporting framework applicable to the entity in Spain, as identified in Note 2 to the accompanying annual accounts, and for such internal control as Directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the annual accounts 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the annual accounts taken as a whole.

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

PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 915 685 400, www.pwc.es

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Opinion

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A. as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework, and in particular, with the accounting principles and criteria included therein.

Emphasis of matter

We draw attention to Note 2.1 to the accompanying annual accounts, which describes that the accompanying annual accounts for 2015 are the first that the Directors have prepared applying Bank of Spain Circular 5/2015, which defines the accounting specificities for the Company. In accordance with the content of Transitional Disposal One of that Circular, the Company applied it retroactively, as it has been considered a change in accounting policy, indicating in Note 2.5 the main impacts arising as a result of its first application. Accordingly, the figures for the preceding year differ from those approved in the 2014 annual accounts that were prepared using the legislation in force in that year. Likewise, due to the accumulated losses at 31 December 2015, primarily caused by the impairment of its financial assets due to the entry into force of Circular 5/2015, the Company complies with one of the conditions established by Article 363 of the Spanish Companies Act ("Ley de Sociedades de Capital") presenting negative equity amounting to €1,218 million, as indicated in Note 2.4 to the accompanying annual accounts. However, at the same time as the transfer of the assets, the Company issued €3,600 million in subordinated debt convertible in case of a mandatory winding up situation occurs, and therefore it has the necessary resources to restore its financial position without any need for additional contributions. On 30 March 2016 the Directors proposed to Shareholders at a General Meeting that the necessary agreements should be adopted to restore the Company's financial position by reducing the share capital and the share premium to offset losses and subsequently converting debt in the amount of €2,171 million. As a result, the Directors have prepared the accompanying annual accounts for the year ended 31 December 2015 on a going - concern basis. This matter does not modify our opinion.

Report on Other Legal and Regulatory Requirements

The accompanying Directors' Report for 2015 contains the explanations which the Directors consider appropriate regarding the company's situation, the development of its business and other matters and does not form an integral part of the annual accounts. We have verified that the accounting information contained in the Directors' Report is in agreement with that of the annual accounts for 2015. Our work as auditors is limited to checking the Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the company's accounting records.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Pedro Barrio Luis

31 March 2016

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

Financial Statements for the year ended 31 December 2015 and Directors' Report

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 20). In the event of a discrepancy, the Spanish-language version prevails

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 20). In the event of a discrepancy, the Spanish-language version prevails.

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

BALANCE SHEETS AS AT 31 DECEMBER 2015 AND 2014

(Thousands of euros)

ASSETS	Notes	31/12/15	31/12/14 restated	EQUITY AND LIABILITIES	Notes	31/12/2015	31/12/14 restated
NON-CURRENT ASSETS		**41.371.628**	**42.363.203**	**EQUITY**	**Note 11**	**(3.161.282)**	**(3.250.802)**
Intangible assets	**Note 4.1**	**11.939**	**4.225**	***SHAREHOLDERS' EQUITY-***		**(1.217.977)**	**(1.218.310)**
Intellectual property		58	9	**Share capital**			
Computer software		11.881	4.216	Registered capital		300.060	300.060
Property, plant and equipment	**Note 4.2**	**2.986**	**1.849**	**Share premium**		900.000	900.000
Furniture		198	222	**Reserves - Prior years' losses**		(2.418.369)	(1.614.386)
Plant and other items of property, plant and equipment		2.284	1.203	**Profit (loss) for the year**		332	(803.983)
Computer hardware		504	424	***VALUATION ADJUSTMENTS-***	**Note 13.3**	**(1.943.305)**	**(2.032.492)**
Investment property	**Note 5**	**11.646.029**	**10.979.690**	**Hedges**		(1.943.305)	(2.032.492)
Land		4.884.955	4.888.231				
Buildings		6.761.074	6.091.459				
Non-current investments in associates		**21.497**	**30.335**	**NON-CURRENT LIABILITIES**		**46.045.820**	**49.378.815**
Equity instruments	**Note 7.2.1**	1.897	8.614	**Long-term provisions**	**Note 12**	**9.485**	**49.886**
Loans to companies	**Note 7.2.2**	19.600	21.721	**Non-current payables**	**Note 13**	**46.036.335**	**49.328.929**
Non-current investments	**Note 7.1**	**28.227.455**	**30.328.258**	Debt instruments and other marketable securities		42.857.377	45.975.600
Loans to third parties and related parties		25.555.635	27.672.441	Derivatives		2.591.073	2.709.990
Other financial assets		2.671.820	2.655.817	Other financial liabilities		587.885	643.339
Deferred tax assets	**Note 15.3**	**1.461.722**	**1.018.846**				
CURRENT ASSETS		**6.255.712**	**7.382.642**	**CURRENT LIABILITIES**		**4.742.802**	**3.617.830**
				Short-term provisions		**804**	**652**
Inventories	**Note 8**	**117.619**	**110.473**	**Current payables**	**Note 13**	**4.309.593**	**3.232.627**
Work in progress		77.286	94.507	Bank borrowings		57.823	53.233
Finished goods		12.121	12.338	Debt instruments and other marketable securities		4.228.773	3.179.053
Advances to suppliers		28.212	3.628	Other financial liabilities		22.998	341
Trade and other receivables	**Note 9**	**219.779**	**357.505**	**Trade and other payables**	**Note 14**	**425.656**	**383.317**
Trade receivables for sales and services		168.856	129.634	Payable to suppliers		352.999	308.447
Sundry accounts receivable		37.517	206.562	Sundry accounts payable		-	-
Current tax assets	**Note 15.1**	13.406	19.051	Remuneration payable		6.942	5.294
Public entities, other	**Note 15.1**	-	2.258	Current tax liabilities		-	-
Current investments	**Note 7.1**	**2.681.991**	**3.964.028**	Other accounts payable to public authorities	**Note 15.1**	63.693	69.099
Loans to companies		2.674.580	3.934.129	Customer advances		2.022	477
Other financial assets		7.411	29.899	**Unearned income**		**6.748**	**1.235**
Current investments in associates		**30**	**-**				
Loans to companies		30	-				
Prepayments for current assets		**2.060**	**21**				
Cash and cash equivalents	**Note 10**	**3.234.233**	**2.950.615**				
Cash		1.638.254	2.941.497				
Cash equivalents		1.595.979	9.118				
TOTAL ASSETS		**47.627.340**	**49.745.845**	**TOTAL EQUITY AND LIABILITIES**		**47.627.340**	**49.745.845**

The accompanying Notes 1 to 20 are an integral part of the balance sheet as at 31 December 2015

STATEMENTS OF PROFIT OR LOSS FOR 2015 AND 2014

(Thousands of euros)

	Notes	2015	2014 restated
CONTINUING OPERATIONS			
Revenue	Note 16.1	**2.201.999**	**3.312.835**
Sales of inventories		14.086	6.103
Income from sales of investment property		769.076	1.068.065
Rental income		42.011	49.436
Income from sales of loans and credit facilities		395.848	853.357
Finance income from loans and credit facilities		588.706	722.230
Recoveries of gains on loans and credit facilities		382.776	604.531
Remuneration of Bank Asset Fund (FAB) securities		9.496	9.113
Changes in inventories of finished goods and work in progress	Note 16.2	**(10.327)**	**(4.806)**
Cost of sales	Note 16.2	**(976.282)**	**(1.580.723)**
Cost of investment property		(606.554)	(850.162)
Cost of sales of financial assets		(369.728)	(730.561)
Other operating income		**6.436**	**1.071**
Non-core and other current operating income		6.436	1.071
Staff costs	Note 16.3	**(36.974)**	**(27.315)**
Wages, salaries and similar expenses		(31.773)	(23.248)
Employee benefit costs		(5.201)	(4.067)
Other operating expenses		**(593.667)**	**(482.823)**
Outside services	Note 16.4	(375.286)	(333.159)
Taxes other than income tax	Note 16.4	(192.902)	(122.040)
Losses on, impairment of and changes in trade provisions	Notes 9 and 12	(19.181)	(14.959)
Other current operating expenses		(6.298)	(12.664)
Depreciation and amortisation charge	Notes 4.1, 4.2 and 4.3	**(57.449)**	**(48.393)**
Excessive provisions	Note 12	**46.125**	-
Impairment of financial instruments		**(342.776)**	**(1.075.473)**
- Loans and credit facilities to third parties	Note 7.1.1	(337.172)	(1.067.880)
- Equity instruments, loans and credit facilities to associates	Note 7.2.2	(5.604)	(7.593)
PROFIT FROM OPERATIONS		**237.085**	**94.374**
Finance income	Note 16.6	**12.715**	**42.281**
From marketable securities and other financial instruments			
- Third parties		12.715	42.281
Finance costs	Note 16.5	**(724.454)**	**(1.140.384)**
On debts to third parties		(700.313)	(1.140.384)
Other finance costs		(24.141)	-
Exchange differences	Note 4.12	**2.318**	**3.126**
FINANCIAL LOSS		**(709.421)**	**(1.094.977)**
LOSS BEFORE TAX		**(472.336)**	**(1.000.604)**
Income tax	Note 15	472.668	196.619
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**332**	**(803.984)**
PROFIT (LOSS) FOR THE YEAR		**332**	**(803.984)**

The accompanying Notes 1 to 20 are an integral part of the statement of profit or loss for 2015

STATEMENTS OF CHANGES IN EQUITY FOR 2015 AND 2014
STATEMENTS OF RECOGNISED INCOME AND EXPENSE
(Thousands of euros)

	Notes	2015	2014 restated
PROFIT (LOSS) PER STATEMENT OF PROFIT OR LOSS (I)	Note 3	**332**	**(803.984)**
Income and expense recognised directly in equity			
- Arising from cash flow hedges	Note 15.2	(183.142)	(2.468.619)
- Tax effect	Note 15.2	45.786	617.155
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY (II)		**(137.357)**	**(1.851.464)**
Income and expense recognised in profit or loss			
- Arising from cash flow hedges	Note 13.3	302.059	113.241
- Tax effect		(75.515)	(28.310)
TOTAL TRANSFERS TO PROFIT OR LOSS (III)		**226.544**	**84.931**
TOTAL RECOGNISED INCOME AND EXPENSE (I+II+III)		**89.520**	**(2.570.516)**

The accompanying Notes 1 to 20 are an integral part of the statement of recognised income and expense for 2015

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

STATEMENTS OF CHANGES IN EQUITY FOR 2015 AND 2014

STATEMENTS OF CHANGES IN TOTAL EQUITY

(Thousands of euros)

	Share capital	Share premium	Prior years' losses	Profit (loss) for the year	Valuation adjustments	TOTAL
2013 ENDING BALANCE	**300.060**	**900.000**	**(5.488)**	**(260.533)**	**(265.959)**	**668.080**
- Adjustments due to changes in accounting policies (Note 2.5)	-	-	-	(1.348.365)	-	**(1.348.365)**
RESTATED 2014 BEGINNING BALANCE	**300.060**	**900.000**	**(5.488)**	**(1.608.899)**	**(265.959)**	**(680.286)**
Total recognised income and expense	-	-	-	(803.983)	(1.766.533)	(2.570.516)
Allocation of 2013 loss	-	-	(260.533)	260.533	-	-
Other changes in equity (Note 2.5)	-	-	(1.348.365)	1.348.365	-	-
RESTATED 2014 ENDING BALANCE	**300.060**	**900.000**	**(1.614.387)**	**(803.983)**	**(2.032.492)**	**(3.250.801)**
Total recognised income and expense	-	-	-	332	89.187	89.520
Allocation of 2014 loss	-	-	(584.659)	584.659	-	-
Other changes in equity (Note 2.5)	-	-	(219.324)	219.324	-	-
2015 ENDING BALANCE (Note 11)	**300.060**	**900.000**	**(2.418.369)**	**332**	**(1.943.305)**	**(3.161.282)**

The accompanying Notes 1 to 20 are an integral part of the statement of changes in total equity for 2015

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 20). In the event of a discrepancy, the Spanish-language version prevails.

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

STATEMENTS OF CASH FLOWS FOR 2015 AND 2014

(Thousands of euros)

		2015	2014 Restated
A)	**CASH FLOWS FROM OPERATING ACTIVITIES (1 + 2 + 3 + 4)**	**2.346.672**	**2.739.051**
1.	**Loss before tax**	**(472.336)**	**(1.000.604)**
2.	**Adjustments for:**	**496.314**	**1.541.945**
(+/-)	Depreciation and amortisation charge	57.449	48.393
(+/-)	Finance costs	724.454	1.140.384
(+/-)	Finance income	(12.715)	(42.281)
(+/-)	Finance income relating to interest on loans and credit facilities	(588.706)	(722.230)
(+/-)	Other adjustments to loss	(46.125)	27.246
(+/-)	Losses on and write-down of trade receivables and changes in provisions for commercial transactions	19.181	14.959
(+/-)	Impairment of financial instruments	342.776	1.075.473
	Taxes paid (-)	-	-
3.	**Increase/(Decrease) in assets and liabilities**	**2.647.501**	**2.934.055**
	Increase/(Decrease) in inventories (+/-)	(17.756)	(4.823)
	Increase/(Decrease) in accounts receivable (+/-)	129.822	(268.791)
	Increase/(Decrease) in other current financial assets (+/-)	22.488	12.646
	Increase/(Decrease) in accounts payable (+/-)	47.745	25.303
	Increase/(Decrease) in other current financial liabilities (+/-)	22.657	(8.955)
	Increase/(Decrease) in loans and credit facilities to third parties	1.829.152	2.280.342
	Increase/(Decrease) in investment property	613.392	898.332
4.	**Other cash flows from operating activities:**	**(324.808)**	**(736.346)**
(-)	Interest paid	(741.403)	(1.131.339)
(+)	Interest received	12.715	42.281
(+/-)	Interest received on loans and credit facilities	403.880	343.147
(+/-)	Other amounts received/(paid) relating to operating activities	-	9.566
B)	**CASH FLOWS FROM INVESTING ACTIVITIES (1 + 2)**	**(29.310)**	**(2.167.327)**
1.	**Payments due to investment:**	**(29.310)**	**(2.217.517)**
(-)	Property, plant and equipment and intangible assets	(9.928)	(4.626)
(-)	Loans to and investments in associates	(3.379)	(8.985)
(-)	Other financial assets	(16.003)	(2.203.906)
2.	**Proceeds from disposal:**	**-**	**50.190**
(+)	Group companies, associates and business units	-	50.190
(+)	Property, plant and equipment and intangible assets	-	-
C)	**CASH FLOWS FROM FINANCING ACTIVITIES (1 + 2 + 3)**	**(2.033.743)**	**(2.403.563)**
1.	**Proceeds and (payments) relating to equity instruments:**	-	-
(+)	Proceeds from issue	-	-
(-)	Redemption	-	-
(-)	Purchase	-	-
(+)	Disposal of treasury shares	-	-
2.	**Net new financing obtained from third parties**	**(2.033.743)**	**(2.403.563)**
(+)	Other non-current financial liabilities	(62.333)	598.271
(-)	Credit account drawdowns/(repayments)	4.589	(77.035)
(-)	Repayment and redemption	(1.976.000)	(2.924.800)
3.	Net proceeds from issue of own securities	-	-
D)	**EFFECT OF FOREIGN EXCHANGE RATE CHANGES**	-	-
E)	**NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)**	**283.618**	**(1.831.840)**
F)	**CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR**	**2.950.615**	**4.782.454**
G)	**CASH AND CASH EQUIVALENTS AT END OF YEAR (E + F)**	**3.234.233**	**2.950.614**
	COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
(+)	Cash on hand and at banks	1.638.254	2.941.497
(+)	Other financial assets	1.595.979	9.118
(-)	Less: Bank overdrafts refundable on demand		
	TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	**3.234.233**	**2.950.615**

The accompanying Notes 1 to 20 are an integral part of the statement of cash flows for 2015

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

Notes to the Financial Statements
for the year ended 31 December 2015

1. Company activities

Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A. ("the Company" or "SAREB") was incorporated in Madrid for an indefinite period of time on 28 November 2012, in accordance with Law 9/2012, of 14 November, on restructuring and resolution of credit institutions, under the name of Sociedad Promotora de la Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A., as a sole-shareholder public limited liability company, with the object of performing all the preparatory activities required for the start-up of SAREB. The Company is registered at the Madrid Mercantile Registry in volume 30.521, sheet 1, section 8, page M-549.293, entry 1.

On 12 December 2012, the duration and name of the Company were changed by virtue of a public deed of corporate resolutions executed on that date before the Madrid notary José María García Collantes, under number 1624 of his protocol, establishing the limit for the duration of the Company as 28 November 2027 and adopting its current name.

At 31 December 2015, the Company's registered office and tax domicile were located at Paseo de la Castellana, 89, Madrid.

The Company is governed by its bylaws and by the laws in force applicable to it, i.e. the current Spanish Limited Liability Companies Law (except for Article 537), as stipulated by Law 9/2012, of 14 November, on restructuring and resolution of credit institutions, as well as the specific rules necessary to ensure the consistency of the accounting principles applicable to it with the mandate and general objectives of the Company established in the aforementioned Law and those set by regulations (see Note 2.1).

The Company's object is the ownership, management and direct or indirect administration, acquisition and disposal of the assets and any liabilities that may be transferred to it by the credit institutions referred to in Additional Provision Nine of Law 9/2012 (or any legislation that might replace, implement or complement it) appearing on the balance sheets of those institutions or of any entity controlled by them as defined in Article 42 of the Spanish Commercial Code (and of any other assets and liabilities it might acquire in the future as a result of the aforementioned management and administration of the former).

Without prejudice to the company object described above, pursuant to the legislation regulating it, the Company must contribute to the appropriate implementation of the credit institution restructuring or resolution processes that were in progress when it was incorporated, and facilitate achievement of the objectives envisaged in Article 3 of Royal Decree 1559/2012, in accordance with the general principles of transparency and professional management, i.e.:

a) To contribute to the clean-up of the financial system 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) To minimise public financial support.

c) To settle any debts and liabilities which it may incur in the course of its operations.

d) To minimise the possible market distortions that might arise from its activities.

e) To dispose of the assets received, optimising their value within the term for which it was incorporated.

Background to the incorporation of the Company and transfer of the assets

Following is a summary of certain relevant events to aid comprehension of these financial statements.

At the beginning of June 2012, the Spanish government, at the request of the European authorities, launched two private, independent aggregate valuation analyses of the loan portfolios in Spain of the fourteen largest banking groups, in order to assess the resilience of the Spanish financial sector to a severe deterioration of the Spanish economy.

On 25 June 2012, the Spanish government submitted a formal request to the Eurogroup for financial assistance for the recapitalisation of Spanish credit institutions. On 29 June it was established that the financial assistance would be provided by the European Financial Stability Facility (EFSF) until the European Stability Mechanism (ESM) was in place, and that the aid would then be transferred to the ESM without gaining seniority status.

This financial assistance programme led to the signing, on 23 July, of a Memorandum of Understanding on Financial-Sector Policy Conditionality (MoU), in which the conditions attached to the financial assistance granted by the EFSF or, where appropriate, the ESM, were established. Among other measures, the MoU envisaged the performance of a stress test to estimate each bank's capital shortfall and the commencement of a restructuring/resolution process for the institutions requiring it, which would ultimately be reflected in the measures established in Law 9/2012.

On 31 August 2012, in the context of the programme of assistance to Spain in order to recapitalise the financial sector, Royal Decree-Law 24/2012 on the restructuring and resolution of credit institutions was published, establishing, inter alia, the possibility of a company being set up to manage assets arising from the bank restructuring process. This company would engage in the management of any problematic assets that might have to be transferred to it by the credit institutions.

On 28 September 2012, the capital requirements for each of the credit institutions subject to analysis were disclosed, grouping together the five banks controlled by the Fund for Orderly Bank Restructuring (FROB), which required government aid in the two scenarios envisaged in the test (the so-called Group 1), and the institutions that would require additional capital in the adverse scenario (Group 2).

On 29 October 2012, the FROB completed the design of the structure of the asset management company, Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria (SAREB), as envisaged in the MoU. The company's purpose would be to acquire problematic assets related to the property sector from the aforementioned financial institutions, substantially reducing any uncertainty concerning the viability of the institutions that might require government aid and enabling them to concentrate their management efforts on their core business.

November 2012 saw the approval of Law 9/2012, enacting the provisions of Royal Decree-Law 24/2012, and that of Royal Decree 1159/2012, of 15 November ("RD 1559/2012"), the purpose of which, inter alia, is to implement the stipulations of Additional Provisions Seven to Ten of the aforementioned Law in relation to Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria and the assets segregated to it.

As established in Article 48 of RD 1559/2012, the institutions composing Groups 1 and 2 had to transfer to SAREB all the assets that met the following conditions:

i) Properties foreclosed or acquired as payment of debts, irrespective of their origin, provided they were recognised in the separate or consolidated balance sheets of the credit institutions as at 30 June 2012 and had a net carrying amount, following the application of the established valuation adjustments, of more than EUR 100,000.

ii) The following collection rights, provided they were recognised in the credit institutions' balance sheets as at 30 June 2012 or arose from the refinancing of the related transactions at a later date, the net carrying amount of which, following the application of the established valuation adjustments, exceeded EUR 250,000:

- Loans or credit facilities to finance land for property development in Spain, or to finance construction or property developments in Spain, either in progress or completed, irrespective of their age or accounting classification, except those classified as written-off loans.

- Participating loans granted to companies in the property sector or to companies related to them, irrespective of the age or accounting classification of the loans.

- Other loans or credit facilities granted to holders of loans or credit facilities included in sections i) and ii) above, when the FROB considered the transfer to be advisable in order to enable SAREB to adequately manage the transferred assets.

iii) The properties and collection rights that met the requirements described in sections i) and ii) above originating from companies in the property sector or from companies related to them, over which the credit institution exercised control, as defined in Article 42 of the Spanish Commercial Code.

In accordance with the provisions of Article 36 of Law 9/2012 and with the valuation procedures envisaged in Article 5 of Law 9/2012 and Articles 13 and 14 and Transitional Provision One of RD 1559/2012, the price of the transfers described below was determined by the Bank of Spain.

This transfer price of the assets may be adjusted within a period of 36 months from the date of transfer, pursuant to the terms established in the corresponding asset transfer agreements (price adjustment mechanism). This mechanism takes into account mainly the following adjustment situations:

i) Inappropriate categorisation;

ii) Changes in scope; and

iii) Errors or changes in the values estimated at the date of the transfer.

However, this 36-month period may be extended by means of a bilateral agreement between the Company and the transferor institutions.

Similarly, adjustments may be made to the price with respect to financing agreements with undrawn amounts if the Bank of Spain, following a proposal from the FROB, concludes that they were not adequately taken into consideration in the calculation of the transfer price.

On 28 November 2012, the European Commission, at the proposal of the Bank of Spain and the FROB, approved the restructuring/resolution plans of the five institutions in which the FROB held a majority ownership interest, namely Banco Financiero y de Ahorros – Bankia, S.A., NovaGalicia Banco, S.A., Catalunya Banc, S.A., Banco de Valencia, S.A. and Banco Gallego, S.A. The capital requirements that were initially identified in the stress tests mentioned above were reduced by the effect of the transfer of property assets to SAREB in December 2012 and by the other measures adopted under the aforementioned plans.

2012: Acquisition of assets from Group 1 institutions

On 21 December 2012, SAREB and the institutions composing the aforementioned Group 1 entered into the related asset transfer agreements which, as stipulated, did not come fully into effect until 31 December 2012. These assets were transferred free of encumbrances by the transferor institutions, as a whole and for a single price of EUR 36,695,308 thousand, and were acquired by SAREB through the issuance of senior bonds totalling EUR 36,694,100 thousand, which were subscribed by the transferor institutions. The payment of the difference between the transfer price and the value of the bonds issued was deferred for 36 months, and could be offset by the Company against any amounts owed to it by the transferor institutions under the terms and conditions established in the asset transfer agreements. At 31 December 2013, the aforementioned amount had been settled and there were no balances in this connection in the balance sheet as at that date.

The detail, by type at that date, of the assets transferred by Group 1 institutions is as follows:

	Thousands of euros
Financial assets	28,298,902
Property assets	8,396,406
Total	36,695,308

The detail, by risk classification, of the financial assets transferred by Group 1 institutions is as follows:

Amounts in thousands of euros	Number of assets	Total transfer price
Loans	62,435	26,493,181
Standard	28,047	8,368,902
Substandard	11,877	6,646,904
Doubtful	22,511	11,477,375
Credit facilities	5,714	1,805,721
Standard	1,810	537,427
Substandard	870	495,392
Doubtful	3,029	557,025
Other	5	215,877
Total	68,149	28,298,902

The detail of the property assets transferred by Group 1 institutions is as follows:

Amounts in thousands of euros	Number of assets	Total transfer price
Land	10,322	2,812,430
Completed properties for sale	30,158	2,426,138
Leased properties	5,822	927,620
Total investment property	46,302	6,166,188
Work 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

The main features of the senior bonds issued by the Company and subscribed by the Group 1 institutions on 21 December 2012 in payment of the aforementioned assets are summarised as follows:

ISIN code		Issue date	Maturity date (**)	Current applicable rate	Nominal amount (thousands of euros) (*)
ES0352506002	SAREB/VAR BO 20131231 2012-1	31/12/12	31/12/13	2.374%	11,008,100
ES0352506010	SAREB/VAR BO 20141231 2012-2	31/12/12	31/12/14	2.747%	16,512,500
ES0352506028	SAREB/VAR BO 20151231 2012-3	31/12/12	31/12/15	3.149%	9,173,500
					36,694,100

(*) These bonds are backed by the irrevocable guarantee of the Kingdom of Spain (see Note 13.2).

(**) There is a renewal option at the Company's discretion, as described in Note 13.

These bonds were subscribed by the transferor institutions, the detail being as follows:

	Thousands of euros
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**

2013: Acquisition of assets from Group 2 institutions

On 20 December 2012, the European Commission approved the restructuring plans for the financial institutions included in 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.) following approval thereof by the Bank of Spain.

On 28 February 2013, SAREB and the institutions included in Group 2 entered into the related asset transfer agreements. The assets were transferred to SAREB as a whole and free of encumbrances by the transferor institutions in Group 2 for a single price of EUR 14,087,157 thousand, and were acquired by SAREB through the issuance of senior bonds totalling EUR 14,086,700 thousand, with a nominal value of EUR 100 thousand each, which were subscribed by the transferor institutions. The payment of the difference between the transfer price and the value of the bonds issued was deferred for 36 months, and could be offset by the Company against any amounts owed to it by the transferor institutions under the terms and conditions established in the asset transfer agreements. At 31 December 2013, the aforementioned amount had been settled and there were no balances in this connection in the balance sheet as at that date.

The detail, by type at that date, of the assets transferred by Group 2 institutions is as follows:

	Thousands of euros
Financial assets	11,139,891
Property assets	2,947,266
Total	**14,087,157**

The detail, by risk classification, of the financial assets transferred by Group 2 institutions is as follows:

Amounts in thousands of euros	Number of assets	Total transfer price
Loans	21,889	10,855,331
Standard	9,337	4,642,163
Substandard	1,800	1,872,775
Doubtful	10,752	4,340,393
Credit facilities	727	284,560
Standard	270	125,758
Substandard	137	44,161
Doubtful	230	110,643
Other	90	3,998
Total	**22,616**	**11,139,891**

The detail of the property assets transferred by Group 2 institutions at that date is as follows:

Amounts in thousands of euros	Number of assets	Total transfer price
Land	4,630	1,062,531
Halted construction work	1,445	163,505
Completed properties for sale	23,404	1,619,800
Leased properties	906	98,140
Total investment property	30,385	2,943,976
Work in progress	27	3,290
Total inventories	27	3,290
Total	**30,412**	**2,947,266**

The main features of the senior bonds subscribed on 28 February 2013 in payment of the aforementioned assets are summarised as follows:

ISIN code		Issue date	Maturity date (**)	Current applicable rate	Nominal balance (thousands of euros) (*)
ES0352506036	SAREB/VAR BO 20140228 2013-1	28/02/13	28/02/14	1.451%	4,225,900
ES0352506044	SAREB/VAR BO 20150228 2013-2	28/02/13	28/02/15	2.233%	6,339,200
ES0352506051	SAREB/VAR BO 20160228 2013-3	28/02/13	28/02/16	2.674%	3,521,600
					14,086,700

(*) These bonds are backed by the irrevocable guarantee of the Kingdom of Spain (see Note 13.2).
(**) There is a renewal option at the Company's discretion, as described in Note 13.

These bonds were subscribed by the transferor institutions, the detail being as follows:

	Thousands of euros
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**

Corrections made to the asset acquisition agreements in 2015 and 2014

In 2015 and 2014, in compliance with the provisions of Royal Decree 1559/2012 and the terms and conditions of the asset transfer agreements, the loan and credit facility portfolios and the property asset portfolios acquired from Group 1 and 2 institutions were reviewed in order to identify any miscategorisations of assets, changes in scope and errors or changes in the values estimated at the transfer date.

As a result of the aforementioned analysis conducted by the Company for each year, corrections totalling EUR 76 million were made in 2015 (2014: EUR 546 million), through the return to Group 1 and 2 transferor institutions of assets amounting to EUR 69 million (2014: EUR 180 million) and adjustments to the transfer price of EUR 7 million (2014: EUR 366 million), thus reducing the amount of property assets initially transferred by EUR 13 million (2014: EUR 121 million) and that of loans and credit facilities by EUR 63 million (2014: EUR 425 million). As consideration, the transferor institutions delivered to SAREB a portion of the aforementioned bonds issued as payment for the transferred portfolios, for an amount equal to the returned assets, together with the cash amount of the coupons received by the institutions in relation to the bonds delivered. In addition, under the transfer agreement, the institutions incurred a compensatory interest rate of 1% per annum of the total coupon paid by the Company on the returned bonds, amounting to EUR 4,429 thousand in 2015 (2014: EUR 21,179 thousand).

The summary of the corrections made in 2015 and 2014 is as follows:

2015

Amounts in thousands of euros	Corrected property assets (Note 5) **	Corrected financial assets (Note 7)	Total corrections	Bonds returned (Note 13.2)	Cash adjustment (*)
Banco Mare Nostrum, S.A.	502	-	502	(400)	102
Catalunya Caixa, S.A.	9,568	37,714	47,282	(47,100)	182
Banco Caja España de Inversiones Salamanca y Soria, S.A.	-	455	455	(400)	55
Banco de Valencia, S.A.	239	-	239	(200)	39
Banco Gallego, S.A.	2,289	4,595	6,884	(6,700)	184
Bankia, S.A./Banco Financiero y de Ahorros, S.A.	-	20,632	20,632	(20,400)	232
Total	**12,598**	**63,396**	**75,994**	**(75,200)**	**794**

(*) Relates to the difference, settled in cash, between the total amount of the correction and the amount of the bonds returned.

(**) EUR 5 thousand of the amount of the property assets corrected related to properties sold by the Company prior to the correction. The cash obtained by the Company from these sales was returned to the related institutions.

2014

Amounts in thousands of euros	Corrected property assets (**)	Corrected financial assets (Note 7)	Total corrections	Bonds returned (Note 13.2)	Cash adjustment (*)
NovaGalicia Banco, S.A.	26,581	156,163	182,744	(182,600)	144
Catalunya Caixa, S.A.	44,844	160,722	205,566	(205,400)	166
Banco Mare Nostrum, S.A.	2,110	502	2,612	(2,000)	612
Banco de Valencia, S.A.	28,660	61,223	89,883	(89,700)	183
Banco Gallego, S.A.	12,862	-	12,862	(12,700)	162
Banco Caja España de Inversiones Salamanca y Soria, S.A.	6,166	46,298	52,464	(52,400)	64
Total	**121,223**	**424,908**	**546,131**	**(544,800)**	**1,331**

(*) Relates to the difference, settled in cash, between the total amount of the correction and the amount of the bonds returned.

(**) EUR 7,593 thousand of the amount of the property assets corrected related to properties sold by the Company prior to the correction. The cash obtained by the Company from these sales was returned to the related institutions.

Also, in 2015 the Company entered into various settlement agreements with Bankia, S.A. and Banco Gallego, S.A. whereby the parties agreed to waive the right to demand subsequent adjustments to the price and the 36-month period envisaged in the asset transfer agreement for the filing of claims. The Company is still entitled to exercise such rights and actions as might be legally or contractually attributed to it in relation to latent defects or damage and losses. This agreement does not mean that scope adjustments cannot be made with these institutions in the future in relation to assets incorrectly transferred because they did not comply with Article 48 of Royal Decree 1559/2012 or the Resolution of the FROB on transfer conditions dated 14 December 2012. Such adjustments were made in 2015 with respect to Catalunya Caixa, S.A., Banco de Valencia, S.A. and Banco Caja España de Inversiones Salamanca y Soria, S.A.

Settlement agreements were reached in 2014 with Banco Caja España de Inversiones Salamanca y Soria, S.A., Banco de Valencia, S.A., Catalunya Caixa, S.A. and NovaGalicia Banco, S.A.

Management agreements

Simultaneously to the asset transfers by Group 1 and 2 institutions, the Company entered into the related agreements with each of the transferor institutions for the management and administration by them of the transferred assets. The purpose of these agreements was to ensure continuity in the management of the assets over a transitional period in order to avoid any deterioration of the assets that might arise from a lack of attention. These agreements detail the general framework of the activities, functions, attributes and delegated powers entrusted to the transferor institutions for the ordinary management of the assets. The main features of these agreements are as follows:

- Purpose: management of the transferred assets, both collection rights and properties.
- Term: one year, renewable for another year at SAREB's discretion. The Company exercised its right to renewal, and, accordingly, except where agreed otherwise by the parties, the agreements expired on 31 December 2014 for Group 1 institutions and on 28 February 2015 for Group 2 institutions (see next section on the “Íbero Project”). Also, in the case of asset portfolios that were to be migrated to new managers after these dates, the Company reached an agreement with the transferor institutions to extend the provision of their services until the scheduled migration date of each portfolio.
- Price: fixed and variable management fees depending on various parameters.

As a result of the Íbero Project (described below) these agreements were terminated in 2015, with the exception of that relating to the portfolio of financial assets originally transferred by Liberbank, S.A., since at 31 December 2015 this portfolio had not yet migrated to the new manager. In the case of the portfolio of financial assets originally transferred by Banco Mare Nostrum, S.A., although the technological migration was not carried out in 2015, the new manager Íbero reached an agreement with Banco Mare Nostrum, S.A. to obtain control of the portfolio in advance and thereby commence the provision of the services entrusted to it as part of the Íbero Project.

In the year ended 31 December 2015, the fees incurred under the aforementioned management agreements comprised overall management fees amounting to EUR 17,602 thousand (year ended 31 December 2014: EUR 89,058 thousand) and fees in all other connections amounting to EUR 47,606 thousand (year ended 31 December 2014: EUR 118,760 thousand) (see Note 16.4).

Ibero project

In 2014 the Company launched the so-called “Ibero” project. This project consisted of replacing, by means of a tender process, the management and administration agreements formalised on the date of transfer of the assets; the aim was to:

- Bring together the management of the nine portfolios initially contributed by Group 1 and 2 institutions under new managers, in order to simplify and facilitate the management of the transferred assets.
- Seek to professionalise and improve the quality of the service at market prices to enable the Company to meet its commitment and mandate, i.e., to be able to divest the assets acquired over its lifetime and maximise the value thereof.

The Ibero project had two main phases: During the first phase, the Company received heads of terms of offers for each of the portfolios (which were divided into ten, one for each transferor institution except for the portfolio initially transferred by Bankia, S.A., which, due to its size, was divided into a loan portfolio and a property portfolio). On the basis of this first phase, the Company assessed the offers received and made an initial shortlist of potential candidates for the award of the aforementioned portfolios.

The second phase of the project consisted of the receipt of binding offers from the potential candidates. On the basis of these binding offers, the Company carried out due diligence reviews of the capabilities offered and defined the final portfolios.

Lastly, in November and December 2014 the formal award and formalisation of the new management and administration agreements took place. The successful bidders were as follows:

- Solvia Servicios Inmobiliarios, S.L. was awarded the property asset 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 previously 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 portfolio of loans initially transferred by Bankia, S.A. and Banco Financiero 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 terms set for the agreements range from five to seven years from the date of entry into force thereof, and are automatically renewable for one additional year, unless either of the parties to an agreement gives six months' advance notice of their desire to terminate it. The agreements also envisage the possibility of early termination by SAREB at any time with a notice period of at least three (3) months and payment of compensation to the managers calculated in accordance with the terms and conditions of the agreements.

In all cases, the agreements for the services to be provided by the new managers:

- Migration: services required to design, carry out and complete the migration of the management and administration of the assets. In 2015 the technological and administrative migration of all the portfolios of property assets was carried out in stages. At 31 December 2015, all the portfolios of financial assets, with the exception of the portfolios originally transferred by Liberbank, S.A. and Banco Mare Nostrum, S.A., had migrated.

- Administration and management of the portfolios awarded.

- Legal advisory services in relation to the administration and management of the assets migrated.

The agreements provide for consideration for the aforementioned services comprising management and administration fees calculated on the basis of the volume of assets managed by each of the managers and a sales fee calculated on the basis of the income and cash flows generated on divestment of the assets under management. Management fees and sales fees of EUR 77,526 thousand and EUR 78,803 thousand, respectively, were incurred in 2015 (see Note 16.4).

Also, in order to guarantee a given level of service and performance of the functions entrusted, and to align their objectives with those of the Company, in 2014 the successful bidders provided guarantees for an initial amount of EUR 588,600 thousand, which are recognised under "Non-Current Liabilities - Other Financial Liabilities" in the accompanying balance sheet (see Note 13.4). These bonds were received in full by the end of 2015. At 31 December 2014, EUR 176,750 thousand had not yet been received in this connection and was recognised under "Sundry Accounts Receivable" in the accompany balance sheet as at 31 December 2014 (see Note 9).

In relation to the aforementioned performance bonds, it must be stated that the amount of these bonds was calculated based on an estimate of the assets that will be managed by each of the new managers, and may be corrected to adapt it to the actual data on two occasions, the first being 30 March 2015, and the second at the end of each migration, as a result of any variations that might possibly be detected at each date with respect to the initial scope of assets to be managed. The Company has returned bonds amounting to EUR 268 thousand as a result of changes in the scope of assets to be managed.

The return of these bonds is of a contingent nature and is tied to the new managers' adequate commercial performance. The Company considers it probable that, pursuant to current estimates, these bonds will be returned and that the return will take place as the economic rights agreed upon by the Company and the new managers accrue and are paid. The respective agreements envisage the measurement of the degree of compliance of the managers on the basis of several performance indicators applicable to the services agreed upon, and establish a scale of penalties to be applied to the billings of the economic rights assigned to the agreements based on the degree of compliance, as well as certain circumstances that constitute grounds for early termination (e.g. when non-compliance by the managers extends over a period of twelve months, with the highest level of materiality and degree of variance from the target value of those envisaged in the agreement). Based on the economic rights accrued in 2015, the Company returned bonds provided by the new managers amounting to EUR 35,663 thousand (see Note 13).

Other disclosures

At 31 December 2015, the Company's financial statements were not fully consolidated in the consolidated financial statements of any shareholder since no shareholder owned more than 50% of the Company's share capital and because it was not considered that any of them controlled the Company or had the power to govern its financial and operating policies so as to obtain economic benefits from its activities, or owned the majority of its voting power or had the power to appoint or remove the majority of the members of its Board of Directors (see Note 11).

At 31 December 2015, the Company did not hold any majority ownership interests in the share capital of subsidiaries. In addition, the ownership interests in Bank Asset Funds (“FABs”) (see Note 4.6.1) that did not result in the derecognition of the assets and liabilities assigned to them are not of significant interest with respect to the true and fair view of the Company’s equity, financial position and results. Therefore, pursuant to the provisions of Article 9 of Royal Decree 1159/2010, of 17 September, which approved the Rules for the Preparation of Consolidated Financial Statements and amended the Spanish National Chart of Accounts approved by Royal Decree 1514/2007, of 16 November, and the Spanish National Chart of Accounts for Small and Medium-Sized Enterprises approved by Royal Decree 1515/2007, of 16 November, and Article 43 of the Spanish Commercial Code, the Company is not required to prepare consolidated financial statements.

2. Basis of presentation of the financial statements

2.1 Regulatory financial reporting framework applicable to the Company

These financial statements were formally prepared by the directors in accordance with the regulatory financial reporting framework applicable to the Company, which consists of:

a) The Spanish Commercial Code and all other Spanish corporate law, with the specific rules contained in Additional Provision Seven.10 of Law 9/2012 which, where appropriate, were implemented in 2015 by a Bank of Spain Circular (see Note 2.1-c).

b) The Spanish National Chart of Accounts approved by Royal Decree 1514/2007 and subsequent amendments thereto, except for the specific rules included in Law 9/2012.

Also, because of the nature of the Company's activities, the provisions of the Ministry of Economy and Finance Order of 28 December 1994 approving the adaptation of the Spanish National Chart of Accounts (1990) for real estate companies were taken into account in the preparation of these financial statements. These provisions apply in all matters which do not contradict the provisions of the Spanish Commercial Code, the Spanish Limited Liability Companies Law, Law 9/2012 and the Spanish National Chart of Accounts approved by Royal Decree 1514/2007.

Also, the Company must comply with the general obligations regarding transparency and the preparation of financial statements established in Royal Decree 1559/2012.

c) Pursuant to Additional Provision Seven.10 of Law 9/2012, in 2015 the Bank of Spain issued its Circular 5/2015, of 30 September, which implements the specific accounting rules for SAREB (“Circular 5/2015”). These specific accounting rules are detailed in the accounting policies described in Note 4 to these financial statements.

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

e) All other applicable Spanish accounting legislation.

2.2 Fair presentation

The accompanying financial statements, which were obtained from the Company's accounting records, are presented in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein and, accordingly, present fairly the Company's equity and financial position as at 31 December 2015, and its results and cash flows for the year then ended.

SAREB's financial statements for 2014 were approved by the Annual General Meeting on 14 April 2015, and those for 2015, which were formally prepared by SAREB's Board of Directors at its meeting on 30 March 2016, will be submitted for approval by the Annual General Meeting, and it is considered that they will be approved without any changes.

2.3 Non-obligatory accounting principles applied

No non-obligatory accounting principles were applied in the preparation of the financial statements. Also, the directors formally prepared these financial statements taking into account all the obligatory accounting principles and standards with a significant effect hereon (see Note 4). All obligatory accounting principles with a significant effect on these financial statements were applied.

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

In preparing the accompanying financial statements estimates were made by the Company's directors in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The assessment of possible impairment losses on certain assets (see Notes 4.7, 5, 7 and 8).
- The useful life of intangible assets, property, plant and equipment and investment property (see Notes 4.1, 4.2, 4.3 and 5).
- The fair value of certain financial instruments (see Note 7).
- The recovery of deferred tax assets and tax credit and tax loss carryforwards (see Note 15.3).
- The calculation of provisions (see Note 12).
- The estimate of the debt instruments and marketable securities to be redeemed at short term (see Note 13.2).
- The classification of the balances in the balance sheet as either non-current or current based on the estimated future cash flows thereof (see Notes 7 and 13).

In 2014 the Company completed a due diligence review of the assets transferred. The purpose of the review was to determine whether the price estimates and calculation mechanism (correct application of the transfer prices, confirmation of the features of the acquired assets and accuracy of the information sent by the transferor institutions) were reasonable.

Based on the results obtained from the review, the Company formalised the corrections specified in Note 1 in 2015 and 2014. Except for these corrections, based on the current information, the estimate of the possible differences that might be disclosed with respect to the transfer prices is not material for the purposes of these financial statements.

Although these estimates were made, pursuant to the applicable legislation, on the basis of the best information available at 2015 year-end and at the date of preparation of these financial statements, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively and recognised in the statements of profit or loss for the future years affected.

Going concern principle of accounting

At 31 December 2015, the Company's equity position was as follows:

	Thousands of euros
Equity per the financial statements of SAREB, S.A. as at 31/12/15	(3,161,282)
Of which:	
Valuation adjustments relating to cash flow hedges	*1,943,305*
Equity for the purposes of capital reductions and dissolutions at 31/12/15	**(1,217,977)**

It should be noted that, in accordance with current accounting rules, changes in the value of the hedging derivative are recognised in the Company's equity until they are recognised in profit or loss for the relevant year. The entire fair value of this interest rate risk derivative, net of the related tax effect, is recognised under “Valuation Adjustments - Hedges”. However, from a corporate standpoint and pursuant to Article 36 of the Spanish Commercial Code, these changes in the value of the hedging derivative that have not yet been taken to profit or loss do not qualify as equity for the purposes of distributions of profit, obligatory reductions of share capital or obligatory dissolution due to losses incurred.

Due to the accumulated losses at 31 December 2015, caused mostly by the impairment losses recognised on the Company's financial assets as a result, mainly, of the entry into force of Bank of Spain Circular 5/2015 (see Notes 2.1 and 2.5), the Company had an equity deficit, in accordance with Article 36 of the Spanish Commercial Code and for the purposes of Article 363 of the Spanish Limited Liability Companies Law, of EUR 1,218 million and, therefore, it is in a situation of mandatory dissolution as provided for in the aforementioned article.

However, as detailed in Note 13.2, when it acquired the assets the Company simultaneously issued convertible subordinated debt of EUR 3,600 million, most of which was subscribed by the Company's shareholders. The deed of issue of this debt states that it is contingently convertible in the event of an equity deficit: (i) when accumulated losses are greater than or equal to the sum of the Company's share capital and its reserves or (ii) when the Company is in a situation of mandatory dissolution because accumulated losses have reduced the Company's equity to less than one half of the share capital. Also, the deed of the subordinated debt states that, in the event of conversion, the amount to be converted shall be such that, following conversion, the Company's share capital represents 2% of the value of its assets. Therefore, the Company has sufficient resources to restore its equity position without additional contributions from its shareholders.

In this connection, the directors are expected to commence measures aimed at restoring the equity position on 30 March 2016, to which end, prior to the conversion of the subordinated debt, and pursuant to the terms and conditions of the deed of issue, they shall propose the following resolutions to the Annual General Meeting:

	Thousands of euros
Offset of losses with charge to share premium	900,000
Reduction of share capital to zero to offset prior years' losses	300,060
Waiving of the shareholders' pre-emption rights	-
Increase of share capital through conversion of subordinated debt into equity (*)	2,170,524
Reduction of share capital to offset prior years' losses	1,217,977

*As provided for in Article 343 of the Spanish Limited Liability Companies Law, a resolution to reduce share capital to zero may only be adopted if it is simultaneously resolved to increase capital with pre-emption rights. Therefore, it is necessary to submit for approval by the General Meeting either a capital increase with acknowledgement of the shareholders' pre-emption rights or the express waiver of these rights by all the Company's shareholders. Accordingly, the Board of Directors shall prepare two alternative resolution proposals in this connection.

The aforementioned proposals will be submitted for approval by the General Meeting, and it is considered that they will be approved without any changes.

Once the aforementioned resolutions have been approved, and at its meeting immediately after the General Meeting, the Board will approve the amount of the conversion of contingent convertible unsecured subordinated debentures (EUR 2,170,524 thousand), and will perform the share capital increase by issuing the shares required to carry out the conversion.

The new shares will have the same par value, class and series and carry the same rights as the ordinary shares currently outstanding.

At 31 December 2015, the Company had working capital of EUR 1,512,910 thousand as a result of classifying senior debt as long term, since, although EUR 30,803,000 thousand of senior debt contractually fall due in 2016, the Company has the option to renew the maturity date of these bonds unilaterally and, accordingly, a significant portion thereof was classified as long term on the basis of the Company's current estimates.

Also, the Company considers that the financial assets classified as doubtful will generally be recovered within a time horizon of more than twelve months and that those that are current in payment will be recovered in accordance with the original contractual payment schedule (see Note 7).Taking into account the foregoing, and considering the financial projections made by the Company, which envisage the generation of sufficient cash flows to realise its assets and settle its liabilities, the Company's directors prepared these financial statements in accordance with the going concern principle of accounting.

On the basis of the foregoing, the Company's directors prepared these financial statements in accordance with the going concern principle of accounting.

2.5 Changes in accounting policies

As indicated in Notes 2.1 and 2.4, these are the first financial statements prepared by the Company under the specific accounting rules established in Bank of Spain Circular 5/2015.

The application of the aforementioned Circular gave rise to a change in the measurement method for financial and property assets. Note 4.7 explains the criteria established by the aforementioned Circular in relation to the “Impairment of financial assets, investment property and other receivables”. Also, in order to facilitate understanding of these financial statements the main changes introduced by the Circular are detailed below:

- The asset portfolios previously written down by the Company, i.e. (i) participating loans and (ii) loans and credit facilities granted to borrowers involved in insolvency proceedings that are not current in their payments and do not have any collateral, are included in the financial assets unit and, therefore, the write-downs recognised by the Company are offset by the gains on other assets included in this unit.

- Assets foreclosed or received in payment of debts since the transfer to SAREB form part of the asset unit in which they were initially included on transfer to SAREB, i.e. the financial assets unit.

- The measurement method used for the Company's financial assets took into consideration, on an individual basis, the ability of the Company's main debtors to pay their debts, as well as, where applicable, the existence of any guarantors or sureties with a proven ability to pay. Financial assets comprising loans which the Company expects to recover through the execution of guarantees were measured as explained in the following paragraph.

- The measurement method for property assets and collateral is based on the mortgage value thereof, as provided for in Article 2 of Ministry of Economy Order ECO/805/2003, of 27 March, with the adjustments required to reflect the evolution of market prices and the time horizons envisaged in the business plan. When calculating the value of completed homes and annexes the Company may opt to perform individual appraisals or use statistical sampling methods. In the case of commercial premises, statistical sampling methods or automatic valuation models may also be used, but only for commercial premises located in areas in which there is an established market of comparable properties. Any valuation that is more than 15% higher than the mortgage value or the value obtained using statistical sampling methods or automatic valuation models must be supported by two or more market transactions involving similar assets.

- Assets shall be derecognised at their carrying amount without considering the impairment losses estimated by asset unit.

- When measuring the mortgage value of the assets, guarantee execution (where applicable), maintenance and sales costs shall be deducted.

Pursuant to Transitional Provision One of the aforementioned Circular, as stipulated in Recognition and Measurement Standard 22 of Royal Decree 1514/2007, of 16 November, approving the Spanish National Chart of Accounts, the Company shall consider the effect of applying the rules contained in the Circular as a change in accounting policy and shall disclose the impact thereof in the first set of financial statements prepared following the approval of the Circular. The Company shall estimate the effect of the change in accounting policy considering the retrospective application thereof and the phase-in arrangements provided for in Transitional Provision Two of the Circular.

The effect of this change in accounting policy on the financial statements for 2014, which were authorised for issue on 30 March 2015, is as follows:

Balance sheet:

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 20). In the event of a discrepancy, the Spanish-language version prevails.

ASSETS	31/12/14 restated	Effect of restatement	Issued 31/12/2014
NON-CURRENT ASSETS	**42.363.203**	**(1.567.689)**	**43.930.892**
Intangible assets	**4.225**	-	**4.225**
Intellectual property	9	-	9
Computer software	4.216	-	4.216
Property, plant and equipment	**1.849**	-	**1.849**
Furniture	222	-	222
Plant and other items of property, plant and equipment	1.203	-	1.203
Computer hardware	424	-	424
Investment property	**10.979.690**	-	**10.979.690**
Land	4.888.231	-	4.888.231
Buildings	6.091.459	-	6.091.459
Non-current investments in associates	**30.335**	-	**30.335**
Equity instruments	8.614	-	8.614
Loans to companies	21.721	-	21.721
Non-current investments	**30.328.258**	**(1.567.689)**	**31.895.947**
Loans to third parties and related parties	27.672.441	(1.567.689)	29.240.130
Other financial assets	2.655.817		2.655.817
Deferred tax assets	**1.018.846**	-	**1.018.846**
CURRENT ASSETS	**7.382.642**	-	**7.382.642**
Inventories	**110.473**	-	**110.473**
Work in progress	94.507	-	94.507
Finished goods	12.338	-	12.338
Advances to suppliers	3.628	-	3.628
Trade and other receivables	**357.505**	-	**357.505**
Trade receivables for sales and services	129.634	-	129.634
Sundry accounts receivable	206.562	-	206.562
Current tax assets	19.051	-	19.051
Public entities, other	2.258	-	2.258
Current investments	**3.964.028**	-	**3.964.028**
Loans to companies	3.934.129	-	3.934.129
Other financial assets	29.899	-	29.899
Current investments in associates	-	-	-
Loans to companies	-	-	-
Prepayments for current assets	**21**	-	**21**
Cash and cash equivalents	**2.950.615**	-	**2.950.615**
Cash	2.941.497	-	2.941.497
Cash equivalents	9.118	-	9.118
TOTAL ASSETS	**49.745.845**	**(1.567.689)**	**51.313.534**

EQUITY AND LIABILITIES	31/12/14 restated	Effect of restatement	Issued 31/12/2014
EQUITY	**(3.250.802)**	**(1.567.689)**	**(1.683.112)**
SHAREHOLDERS' EQUITY-	**(1.218.310)**	**(1.567.689)**	**349.380**
Share capital			
Registered capital	300.060	-	300.060
Share premium	900.000	-	900.000
Reserves - Prior years' losses	(1.614.386)	(1.348.365)	(266.021)
Profit (loss) for the year	(803.983)	(219.324)	(584.659)
VALUATION ADJUSTMENTS-	**(2.032.492)**	-	**(2.032.492)**
Hedges	(2.032.492)	-	(2.032.492)
NON-CURRENT LIABILITIES	**49.378.815**		**49.378.815**
Long-term provisions	**49.886**	-	**49.886**
Non-current payables	**49.328.929**	-	**49.328.929**
Debt instruments and other marketable securities	45.975.600	-	45.975.600
Derivatives	2.709.990	-	2.709.990
Other financial liabilities	643.339	-	643.339
CURRENT LIABILITIES	**3.617.830**		**3.617.831**
Short-term provisions	**652**	-	**652**
Current payables	**3.232.627**	-	**3.232.627**
Bank borrowings	53.233	-	53.233
Debt instruments and other marketable securities	3.179.053	-	3.179.053
Other financial liabilities	341	-	341
Trade and other payables	**383.317**	-	**383.317**
Payable to suppliers	308.447	-	308.447
Sundry accounts payable	-	-	-
Remuneration payable	5.294	-	5.294
Current tax liabilities	-	-	-
Other accounts payable to public authorities	69.099	-	69.099
Customer advances	477	-	477
Unearned income	**1.235**	-	1.235
TOTAL EQUITY AND LIABILITIES	**49.745.845**	**(1.567.689)**	**51.313.534**

The main impacts on the restated balance sheet are as follows:

i. A EUR 1,567,689 thousand decrease in “Non-Current Financial Assets - Loans to Third Parties and Related Parties”. This decrease was due mainly to the recognition of additional impairment losses for 2013 and 2014 amounting to EUR 1,707,245 thousand and a EUR 139,556 thousand increase in the carrying amount of the assets resulting from the accrual of additional interest thereon.

ii. A EUR 1,348,365 thousand decrease in reserves as a result of the required additional impairment losses for 2013 mentioned above.

iii. Also, the restated loss for 2014 amounted to EUR 803,984 thousand (EUR 219,324 thousand greater than the loss recognised in the statutory financial statements for 2014 due to the higher impairment losses that should have been recognised in 2014 pursuant to the Circular and to the increase in accrued interest).

Statement of profit or loss:

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 20). In the event of a discrepancy, the Spanish-language version prevails.

	2014 restated	Effect of restatement	2014 Issued
CONTINUING OPERATIONS			
Revenue	**3.312.835**	**139.556**	**3.173.277**
Sales of inventories	6.103	-	6.102
Income from sales of investment property	1.068.065	-	1.068.065
Rental income	49.436	-	49.435
Income from sales of loans and credit facilities	853.357	-	853.357
Finance income from loans and credit facilities	722.230	139.556	582.674
Recoveries of gains on loans and credit facilities	604.531	-	604.531
Remuneration of Bank Asset Fund (FAB) securities	9.113	-	9.113
Changes in inventories of finished goods and work in progress	**(4.806)**	-	**(4.806)**
Cost of sales	**(1.580.723)**	**(10.108)**	**(1.570.615)**
Cost of investment property	(850.162)	-	(850.162)
Cost of sales of financial assets	(730.561)	(10.108)	(720.453)
Other operating income	**1.071**	-	**1.071**
Non-core and other current operating income	1.071	-	1.071
Staff costs	**(27.315)**	-	**(27.315)**
Wages, salaries and similar expenses	(23.248)	-	(23.248)
Employee benefit costs	(4.067)	-	(4.067)
Other operating expenses	**(482.823)**	-	**(482.822)**
Outside services	(333.159)	-	(333.159)
Taxes other than income tax	(122.040)	-	(122.040)
Losses on, impairment of and changes in trade provisions	(14.959)	-	(14.959)
Other current operating expenses	(12.664)	-	(12.664)
Depreciation and amortisation charge	**(48.393)**	-	**(48.393)**
Excessive provisions	-	-	-
Impairment of financial instruments	**(1.075.473)**	**(348.772)**	**(726.701)**
- Loans and credit facilities to third parties	(1.067.880)	(348.772)	(719.108)
- Equity instruments, loans and credit facilities to associates	(7.593)	-	(7.593)
			-
PROFIT FROM OPERATIONS	**94.374**	**(219.324)**	**313.696**
			-
Finance income	**42.281**	-	**42.281**
From marketable securities and other financial instruments			
- Third parties	42.281	-	42.281
Finance costs	**(1.140.384)**	-	**(1.140.384)**
On debts to third parties	(1.140.384)	-	(1.140.384)
Other finance costs	-	-	-
Exchange differences	**3.126**	-	**3.126**
FINANCIAL LOSS	**(1.094.977)**		**(1.094.977)**
LOSS BEFORE TAX	**(1.000.604)**	**(219.324)**	**(781.278)**
Income tax	196.619	-	196.619
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**(803.984)**	**(219.324)**	**(584.659)**
PROFIT (LOSS) FOR THE YEAR	**(803.984)**	**(219.324)**	**(584.659)**

The impacts of the restatement on the statement of profit or loss for 2014 are as follows:

i. A EUR 139,556 increase in accrued interest. This impact is a result of the revaluation on a unit basis of the loans and credit facilities pursuant to Bank of Spain Circular 5/2015, which disclosed gains on certain loans and credit facilities permitting a related increase in accrued interest.

ii. An increase of EUR 348,772 thousand in the impairment losses charged to income in relation to “Loans and Credit Facilities to Third Parties”. This increase in the impairment losses recognised in 2014 was a result of the analysis performed by the Company, which evidenced total impairment losses of EUR 2,675,245 thousand at 2014 year-end, of which EUR 1,607,365 thousand existed at 2013 year-end. The Company recognised with a charge to reserves the difference of EUR 1,348,365 thousand between the impairment losses recognised in 2013 and the aforementioned amount.

iii. The Company did not take into consideration the tax effect of the aforementioned adjustments, as explained in Note 15.

2.6 Comparative information

As required by current legislation, the information relating to 2014 contained in these notes to the financial statements is presented solely for comparison purposes with the information for 2015.

It should be noted that, as indicated in Notes 2.1 and 2.5, pursuant to Additional Provision Seven.10 of Law 9/2012, in 2015 the Bank of Spain published accounting Circular 5/2015, which implements the specific accounting rules applicable to the Company. As required by Transitional Provision One, the Circular was applied retrospectively as a change in accounting policy and, accordingly, the Company restated the comparative figures for 2014. The impact of the restatement on the financial statements for 2014 authorised for issue is detailed in Note 2.10.

2.7 Grouping of items

Certain items in the balance sheet, statement of profit or loss, statement of changes in equity and statement of cash flows are grouped together to facilitate their understanding; however, whenever the amounts involved are material, the information is broken down in the related notes to the financial statements.

2.8 Correction of errors and changes in estimates

In preparing the accompanying financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the financial statements for 2014.

2.9 Environmental impact

In view of the business activity carried on by SAREB, it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position or results.

Therefore, the Company's financial statements for 2015 do not contain any disclosures on environmental issues.

2.10 Presentation of the financial statements

Unless stated otherwise, all the amounts in these financial statements are expressed in thousands of euros.

3. Distribution of profit/allocation of loss

The proposed distribution of the profit for 2015 that the Board of Directors will submit for approval by the shareholders at the Annual General Meeting and the allocation of the loss for 2014 that was approved by the Annual General Meeting on 14 April 2015 are as follows:

Amounts in thousands of euros	2015	2014 restated	2014 approved
Balance per statement of profit or loss:	**332**	**(803,984)**	**(584,659)**
Distribution/allocation:			
To legal reserve	33	-	-
To prior years' losses	299	(803,984)	(584,659)

4. Accounting policies

The principal accounting policies used by the Company in preparing the financial statements for 2015, in accordance with the applicable regulatory framework, were as follows:

4.1 Intangible assets

Intangible assets are recognised initially at acquisition or production cost. They are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses. These assets are amortised over their years of useful life.

Intellectual property

The amounts recognised by the Company under “Intellectual Property” relate to the capitalised expenses incurred in obtaining the corresponding patents or similar items, including intellectual property registration and formalisation costs, without prejudice to such amounts as might also be recognised as a result of the acquisition of the corresponding rights from third parties. The Company amortises the amounts capitalised under “Intellectual Property” on a straight-line basis over four years.

Computer software

Computer software acquired or developed by the Company is recognised at acquisition or production cost, as appropriate, and is amortised on a straight-line basis over four years. Computer software maintenance costs are recognised with a charge to the statement of profit or loss for the year in which they are incurred. “Computer Software” at 31 December 2015 includes mainly the gross cost of the computer programs acquired by the Company, amounting to EUR 14,519 thousand (31 December 2014: EUR 4,827 thousand).

The intangible asset amortisation charge for 2015 amounted to EUR 2,031 thousand (2014: EUR 601 thousand), and this amount was recognised under “Depreciation and Amortisation Charge” in the accompanying statement of profit or loss. Accumulated amortisation amounted to EUR 2,638 thousand at 31 December 2015 (31 December 2014: EUR 611 thousand).

In-house work on non-current assets is measured at accumulated cost (external costs plus in-house costs, determined on the basis of in-house materials consumption, and manufacturing costs allocated using the same criteria as those used to measure inventories). The Company did not capitalise any costs to intangible assets in this connection in 2015 or 2014.

At 31 December 2015 and 2014, the Company did not have any intangible assets with indefinite useful lives.

Impairment of intangible assets

Whenever there are indications of impairment of intangible assets with a finite useful life (i.e. all the Company’s intangible assets), the Company tests the intangible assets for impairment to determine whether the recoverable amount of the assets has been reduced to below their carrying amount.

Where 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 for the asset in prior years. A reversal of an impairment loss is recognised as income.

The Company did not recognise any impairment losses on its intangible assets in 2015 or 2014.

Also, at the end of 2015 and 2014 there were no intangible asset purchase or sale commitments of a material amount.

4.2 Property, plant and equipment

Initial recognition

Property, plant and equipment are initially recognised at acquisition or production cost, plus the amount of any additional or supplementary investments made, and are subsequently reduced by the related accumulated depreciation and by any impairment losses recognised, as indicated in this Note.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

Period upkeep and maintenance expenses are recognised as "Outside Services" in the accompanying statements of profit or loss.

In 2015 and 2014 the Company did not capitalise any borrowing costs to its property, plant and equipment.

In-house work on non-current assets is measured at accumulated cost (external costs plus in-house costs, determined on the basis of in-house materials consumption, and manufacturing costs allocated using the same criteria as those used to measure inventories). The Company did not capitalise any costs to property, plant and equipment in this connection in 2015 or 2014.

Depreciation

Property, plant and equipment are depreciated by the straight-line method, based on the years of estimated useful life of the assets. The annual depreciation rates applied to the respective cost values, revalued where appropriate, and the years of estimated useful life are as follows:

Line item	Annual rate (%)	Years of estimated useful life
Straight-line depreciation method:		
Other fixtures	10	10
Furniture	10	10
Computer hardware	20	5
Other items of property, plant and equipment	12.5	8

The property, plant and equipment depreciation charge for the year ended 31 December 2015 amounted to EUR 263 thousand (2014: EUR 207 thousand), and this amount was recognised under "Depreciation and Amortisation Charge" in the accompanying statement of profit or loss. Accumulated depreciation amounted to EUR 566 thousand at 31 December 2015 (31 December 2014: EUR 303 thousand).

Items of property, plant and equipment in the course of construction do not begin to be depreciated until they come into operation, when they are transferred to the corresponding property, plant and equipment account on the basis of their nature.

The Company did not recognise any impairment losses on its property, plant and equipment in 2015 or 2014.

Impairment of property, plant and equipment

Whenever there are indications of impairment of tangible assets (i.e. all the Company's property, plant and equipment), the Company tests the tangible assets for impairment to determine whether the recoverable amount of the assets has been reduced to below their carrying amount.

Where 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 for the asset in prior years. A reversal of an impairment loss is recognised as income.

The Company did not recognise any impairment losses on its property, plant and equipment in 2015 or 2014.

Also, at the end of 2015 and 2014 there were no property, plant and equipment purchase or sale commitments of a material amount.

4.3 Investment property

"Investment Property" in the balance sheet reflects the values of the land, buildings and other structures held either to earn rentals or for capital appreciation.

Initial recognition

Investment property is initially recognised at acquisition or production cost, plus the amount of any additional or supplementary investments made, and is subsequently reduced by the related accumulated depreciation and by any impairment losses recognised, as indicated in this Note.

Pursuant to Additional Provision Seven.10-a) of Law 9/2012, the acquisition cost of the assets received from Group 1 and Group 2 transferor institutions was determined by applying the transfer prices that were set for each type of asset by Bank of Spain resolution in accordance with the criteria established in Royal Decree 1559/2012.

Pursuant to Rule Three of Bank of Spain Circular 5/2015, the value at initial recognition of property assets foreclosed or acquired in payment of debts is the carrying amount of the financial assets derecognised at the date of foreclosure or dation in payment. Court and registration costs and taxes paid are added to the value at initial recognition provided that the resulting amount does not exceed the estimated fair value of the asset.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

Period upkeep and maintenance expenses are recognised as "Outside Services" in the accompanying statement of profit or loss.

In-house work on non-current assets is measured at accumulated cost (external costs plus in-house costs, determined on the basis of in-house materials consumption, and manufacturing costs allocated using the same criteria as those used to measure inventories). The Company did not capitalise any costs to investment property in this connection in 2015 or 2014.

In 2015 and 2014 no borrowing costs or finance charges were capitalised to investment property.

Subsequent measurement and assessment of impairment

Investment property is assessed for impairment as indicated in Note 4.7.

Depreciation

Investment property is depreciated by the straight-line method, based on the years of estimated useful life of the assets. The annual depreciation rates applied to the respective cost values, where appropriate, and the years of estimated useful life are as follows:

	Annual rate (%)	Years of estimated useful life
Straight-line depreciation method:		
Buildings	2	50
Other fixtures	10	10
Furniture	10	10
Computer hardware	20	5
Other items of property, plant and equipment	12.5	8

The investment property depreciation charge for 2015 amounted to EUR 55,155 thousand (2014: EUR 47,585 thousand) (see Note 5), and this amount was recognised under "Depreciation and Amortisation Charge" in the accompanying statement of profit or loss.

Items of property, plant and equipment in the course of construction do not begin to be depreciated until they come into operation, when they are transferred to the corresponding property, plant and equipment account on the basis of their nature. No items were transferred from “Property, Plant and Equipment” in 2015 or 2014.

4.4 Asset exchange transactions and foreclosures

“Asset exchange” means the acquisition of property, plant and equipment or intangible assets in exchange for the delivery of other non-monetary assets or of a combination of monetary and non-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 statement of profit or loss.

Assets received in an exchange that lacks commercial substance are recognised 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.

Specifically, assets foreclosed in payment of debts are classified as investment property or as inventories, based on their nature and their intended purpose, and are recognised as described in Notes 4.3. and 4.11., respectively.

4.5 Leases

The Company considers as operating leases those leases originating from an agreement whereby the lessor conveys to the lessee, in return for a single payment or a series of payments, the right to use an asset for an agreed period of time, provided that the lease is not required to be classified as a finance lease in accordance with current legislation.

The Company recognises the lease income and expenses from operating leases in which it acts as the lessor on an accrual basis in the statement of profit or loss. Also, the acquisition cost of the leased asset is presented in the balance sheet according to the nature of the asset, increased by the costs directly attributable to the lease, which are recognised as an expense over the lease term, applying the same method as that used to recognise lease income.

The Company treats any payment made on entering into or acquiring a leasehold that is accounted for as an operating lease as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

The Company did not have any finance leases in 2015 or 2014.

4.6 Investments in associates and Financial assets - Categories of financial assets

4.6.1 Investments in associates

Associates are companies over which the Company is in a position to exercise significant influence. Significant influence is defined as when the Company has an ownership interest in another company and has the power to participate in the financial and operating policy decisions of the investee, but not control or joint control of those policies. Significant influence normally arises when an entity holds (directly or indirectly) 20% or more of the voting power of the investee.

Investments in associates are recognised under “Non-Current Investments in Associates - Equity Instruments” in the balance sheet and are measured at acquisition cost, net of any impairment losses on the investments (see Note 4.7.3).

The remuneration earned on these investments, provided it does not arise unequivocally from profits generated prior to the date of acquisition, is recognised under “Revenue” in the statement of profit or loss (see Note 16.1).

Bank Asset Funds (FABs)

Article 29 of Royal Decree 1559/2012, of 15 November, empowers the Company to set up separate divisions or compartments of assets in the form of the so-called “Bank Asset Funds” (“FABs”).

The business object of the FABs, which are fund-like entities without legal personality, is to liquidate the portfolio of assets and liabilities contributed by SAREB, within the time frame for which the FABs have been created.

When accounting for its investments in FABs, the Company distinguishes between:

- FABs in whose creation substantially all the risks and rewards inherent to the transferred assets and liabilities were not transferred to third-party investors. As a general rule, these funds are those in which the Company retains control and more than 50% of the Fund's total liabilities and equity. In the case of these funds, the Company does not derecognise the transferred assets and liabilities (i.e. it does not recognise any income from their sale or any related costs) and measures them using the same criteria as those which were applicable before the transfer. However, it recognises a liability for an amount equal to the consideration received, which it measures at amortised cost, and it recognises, for their net amount where appropriate, both the income from the transferred assets not derecognised and the costs of the new financial liability at the time of their effective transfer to third parties. At 31 December 2015, the FABs not derecognised for accounting purposes by the Company were FAB 2013 Bull, FAB Crossover I and FAB Corona.

- FABs in whose creation substantially all the risks and rewards inherent to the transferred assets and liabilities were transferred to third-party investors. As a general rule, these funds are those in which the Company does not retain more than 50% of the Fund's total liabilities and equity. In the case of these funds, since control of the transferred assets has generally been transferred to the investor, the Company recognises the cost of the securities equivalent to share capital subscribed by it under “Non-Current Investments in Associates - Equity Instruments”. These equity instruments are measured as stipulated in Note 4.7.3 (Impairment of equity instruments issued by FABs). In addition, any financing granted by the Company to the FAB is recognised under “Loans to Group Companies and Associates”. At 31 December 2015, the FABs derecognised for accounting purposes by the Company were FAB 2013 Teide and FAB May.

A summary of the main transactions performed with FABs in 2015 and 2014 is as follows:

2015:

<u>*FAB Crossover I*</u>

In October 2015 FAB Crossover I sold en bloc all the land lots in its portfolio to a Spanish investor for EUR 58,500 thousand, of which EUR 33,762 thousand were collected in cash and EUR 24,738 thousand were deferred and are scheduled to mature in 2016. As a result of this transaction the Company received remuneration from FAB Crossover amounting to EUR 6,525 thousand, which were recognised under “Remuneration of Bank Asset Fund (FAB) Securities” in the accompanying statement of profit or loss.

Subsequently, on 28 October 2015, the Company repurchased from the majority investor/shareholder 80% of the securities of FAB Crossover I for a price of EUR 19,030 thousand, of which EUR 5,165 thousand were paid in cash, EUR 10,337 thousand were offset against the collection right relating to the deferred payment on the sale in 2014 of 80% of FAB Crossover I's securities, EUR 28 thousand were offset against the interest accrued on that collection right (recognised under “Trade and Other Receivables - Sundry Accounts Receivable”) and EUR 3,500 thousand were deferred until 30 December 2016. The aforementioned deferred payment is recognised under “Trade and Other Payables - Payable to Suppliers” in the accompanying balance sheet (see Note 14).

Therefore, following the purchase of 80% of its securities, the Company obtained full control of FAB Crossover I and, accordingly, it included the FAB's assets and liabilities in its balance sheet and eliminated the cost of the investment against the FAB’s shareholders' equity. The main impact of including the assets and liabilities of FAB Crossover I is recognised under “Sundry Accounts

Receivable" and relates to the deferred collection of EUR 24,738 thousand on the sale of the land lots (see Note 9).

2014:

FAB May:

On 8 July 2014, the Company set up "FAB May" through the contribution of a package of land lots (investment property), with a cost of EUR 46,686 thousand, for an aggregate price of EUR 57,614 thousand. The sale price was paid by the fund through the issue of 560 securities of EUR 102,882 par value each.

Subsequently, the Company sold 95% of the securities subscribed (532 securities) to a private investor for EUR 54,733 thousand, a price equal to their par value. The payment schedule for this price is as follows:

- EUR 30,104 thousand, corresponding to 55% of the price, were paid by the investor on execution of the public deed for the transfer of the securities.

- EUR 8,209 thousand, corresponding to 15% of the price, were paid by the investor on 11 December 2014.

- EUR 16,420 thousand, equivalent to 30% of the price, will be paid by the investor on 22 May 2016. This amount was recognised under "Trade Receivables for Sales and Services" in the accompanying balance sheet as at 31 December 2014. In the event that the investor fails to pay the amount deferred, the Company may demand the return of the 532 securities transferred, at the original transfer price, as well as a penalty of EUR 6,288 thousand. These amounts were received in 2015.

In addition, the agreement for the transfer of assets to FAB May stipulated that the Company must meet the future urban development costs of one of the assets transferred. If these future costs are ultimately higher than EUR 800 thousand, SAREB must submit an offer to repurchase this asset from the fund. The Company recognised a provision of EUR 2,619 thousand under "Provisions for Contingencies and Charges" in the accompanying balance sheets as at 31 December 2015 and 2014 since it considered the risk of this occurring to be probable, and this amount reflects SAREB's maximum exposure in the event of repurchase of the aforementioned asset (see Note 12).

In view of the final composition of FAB May, in which the Company owns only 5% of the total securities issued (its securities having the same level of subordination as the other securities issued), the Company derecognised the property assets transferred since it considered that substantially all the related risks and rewards had been transferred, and it recognised EUR 57,614 thousand under "Income from Sales of Investment Property" in the accompanying statement of profit or loss.

At 31 December 2014, the Company recognised the cost of the 5% of the fund's securities under "Non-Current Investments in Associates - Loans to Companies" since, given their characteristics, the securities issued by this fund do not meet the requirements stipulated in the applicable accounting standards in order to be considered equity.

FAB Crossover I

On 2 December 2014, the Company set up "FAB Crossover I" through the contribution of a portfolio of land lots (investment property), with a net cost of EUR 28,958 thousand, for an aggregate price of EUR 43,071 thousand. The sale price was paid by the fund through the issue of 325 securities of EUR 132,525 par value each.

Subsequently, the Company transferred 80% of the securities of FAB Crossover I to an investor for EUR 34,456 thousand. It collected 70% of the total price (EUR 24,120 thousand) on transfer of the securities and deferred collection of the remaining 30% (EUR 10,337 thousand), which is recognised under "Trade Receivables for Sales and Services" in the accompanying balance sheet. This deferred amount is scheduled to mature on 2 December 2016. As in the case of FAB May, in the event that the investor fails to pay the amount deferred, the Company may demand the return of the 325 securities transferred, as well as a penalty for the investor, in this case equivalent to 55% of the amounts already paid by the investor.

As in the case of FAB May, the Company considers that, in view of the structure of the fund, in which the Company has only a 20% interest (its securities having the same level of subordination as the other securities issued), which does not give it majority control of the fund, substantially all the risks and rewards inherent to the transferred assets have been transferred.

At 31 December 2014, the Company had recognised the cost of the 20% of the fund's securities under "Investments in Group Companies and Associates - Equity Instruments".

In addition, the Company granted financing amounting to EUR 1,809 thousand.

4.6.2 Loans and receivables

This category of financial instruments includes the debt instruments arising from the rendering of the Company's services and those which, not arising from these activities, represent collection rights of fixed or determinable amount and are not traded in an active market.

Loans and receivables are recognised under "Non-Current Investments in Associates - Loans to Companies", "Non-Current Financial Assets - Loans to Third Parties and Related Parties", "Current Financial Assets - Loans to Companies", "Non-Current/Current Financial Assets - Other Financial Assets" and under "Trade and Other Receivables" and "Cash and Cash Equivalents" on the asset side of the balance sheet as at 31 December 2015.

The Company transfers to doubtful assets any loans and credit facilities that have interest and/or principal payments more than 90 days past due.

Initial recognition

As a general rule, loans and receivables are recognised initially at their fair value, i.e. the transfer/acquisition price, which is equal to the fair value of the consideration given, plus any directly attributable transaction costs. In 2013 the Company capitalised EUR 17,561 thousand relating to the necessary costs incurred by it to obtain control of these assets. At 31 December 2015, the expenses capitalised in this connection amounted to EUR 14,571 thousand (31 December 2014: EUR 16,254 thousand) (see Note 7.1.1.).

Pursuant to Additional Provision Seven.10-a) of Law 9/2012, the acquisition cost of the assets received from Group 1 and Group 2 transferor institutions was determined by applying the transfer prices that were set for each type of asset by Bank of Spain resolution in accordance with the criteria established in Royal Decree 1559/2012.

Subsequent measurement

The assets included in this category are measured at amortised cost, net of any possible impairment losses. The accrued interest on these assets is recognised in the statement of profit or loss using the effective interest method. In accordance with the ruling issued by the Bank of Spain following the request filed in this connection and with the previous pronouncements of the Spanish Accounting and Audit Institute (ICAC), when estimating future cash flows for the purpose of determining the effective interest rate, the value of any collateral securing the transactions is taken into account.

Without prejudice to the foregoing, certain items established in the applicable regulations, maturing in less than twelve months, are recognised initially at their nominal amount when the effect of not discounting their cash flows is not material, and they are measured subsequently at that same amount.

Any impairment losses on these assets are recognised as explained in Note 4.7.3.

At 31 December 2015 and 2014, SAREB did not have any of the financial assets envisaged in the applicable regulations, other than those indicated in this Note.

4.7 Impairment of financial assets, investment property and other receivables

As indicated in Note 2.1, in 2015 the Bank of Spain, with a view to the implementation of Additional Provision Seven.10 of Law 9/2012, published accounting Circular 5/2015, which implements the specific accounting rules for the Company.

The publication of the aforementioned Circular 5/2015 regulates the criteria that must be used as the basis for the methodology which the Company is required to use to estimate the value of the assets transferred by the Group 1 and 2 institutions. Pursuant to the Circular, this value must be calculated in accordance with the methodology used to determine the prices at which the assets were transferred to the Company, taking into consideration any changes in the market prices and the time horizons envisaged in the Company's business plan.

In compliance with the Circular, the Company developed and approved the methodology to estimate impairment losses based on the criteria established in the Circular.

The impairment losses arising from measurement of the assets must be recognised by asset unit. The Circular provides for the offset of gains against losses for assets in the same asset unit. The asset units defined in the Circular are as follows:

a) Properties foreclosed or acquired as payment of debts, irrespective of their origin, provided they were recognised in the separate or consolidated balance sheets of the transferor institutions at the transfer date.

b) The following collection rights:

    i. Loans or credit facilities to finance land for property development in Spain, or to finance construction or property developments in Spain, either in progress or completed, irrespective of their age or accounting classification.

    ii. Participating loans granted to companies in the property sector or to companies related to them, irrespective of the age or accounting classification of the loans.

    iii. Other loans or credit facilities granted to holders of loans or credit facilities included in section i) above, when the FROB considers the transfer to be advisable in order to enable SAREB to adequately manage the transferred assets.

c) The properties and collection rights that meet the requirements described in sections a) and b) above originating from companies in the property sector, or from companies related to them, over which the credit institution exercises control, as defined in Article 42 of the Spanish Commercial Code.

d) The equity instruments of companies in the property sector or of companies related to them which, directly or indirectly, enable the credit institution or any other entity in its group to exercise joint control or significant influence over those companies, when the FROB considers the transfer to be advisable because these companies hold a highly significant volume of the assets referred to in section a), or serve as an effective channel through which the entity carries on construction or property development business activities in Spain.

e) Consumer or SME loans or credit facilities, loans or credit facilities secured by home mortgages and any other assets not included in the aforementioned sections, provided that these assets are significantly impaired or that the continued recognition thereof in the entity's balance sheet would be detrimental to its viability. Verification of the existence of these circumstances shall require a prior report from the Bank of Spain.

Notwithstanding the Circular's definition of five asset units, only the first two are applicable to SAREB: the asset unit relating to the foreclosed properties originally transferred to SAREB and the asset unit comprising the original collection rights.

It should be noted that the Circular establishes that the assets foreclosed or received as payment of debts after the transfer dates shall remain in the asset unit in which they were initially included.

At year-end or whenever the Company publishes information on its financial situation, it must assess the need to recognise impairment losses for each of the asset units. To this end, the Company shall assess, on the basis of the best information available at any given time, whether the carrying amount of the asset unit is higher than the value of the asset unit as a whole estimated in accordance with the methodology developed by the Company based on the criteria established in Rule Four of Circular 5/2015. If this is the case, an impairment loss is recognised with a charge to the statement of profit or loss.

The impairment loss recognised on each asset unit may be reversed when there is evidence that there has been a recovery in the value of the assets in the asset unit, in accordance with the methodology developed by the Company and regulated by Circular 5/2015, up to the limit of the carrying amount that would have been determined for the asset unit had no impairment loss been recognised.

For each asset unit, the amount of the losses on impaired assets may be offset against any gains on unimpaired assets included in the same asset unit, estimated in accordance with the criteria established in Rule Four of Circular 5/2015.

An asset shall remain in its corresponding asset unit provided that it meets the requirements contained in Article 36.1-a) of the Spanish Commercial Code and, therefore, that there is sufficient objective evidence confirming that it is likely that the asset's carrying amount will be recovered.

The Company applied the criteria of the Circular for the first time in 2015 and, therefore, estimated the value of all its property and financial assets. Pursuant to Transitional Provision Two of the aforementioned Bank of Spain Circular 5/2015, and in accordance with the criteria stipulated in Rule 4 of the Circular, in 2015 the Company measured:

- For the property assets unit, a group of properties representing at least 50% of the carrying amount of this unit.

- For the financial assets unit, at least 50% of the carrying amount of this unit, excluding unsecured transactions.

Also, the group of assets measured at the end of 2015 in accordance with the criteria established in the Circular is sufficiently representative of the total population of assets in terms of the type and location thereof.

Also pursuant to Transitional Provision Two of the Circular, the Company's directors estimated the value of the other property assets (whether owned by the Company or held as collateral for financial assets of which the Company is the creditor), which could not be measured in accordance with the methodology established in the Circular, on the basis of the best available valuations of the assets (obtained mainly from the due diligence review, from other up-to-date valuations, even if they were not eligible for the purposes of the Circular, and from the original valuations). SAREB applied to these valuations certain correcting coefficients prepared by it, considering the change in prices according to public information and, specifically, the experience obtained in measuring the group of property assets mentioned above.

These correcting coefficients take into consideration the type of asset, the geographical location, the year of measurement and the original transferor credit institution. The preparation of these coefficients was evaluated by an independent external expert.

With a view to the 31 December 2016 accounting close, all the property assets (and the collateral held as security for the loan transactions) must be valued in accordance with the Circular's measurement bases for properties.

Pursuant to the provisions of Rule Four, assets shall be derecognised at their carrying amount, without taking into consideration the impairment losses estimated by asset unit.

The criteria applied by the Company to determine the existence of impairment losses in each of the various asset units identified and the method used to calculate such impairment losses and recognise them are as follows:

4.7.1. Impairment of the property assets unit

This asset unit includes the balances recognised under “Investment Property” and “Inventories” except for EUR 2,562 million relating to property assets received by the Company as payment of debts after the transfer date of the financial assets, which were measured as part of the asset unit detailed in Note 4.7.2.

In order to determine the value of its property assets the Company takes into consideration the characteristics that a knowledgeable buyer would use to decide whether to acquire the assets, such as geographical location, the availability of infrastructure, their legal situation, the terms and conditions for the sale or use thereof, the supply and demand of similar assets, their most likely use, and matters relating to urban planning, demographic changes and utility prices. In order to take into account the asset's legal situation and the urban planning considerations, the Company valued the land using the urban development classification levels defined in Article 4 of Ministry of Economy Order ECO/805/2003, of 27 March, on rules for the valuation of properties and specific rights for certain financial purposes.

Value estimation of investment property held to earn rentals

The Company estimated the value of the investment property held to earn rentals on the basis of the discounted future cash flows thereof, taking into consideration the occupancy rate at the measurement date, the probable future occupancy of the property and current market rents.

Value estimation based on individual appraisals

The Company estimated the value of its property assets on an individual basis in accordance with the valuation reports of independent experts with proven experience in the area and the type of asset appraised. Specifically, the assets were valued by appraisal companies registered in the Bank of Spain's Official Register of Appraisal Companies, as provided for in Ministry of Economy Order ECO/805/2003, of 27 March, on rules for the valuation of properties. Pursuant to Rule 4 of Bank of Spain Circular 5/2015, for the purpose of performing the aforementioned appraisals the following methods were taken into consideration by the independent experts based on the type of asset in question:

- Dynamic residual method for land.

- Discounted future cash flow method for assets held to earn rentals, taking into consideration the expected occupancy rates and current market rents.

At least every three years the Company shall review the mortgage appraisals performed on its property assets and replace the independent expert. If market conditions and circumstances indicate the need to perform more frequent appraisals, the Company shall shorten the period between them.

Value estimation of completed homes, annexes and commercial premises

As permitted by Rule 4 of Bank of Spain Circular 5/2015, the Company opted to estimate the value of completed homes and annexes thereto (such as garages and storage rooms) using automated valuation methods, which were performed by independent experts (appraisal companies registered in the Bank of Spain's Official Register of Appraisal Companies). These statistical methods or automated valuation models were used to calculate the value of commercial premises in areas in which there is an established market of comparable properties, i.e. a market where operators prepared to negotiate a purchase, sale or rental agreement can be found at almost any time.

The valuations performed using statistical or automated methods are recalculated every year and take into account the statistics provided by the Spanish National Statistics Institute on the trend in new and second-hand house prices.

Value estimation of other assets using internal estimates or methodologies

The Company used its best estimate to determine the discounted present value of property assets different in nature to those described in the foregoing sections and with an aggregate carrying amount per lot of less than EUR 1 million. It determines the discounted present value of these assets at least once a year. These estimates were made using valuation models whose methodology was validated by independent external experts, and were conducted only for assets for which the required sufficiently tested data were available. Otherwise, these assets would be valued using appraisals compliant with Ministry of Economy Order ECO/805/2003.

In addition to the valuations performed in accordance with the foregoing methods, the methodology developed by SAREB, which is based on the criteria established in Circular 5/2015 and is applicable to both property and financial assets, includes a series of assumptions the most noteworthy of which are as follows:

- Adjustments to reflect the trend in market prices and the time horizons in the Company's business plan. To make these adjustments, the directors used their best estimate based on the type and location of the various property assets, as well as the sales estimates for the various years included in the business plan. To this end, as established in Circular 5/2015, the Company considered the average estimated change in market prices, ranging from 1.5% to 5%, together with an average time horizon, depending on the various types of asset, ranging from seven to ten years.
- Estimated maintenance and marketing costs, which are deducted from the estimated valuations. These costs are estimated considering the average estimated length of time for which the asset will be held under the business plan (indicated in the preceding paragraph). For this purpose, based on the various types of asset, the average costs associated with the aforementioned assets range from 0.9% to 6.7%, depending on the nature of the asset and the costs.

- Discount rate. The valuation obtained after making the foregoing adjustments is discounted to present value using a discount rate estimated on the basis of the Company's cost of funding and the risk inherent to the assets. Average rates ranging from 2% to 3% were used, which include on an aggregate basis the Company's estimated finance costs per the business plan. Also, the measurement model used for financial assets incorporates a risk metric additional to the finance costs included in the business plan and to the real estate risk included in the methodology of the Ministry of Economy Order, which ranges from 8% to 30%.
- In addition, pursuant to the Circular, any valuation which is 15% higher than the mortgage value or the value obtained using statistical sampling methods or automated valuation models must be supported by two or more market transactions involving similar assets. However, the Company did not make any adjustment exceeding 15% of the mortgage value or of the values obtained using statistical sampling methods or automated valuation models.

At 31 December 2015 and 2014, the Company did not have any net losses on this asset unit.

The Company performed a sensitivity analysis on certain key assumptions: +/- 100 basis point shifts in the rate reflecting changes in market prices, variances of +/- 1 year in the time horizon included in the business plan and variances of +/- 1% in the valuation of the assets. These sensitivity analyses give rise to fluctuations in the valuation of the assets of between EUR 793 million and EUR 32 million in either direction.

4.7.2. Impairment of loans and credit facilities, receivables and property assets received in payment of debts

Trade receivables

At least at each reporting date the Company tests its trade receivables for impairment in order to adjust them to their fair value. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss is recognised in the statement of profit or loss. At 31 December 2015, the Company had recognised accumulated impairment losses on its trade receivables amounting to EUR 31,938 thousand (31 December 2014: EUR 7,806 thousand) (see Note 9).

Loans and credit facilities and other property assets received in payment of debts

The value of the financial assets in the form of debt instruments transferred to the Company is estimated on an individual basis according to the ability of the principal debtors to pay their debts and taking into consideration, where applicable, the existence of any guarantors or sureties with a proven ability to pay.

The ability of the debtors to pay their debts is estimated on an individual basis, and must be supported by documentary evidence and proven by the fulfilment of the contractual obligations without significant delays in payment. Unsecured loans are assessed collectively, considering that this reflects the expected loss on the portfolio in question, with the exception of unsecured financial assets with missed or delayed contractual payments more than 18 months past due, which are considered to have a zero value unless there is evidence to the contrary. This criterion is applied to the residual value of assets with non-first ranking security, after deducting all debtor liability covered by higher-ranking security, including late payment interest. The discounted present value of the debt is used only when the Company is the sole first-ranking creditor and when this value is less than the mortgage liability and the value of the security can cover both the higher and lower-ranking claims, either partially or in full.

For financial assets (or property assets received by the Company as payment of debts) with respect to which the amounts owed are expected to be recovered through the execution of the guarantee, where this guarantee represents a first-ranking security interest in property assets, or a lower-ranking security interest if the requirements detailed in the foregoing paragraph are met, the property value of the security is taken into consideration when measuring the financial asset. This measurement is performed as explained in Note 4.7.1. on property assets. The estimate of costs includes both the maintenance and marketing costs incurred until the subsequent sale of the collateral, and the costs required to execute the guarantee (procedural, legal and tax costs).

In the case of loans and receivables with collateral other than properties, such as debt or equity instruments pledged as security, the Company calculates the market value of that instrument at the measurement date if it is a financial instrument traded on an active market or, where applicable, uses generally accepted valuation techniques.

A series of assumptions based on the Company's business plan, which are detailed in Note 4.7.1., were used to estimate the value of these assets.

As a result of the impairment test performed by the Company, in 2015 impairment losses of EUR 3,012,418 thousand (2014: EUR 2,675,245 thousand) were recognised on debt instruments classified as loans and receivables and on assets received in payment of debts (see Note 7.1.1.) These impairment losses were recognised under "Non-Current Financial Assets - Loans to Third Parties and Related Parties", since the assets giving rise to losses for the asset unit are recognised under this line item.

As it did for the property assets unit, the Company performed a sensitivity analysis on certain key assumptions: +/- 100 basis point shifts in the rate reflecting changes in market prices, variances of +/- 1 year in the time horizon included in the business plan and variances of +/- 1% in the valuation of the assets. These sensitivity analyses give rise to fluctuations in the valuation of the assets of between EUR 1,729 thousand and EUR 196 thousand in either direction.

4.7.3. Investments in associates

The Company estimates and recognises impairment losses on its investments in associates whenever there is objective evidence, as defined in the applicable regulations, that the carrying amount of an investment in an associate may not be recoverable.

In assessing whether there is any evidence of impairment of these investments, the Company considers, among other factors: falls in their underlying carrying amount adjusted by any unrecognised unrealised gains of the companies, changes in their market price (in the case of listed companies), 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 amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from the investment.

Where it is not possible to estimate the recoverable amount of an investment as described in the preceding paragraph and in the case of scantly material investments, the impairment of the investment is estimated by taking into account the equity of the investee adjusted by any unrealised gains existing at the measurement date.

In accordance with ruling 2 of Spanish Accounting and Audit Institute Gazette (BOICAC) 79, impairment losses and, where appropriate, the reversal of impairment losses are recognised as an expense and as income, respectively, under "Impairment of Financial Instruments - Equity Instruments and Loans and Credit Facilities to Associates" as part of the profit from operations in the statement of profit or loss. The limit of any reversal of a previously recognised impairment loss is the carrying amount of the investment that would have been recognised at the date of reversal had no impairment loss been recognised.

In 2015 the Company recognised impairment losses on its investments in associates amounting to EUR 3,824 thousand (2014: EUR 7,593 thousand) (see Note 7.2).

4.8 Financial liability classification categories

The Company classifies as financial liabilities the trade payables that have arisen from the purchase of goods or services in the normal course of the Company's business, the financing received (see Note 1) and the nontrade payables which, not having commercial substance, cannot be classed as derivative instruments.

Accounts payable are initially recognised at the fair value of the items received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortised cost.

Without prejudice to the foregoing, certain items established in the applicable regulations, maturing in less than twelve months, are recognised initially at their nominal amount when the effect of not discounting their cash flows is not material, and they are measured subsequently at that same amount.

Liability derivative financial instruments are measured at fair value using the same methods as those described in Note 4.9 for held-for-trading financial assets.

The interest accrued on these liabilities, which is calculated using the effective interest method, is recognised under "Finance Costs" in the statement of profit or loss.

4.9 Hedging derivatives

The Company uses financial derivatives in hedges of its asset and liability positions, as part of its strategy to reduce its exposure to interest rate risk.

When the Company designates a transaction as a hedge, it does so from the date of inception of the transactions or instruments included in the hedge, and the hedging relationship is documented appropriately. The documentation of the hedging relationship includes identification of the hedged item(s) and the hedging instrument(s), 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 to be hedged.

SAREB only applies hedge accounting for hedges that are considered highly effective over their entire lives. A hedge is considered to be highly effective if, during its expected life, the changes in the fair value or cash flows of the hedged item(s) that are attributable to the hedged risk are offset substantially in full by changes in the fair value or cash flows, as the case may be, of the hedging instrument(s).

To measure the effectiveness of hedges designated as such, the Company analyses whether, at inception and throughout the term of the hedge, it can be expected, prospectively, that the changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk will be offset substantially in full by changes in the fair value or cash flows, as appropriate, of the hedging instrument(s) and, retrospectively, that the actual results of the hedge will have been within a range of 80% to 125% of the results of the hedged item.

In determining the aforementioned fair value, the Company takes into account the Company's own credit risk, if the value is negative, or the counterparty credit risk, if it is positive.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised or no longer meets the criteria for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss.

Cash flow hedges

At 31 December 2015 and 2014, SAREB had certain hedging transactions that met the definition of “cash flow hedges”, i.e. they are hedges of the exposure to variability in the cash flows associated with the interest rate risk of a highly probable forecast transaction and of the variable-rate financing received, respectively, which affect the Company's profit or loss.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised temporarily in equity under “Valuation Adjustments - Hedges”, net of the related tax effect, and is transferred to profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss.

Note 13.3 provides certain information on the cash flow hedges arranged by the Company.

4.10 Derecognition of financial instruments

A financial asset is derecognised when one of the following circumstances arises:

1. The contractual rights to the cash flows from the financial asset expire; or

2. The contractual rights to receive the cash flows of the financial asset and substantially all the risks and rewards of ownership of the financial asset are transferred, or, even if the Company neither transfers nor retains substantially all the risks and rewards of ownership, control of the financial asset is transferred.

A financial liability is derecognised when the obligations giving rise to it cease to exist or when they are repurchased by the Company, with the intention either to re-sell them or to cancel them.

4.11 Inventories

Inventories relate basically to property developments in progress and the value of the associated land, earmarked for sale in the ordinary course of the Company's business. SAREB recognises under "Inventories" all the assets with respect to which it intends to perform any kind of action or carry out any construction and/or development work for their subsequent sale through its promotion activity.

The costs incurred in uncompleted property developments are considered to be work in progress. These costs include building lot, urban development and construction costs, the capitalisation of borrowing costs incurred during the construction period and other allocable direct or indirect costs. The Company does not capitalise any marketing costs, which it charges directly to profit or loss.

The cost relating to property developments whose construction was completed in the year is transferred from "Work in Progress" to "Completed Buildings".

The criteria used for analysing inventory write-downs are similar to those applied for assessing impairment of investment property (see Note 4.7.1.).

4.12 Foreign currency transactions

The Company's functional currency is the euro. Therefore, transactions in currencies other than the euro are deemed to be "foreign currency transactions" and are recognised by applying the exchange rates prevailing at the date of the transaction.

At year-end the Company did not have any material balances and had not performed any material transactions in foreign currency. The exchange differences recognised in profit or loss for 2015 amounted to a net gain of EUR 2,318 thousand (2014: a net gain of EUR 3,126 thousand).

4.13 Revenue and expense recognition

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Revenue is measured at the fair value of the consideration received, net of discounts and taxes.

Presentation in the statement of profit or loss

The Company, in accordance with Additional Provision Seven.10 of Law 9/2012, of 14 December, as amended by Additional Provision Nine of Law 26/2013, of 27 December, and pursuant to Bank of Spain Circular 5/2015, recognised the income from the management and orderly liquidation of all the transferred assets as part of its "Revenue" in the statement of profit or loss (see Notes 2.1 and 16.1).

Interest income

Without detriment to the criteria provided for in Recognition and Measurement Standard 9 of the Spanish National Chart of Accounts, according to which financial assets must be measured subsequently at amortised cost and "accrued interest shall be recognised in the statement of profit or loss using the effective interest method", the general use of the accrual principle and of the amortised cost method may have specific practical applications depending on the type of assets involved, the conditions of their acquisition or even the sector in which the method is applied, insofar as this may contribute to the fair presentation of the financial statements.

Considering the characteristics of the assets received and the high level of uncertainty regarding the recovery of their value through ordinary channels, as already described in Note 4.6.2, the accrual model applied by SAREB envisages the accrual of interest only on transactions in which the interest is expected to be effectively collected and this is supported by the recoverable amount of the collateral securing these transactions. This recoverable amount is estimated on the basis of the criteria detailed in Note 4.7.2.

The application of the Bank of Spain Circular's measurement criteria, on which this interest accrual is based, gave rise to an increase in the accrual for 2014 of EUR 139,556 thousand, which is included in the restatement process (see Note 2.10).

As part of the effective interest rate, the Company recognises under "Revenue - Recoveries of Gains on Loans and Credit Facilities" the difference between the amount recovered and the acquisition cost of the loans and credit facilities that have been fully or partially repaid.

Income from sales of loans and credit facilities

The income from sales of loans is recognised under "Revenue - Income from Sales of Loans and Credit Facilities". A sale is deemed to have taken place when all the risks and rewards associated with the transferred financial asset have been transferred to the buyer, which is normally when the transaction is executed in a deed and the sale price is collected.

Income from sales of property (investment property and inventories)

Income from sales of property (both investment property and inventories) is recognised when the significant risks and rewards of ownership of the property sold have been transferred to the buyer, and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the property sold. This generally coincides with the execution of the deed for the property being sold. The proceeds from property sales are recognised under "Revenue" in the accompanying statement of profit or loss.

The Company recognises in the accompanying statement of profit or loss, as a period provision for the completion of construction work, the amounts of the expenses yet to be incurred in order to liquidate the property developments.

The amount advanced in cash or in notes receivable relating to property development reservations and sale agreements, when the developments have not been handed over to customers and, therefore, the sale has not been recognised, is accounted for under "Customer Advances" on the liability side of the accompanying balance sheet, and is classified as a current item irrespective of the date on which the sale of the developments is expected to be recognised.

The Company recognises sales of land and building lots when the risks and rewards of ownership have been transferred, which is normally when the sale agreement is executed in a deed.

Rental income

Rental income is recognised on an accrual basis and incentives and the initial lease costs are allocated to income on a straight-line basis.

4.14 Income tax

Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income). Income tax is calculated on the basis of accounting profit or loss determined by application of generally accepted accounting principles, which does not necessarily coincide with the taxable profit or tax loss.

The current income tax expense is the amount payable by the Company as a result of income tax settlements for a given year. Tax credits and other tax benefits, excluding tax withholdings and pre-payments, and tax loss carryforwards from prior years effectively offset in the current year reduce the current income tax expense.

The deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, except for those arising from the initial recognition of goodwill or of other assets and liabilities in a transaction that is not a business combination and affects neither accounting profit (loss) nor taxable profit (tax loss), and except for those associated with 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 the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is considered probable that the Company will have taxable profits in the future against which the deferred tax assets can be utilised. In this case, the deferred tax assets are measured at the tax rate that is expected to apply in the period when the tax asset is recovered. In 2014 the Company charged EUR 66,573 thousand to profit or loss as a result of adjusting its tax assets to the 25% tax rate and recognised an expense of EUR 123,431 thousand in equity as a result of adjusting the deferred tax assets arising from measuring its financial derivatives at market value (see Note 15).

Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognised in equity.

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that they will be recovered through future taxable profits.

4.15 Provisions and contingencies

When preparing the financial statements the Company's directors made a distinction between:

a) Provisions: credit balances covering present obligations arising from past events with respect to which it is probable that an outflow of resources embodying economic benefits that is uncertain as to its amount and/or timing will be required to settle the obligations; and

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

The financial statements include all the provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the financial statements, but rather are disclosed, unless the possibility of an outflow in settlement is considered to be remote.

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

The compensation to be received from a third party on settlement of the obligation is recognised as an asset, provided that there are no doubts that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been externalised as a result of which the Company is not liable; in this situation, the compensation will be taken into account for the purpose of estimating the amount of the related provision that should be recognised.

At 31 December 2015 and 2014, the Company had recognised the provisions described in Note 12.

4.16 Related party transactions

A related party is defined as any person or entity that has control or significant influence over an entity or is a member of the entity's key management personnel. According to the directors, no entity has control or joint control over the Company and there is no relationship with the members of key management personnel, other than the employment relationship with them.

Significant influence is defined as the power to participate in the financial and operating policy decisions of the Company, but is not control over those polices. In this regard, significant influence is presumed to exist when an ownership interest of more than 20% is held and, therefore, the FROB exercises significant influence.

As a general rule, related party transactions are recognised using the general recognition and measurement bases contained in the Spanish National Chart of Accounts, i.e. the items involved in the transaction are recognised at their fair value on initial recognition and, subsequently, are measured in accordance with the corresponding accounting standards.

Note 17 provides information on the related party transactions performed in 2015 and 2014 and on the balances held with related parties at 31 December 2015 and 2014.

4.17 Termination benefits

Under current legislation, the Company is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognised as an expense in the year in which the decision to terminate the employment relationship is taken. At 31 December 2015, the Company had not recognised any liability in this connection. However, in 2015 it recognised termination benefits amounting to EUR 391 thousand under "Staff Costs - Wages, Salaries and Similar Expenses" in the accompanying statement of profit or loss (2014: EUR 42 thousand).

4.18 Statements of cash flows

The following terms are used in the statements of cash flows (prepared using the indirect method) with the meanings specified:

1. Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.

2. Operating activities: the principal revenue-producing activities of the Company and other activities that are not investing or financing activities. The Company classifies these activities as described in Note 4.13.

3. Investing 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 the equity and borrowings of the Company that are not operating activities, and other activities that are not investing activities.

5. <u>Investment property</u>

The detail of "Investment Property" at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	31/12/15	31/12/14
Land and building lots	4,884,955	4,888,231
Completed buildings		
Residential property - principal residence	4,897,877	4,359,050
Offices, premises and multi-purpose industrial buildings	1,165,796	1,172,267
Other properties	624,130	334,236
Residential property - other than usual residence	73,271	225,906
Total completed buildings	6,761,074	6,091,459
of which: leased buildings (Note 6)	700,253	447,064
of which: land	3,795,119	3,026,127
Total investment property	**11,646,029**	**10,979,690**

The changes in "Investment Property" in 2015 and 2014 were as follows:

2015

	Thousands of euros		
	Completed buildings	Land and building lots	Total
Cost:			
Balance at 1 January 2015	**6,181,364**	**4,888,231**	**11,069,595**
Additions due to foreclosure and dation in payment	930,651	399,030	1,329,681
Other additions	885	19,413	20,298
Sales and disposals	(326,343)	(307,348)	(633,690)
Transfers from inventories (Note 8)	113,830	(103,220)	10,610
Reductions due to corrections (Note 1)	(1,442)	(11,151)	(12,593)
Balance at 31 December 2015	**6,898,945**	**4,884,955**	**11,783,900**
Accumulated depreciation			
Balance at 1 January 2015	**(89,905)**	**-**	**(89,905)**
Charge to income for the year	(55,155)	-	(55,155)
Sales, disposals and other changes	7,189	-	7,189
Balance at 31 December 2015	**(137,871)**	**-**	**(137,871)**
Net balances at 31 December 2015	**6,761,074**	**4,884,955**	**11,646,029**

2014

	Thousands of euros		
	Completed buildings	Land and building lots	Total
Cost:			
Balance at 1 January 2014	**6,533,895**	**4,523,217**	**11,057,112**
Additions due to foreclosure and dation in payment	448,346	572,925	1,021,271
Other additions	22,322	7,002	29,324
Sales and disposals	(634,353)	(235,013)	(869,366)
Transfers to inventories (Note 8)	(119,091)	56,633	(62,458)
Reductions due to corrections (Note 1)	(69,755)	(36,533)	(106,288)
Balance at 31 December 2014	**6,181,364**	**4,888,231**	**11,069,595**
Accumulated depreciation			
Balance at 1 January 2014	**(53,479)**	**-**	**(53,479)**
Charge to income for the year	(47,585)	-	(47,585)
Sales, disposals and other changes	11,159	-	11,159
Balance at 31 December 2014	**(89,905)**	**-**	**(89,905)**
Net balances at 31 December 2014	**6,091,459**	**4,888,231**	**10,979,690**

The most significant changes in "Investment Property" in 2015 and 2014 were as follows:

Other additions

In 2015 the Company capitalised EUR 20,298 thousand (2014: EUR 29,324 thousand) of improvements and developments made to its investment property as an increase in the cost of its investment property. These improvements relate mainly to the development work carried out on land and building lots.

Transfers between items

In 2015 the Company reclassified from "Inventories" to "Investment Property" EUR 10,610 thousand relating to various plots of land and property developments in progress, on which no construction work is intended to be performed in the short term (see Note 8).

Also in 2015

In 2014 the Company reclassified various plots of land and properties amounting to EUR 62,458 thousand from “Investment Property” to “Inventories”.

Mortgage foreclosures and dations in payment

2015:

On 29 October 2015, the dation in payment was formalised of the land and finished products that the borrower Vehículo de Tenencia y Gestión 9, S.L. had mortgaged as security for various bilateral loans held by the Company. The acquisition cost of the land and finished products acquired amounted to EUR 42,875 thousand.

2014:

In November and December 2014 the Company formalised the dation in payment of substantially all of the land and finished products that the borrower Vallehermoso de Promoción, S.A. had mortgaged as security for various bilateral loans and credit facilities held by the Company. The acquisition cost of the land and finished products acquired amounted to EUR 152,984 thousand and EUR 19,770 thousand, respectively, which were the carrying amounts of the loans and credit facilities repaid in full as part of the dation in payment.

The total amount of the properties acquired through dation in payment and/or mortgage foreclosure was EUR 1,329,681 thousand in 2015 (2014: EUR 1,021,271 thousand). These foreclosures and dations in payment did not have a significant effect on the accompanying statements of profit or loss for 2015 and 2014.

Sales and disposals

2015:

The main sales in 2015 were as follows:

On 15 June 2015, the sale of an office building located in the Salamanca district (Madrid) was executed in a public deed. The selling price amounted to EUR 52,000 thousand, which had been collected in full at the end of 2015.

On 22 December 2015, the Company sold a residential-use building lot located in the municipality of Fuengirola (Málaga). The selling price amounted to EUR 14,000 thousand, of which EUR 7,700 thousand had been collected at 31 December 2015 and EUR 6,300 thousand were deferred until 31 December 2016. The sale deed provides that, in the event of default on the part of the buyer, the Company will recover ownership of the land plus an indemnity.

On 30 December 2015, the Company sold a residential complex located in La Alcaidesa (San Roque - Cádiz), which had 252 housing units and annexes. The stipulated selling price amounted to EUR 30,150 thousand, of which EUR 24,120 thousand were collected in cash at the date of the deed while the remainder was deferred until 30 December 2016 and was jointly and severally guaranteed by a top-level guarantor.

Lastly, on 30 December 2015 the Company sold a building lot for tertiary-sector use located in the district of Arganzuela (Madrid). The selling price amounted to EUR 19,000 thousand, of which EUR 10,450 thousand were collected in cash while the remainder, EUR 8,550 thousand, was deferred until 30 December 2016 and is guaranteed by a first-demand bank guarantee.

2014:

The main sales in 2014 were as follows:

On 5 February 2014, the Company formalised the transfer of the Dorian portfolio, which consisted of a group of developments used for leasing purposes located in Móstoles, Rivas Vaciamadrid, Valdemoro, Colmenar Viejo, Guadalajara and Barcelona. The price assigned to these developments amounted to EUR 39,500 thousand, of which 55% was received in 2014. The amount receivable on this transaction at 31 December 2014, EUR 19,395 thousand, was recognised under “Trade Receivables for Sales and Services”.

Subsequently, on 24 April 2014 a residential building on calle José Abascal in Madrid was sold for EUR 26,500 thousand, and the price was collected in full.

On 11 December 2014, the Company sold the Agatha - Reos portfolio, consisting of the transfer to a private investor of a portfolio of developments used for leasing purposes located in Arganda del Rey. The price set for the transfer of the aforementioned portfolio amounted to EUR 36,000 thousand and was collected in full.

On 30 December 2014, FAB 2013 Corona sold four office buildings located in Madrid for EUR 81,303 thousand, and this price had been collected in full at 31 December 2014. Since the Company owns all of the aforementioned fund's securities and, consequently, the related assets were not derecognised (see Note 4.6.1), the Company recognised the sale of these properties in the accompanying statement of profit or loss for 2014.

Lastly, in 2014 the Company formed FAB May and FAB Crossover I, to which two portfolios of land lots were contributed with carrying amounts of EUR 46,687 thousand and EUR 28,958 thousand, respectively (see Note 4.6.1). In view of the structure of these funds, in which the Company holds non-controlling ownership interests (5% and 20%, respectively), the investment property was derecognised by the Company since it was considered that substantially all the risks and rewards of ownership were not retained, and the sale was recognised in the accompanying statement of profit or loss for 2014.

Total sales of investment property formalised in 2015 and 2014 gave rise to the recognition of income from sales of investment property amounting to EUR 769,076 thousand and EUR 1,068,065 thousand, respectively (see Note 16.1). The net cost of the investment property sold amounted to EUR 606,554 thousand and EUR 850,162 thousand, respectively (see Note 16.2). These figures include EUR 21,471 thousand and EUR 43,758 thousand of income from the FABs not derecognised at SAREB and costs of sales of EUR 18,571 thousand and EUR 38,744 thousand (see Note 4.6.1).

Sale commitments:

At 31 December 2015 and 2014, the Company had the following sale commitments on investment property:

- FAB Bull: in 2013 the Company transferred to FAB 2013 Bull, for EUR 100,000 thousand, an investment property portfolio with a net cost of EUR 97,896 thousand at 31 December 2013. The Company did not recognise the related sale as it considered that the risks and rewards inherent to the aforementioned assets were not transferred. At 31 December 2015, the price received amounted to EUR 25,685 thousand, which were recognised under “Non-Current Liabilities - Other Financial Liabilities” in the accompanying balance sheet (see Note 13.4).

- Dorian portfolio: in 2014 the commitment to sell existing at 2013 year-end was implemented as described above.

At 31 December 2015 and 2014, there were no sale commitments for material amounts other than those described above.

Other disclosures

At the end of 2015 and 2014:

- All the Company's investment property was free of liens and encumbrances.

- The Company did not have any fully depreciated investment property on its balance sheet.

- There were no significant dismantling or removal costs capitalised as an increase in the cost of its investment property.

- The assets foreclosed by SAREB that form part of the Financial Asset Unit did not give rise to any gain or loss on their recognition as property assets in the balance sheet.

- In this regard, the application of the valuation rules established in Bank of Spain Circular 5/2015 for the Property Asset Unit, consisting of those assets that were transferred by the transferor institutions on SAREB's incorporation, which are classified under “Investment Property” and

"Inventories" (see Note 8), gave rise to a gain of EUR 1,249 million at the end of 2015 with respect to the carrying amount of these assets.

- The valuation of the assets foreclosed or received in payment of debt subsequent to the transfer date, performed in accordance with the criteria of Bank of Spain Circular 5/2015, contributed a gain of EUR 595 million to the Financial Asset Unit (see Note 7.1) which decreased the write-down requirements of this Unit's loan transactions.

- The Company had not recognised any impairment losses on its investment property portfolio.

The Company takes out all the insurance policies considered necessary to cover the possible risks to which its investment property is subject. The insurance coverage arranged by the Company in connection with its investment property exceeds the carrying amount thereof and is updated annually.

6. Operating leases

At the end of 2015 and 2014 the Company acted as lessor in certain operating leases the minimum lease payments on which, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions, were as follows:

Minimum lease payments	Thousands of euros	
	2015	2014
Within one year	34,556	40,295
Between one and five years	66,139	122,738
After five years	168,102	188,888
Total	**268,797**	**351,921**

Also, the operating lease and sublease payments for 2015 and 2014 were recognised under "Revenue", the detail being as follows:

	Thousands of euros	
	2015	2014
Minimum lease payments (Note 16.1)	42,011	49,436
Charging of general expenses	1,959	4,563
Total	**43,970**	**53,999**

The detail of the most significant leases is as follows:

Location	Date of lease	Type of property	Gross annual amounts (thousands of euros)	Expiry date
c/ Ajalvir (Torrejón de Ardoz)	18/07/07	Shopping centre	949	21/05/23
c/ Cronos (Madrid)	25/06/11	Office building	742	30/06/17
c/ Manuel Sanchis Guarner (Valencia)	16/11/10	Hotel	533	16/11/20
c/ Adolfo Suarez (Benidorm)	01/12/13	Tourist complex	204	30/09/23
c/ Manfredonia (Zaragoza)	01/03/09	Industrial building	410	27/04/24

The net cost of the properties leased out by the Company amounted to EUR 700,253 thousand at 31 December 2015 (31 December 2014: EUR 447,064 thousand) (see Note 5).

The amount of contingent rent, i.e. variable rent payments, relating to the aforementioned leases and recognised under "Revenue" in 2015 and 2014 was not significant.

Lastly, the leases in which the Company acts as the lessee refer mainly to the lease of the offices where the Company's head office is located and the lease of various computer equipment. The Company's lease payment obligations in this connection were not material at the end of 2015 and 2014.

7. Non-current and current financial assets

The carrying amount of each of the categories of financial assets held by the Company at 31 December 2015 and 2014 is as follows:

7.1 Detail of non-current and current financial assets

The detail, classified as required by applicable legislation, of the financial assets owned by SAREB at 31 December 2015 and 2014 is as follows:

2015

Categories / Classes	Thousands of euros				
	Non-current financial instruments		Current financial instruments		Total
	Equity instruments	Loans, derivatives and other	Debt securities	Loans, derivatives and other	
Other financial assets	-	2,671,820	-	7,411	2,679,231
Loans and receivables - Loans to third parties	-	25,555,635	-	2,674,580	28,230,215
Available-for-sale financial assets	-	-	-	-	-
Total	**-**	**28,227,455**	**-**	**2,681,991**	**30,909,446**

2014

Categories / Classes	Thousands of euros				
	Non-current financial instruments		Current financial instruments		Total
	Equity instruments	Loans, derivatives and other	Debt securities	Loans, derivatives and other	
Other financial assets	-	2,655,817	-	29,899	2,685,716
Loans and receivables - Loans to third parties	-	27,672,441	-	3,934,129	31,606,570
Available-for-sale financial assets	-	-	-	-	-
Total	**-**	**30,328,258**	**-**	**3,964,028**	**34,292,286**

7.1.1 Non-current and current loans to third parties

The detail, by counterparty and type of instrument, of "Non-Current Financial Instruments - Loans to Third Parties" and "Current Financial Instruments - Loans to Third Parties" at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	31/12/15	31/12/14
Public sector	3,760	4,980
Other resident sectors	2,302,560	3,620,137
Commercial credit	-	-
Secured loans	2,086,561	3,150,956
with mortgage guarantee	2,079,295	3,134,070
with other collateral	7,266	16,886
Other term loans	130,451	180,503
Receivable on demand and other	85,548	288,678
Non-resident private sector	70	1,442
Doubtful loans and credit facilities	28,518,248	30,338,196
Valuation adjustments	(2,594,423)	(2,358,185)
Impairment losses	(3,012,418)	(2,675,245)
Other valuation adjustments -*accrued interest receivable*	403,424	300,806
Other - capitalised expenses - (Note 4.6.2)	14,571	16,254
Total	**28,230,215**	**31,606,570**

In 2015 and 2014 the Company did not grant any new loans or credit facilities to third parties for significant amounts, except for the draw-downs made by borrowers against undrawn balances.

Corrections formalised

As indicated in Note 1, in 2015 the Company formalised corrections of financial assets amounting to EUR 63,396 thousand (2014: EUR 424,908 thousand) as a result of the review of the portfolio of loans and credit facilities transferred by the Group 1 and 2 institutions.

Finance income

At 31 December 2015, 90.7% of the portfolio of loans and credit facilities was benchmarked to Euribor plus a market spread (31 December 2014: 91.4% of the total amount of loans and credit facilities). Conversely, 9.3% was benchmarked to fixed interest rates (31 December 2014: 8.6%) (see Note 7.3.3).

In 2015 the Company recognised interest from its portfolio of loans and credit facilities amounting to EUR 588,706 thousand under "Revenue" in the accompanying statement of profit or loss (2014: EUR 722,230 thousand) (see Notes 4.13 and 16.1).

Sales of loans and credit facilities

In 2015 the Company made wholesale sales of loans for EUR 395,848 thousand (2014: EUR 853,357 thousand) (see Note 16.1) and recognised a gross margin of EUR 26,120 thousand (2014: EUR 122,796 thousand).

The details of the most significant portfolio sale transactions in 2015 and 2014 are as follows:

2015

On 17 March and 30 June 2015, the Company formalised the transfer of various loans with first-ranking mortgage guarantees and a participation in a syndicated loan. The price set for this portfolio amounted to EUR 69,326 thousand, which were collected in full and recognised under "Revenue" in the accompanying statement of profit or loss.

In July 2015 the Company sold seven loans backed by mortgage guarantees. The selling price of the portfolio amounted to EUR 53,900 thousand, which were collected in full. The proceeds from the sale are recognised under "Revenue" in the accompanying statement of profit or loss.

"Alquimaison" transaction: on 29 September 2015, the sale of a portfolio of 317 loans with mortgage guarantees on various properties was completed for a global amount of EUR 37,500 thousand, which is recognised under "Revenue". At 31 December 2015, the price had been collected in full.

"Macarena and Pegasus" transaction: on 30 December 2015, the sale of a group of loans and credit facilities with various residential buildings and other property assets as collateral was completed. The selling price of this portfolio amounted to EUR 220,337 thousand, which were recognised under "Revenue" in the accompanying statement of profit or loss. At 31 December 2015, this amount had been collected in full.

2014

"Pamela" transaction: on 5 August 2014, the Company formalised the transfer of various loans with first-ranking mortgage guarantees on 20 residential buildings located in the autonomous community of Madrid. The price set for this portfolio amounted to EUR 172,729 thousand, which were collected in full and recognised under "Revenue" in the accompanying statement of profit or loss.

"Agatha - Loans" transaction: in December 2014 the Company sold 38 loans with leased-out residential buildings as collateral. The selling price of the portfolio amounted to EUR 158,926 thousand, which were collected in full. The proceeds from the sale are recognised under "Revenue" in the accompanying statement of profit or loss.

"Aneto" transaction: on 30 December 2014, the sale of a portfolio of 39 loans with mortgage guarantees on various properties was completed for a global amount of EUR 148,112 thousand, which was recognised under "Revenue". At 31 December 2014, the price had been collected in full.

"Kaplan" transaction: on 30 December 2014, the sale of a portfolio of small and medium-sized developer loans for EUR 52,746 thousand was completed, and this amount was recognised under "Revenue" in the accompanying statement of profit or loss. At 31 December 2014, the price had been collected in full.

"Klauss" transaction: on 19 March 2014, the sale of a group of loans and credit facilities with various residential buildings as collateral was completed. The price of this portfolio amounted to EUR 47,710 thousand, which were recognised under "Revenue" in the accompanying statement of profit or loss. At 31 December 2014, this amount had been collected in full.

Recoveries of loans and credit facilities

In 2015 the Company recognised income of EUR 382,776 thousand (2014: EUR 604,531 thousand) as a result of the difference between the recovered amounts of loans fully and/or partially repaid and their acquisition cost (see Notes 4.13 and 16.1). This income is recognised under "Revenue" in the accompanying statement of profit or loss.

Impairment losses due to credit risk

The changes in the impairment losses recognised by the Company in 2015 and 2014 were as follows:

2015

	Thousands of euros			
	Beginning balance	Charge for the year	Amounts used	Ending balance
Allowance for impairment of loans and credit facilities	(2,675,246)	(337,172)	-	(3,012,418)
Total	**(2,675,246)**	**(337,172)**	**-**	**(3,012,418)**

2014

	Thousands of euros			
	Beginning balance	Charge for the year	Amounts used	Ending balance
Allowance for impairment of loans and credit facilities	(1,607,366)	(1,067,880)	-	(2,675,246)
Total	**(1,607,366)**	**(1,067,880)**	**-**	**(2,675,246)**

In application of the valuation rules established by Bank of Spain Circular 5/2015 for the Financial Asset Unit, in 2015 the Company recognised EUR 337,172 thousand (2014: EUR 1,067,880 thousand) of impairment losses on its portfolio of loans and credit facilities due to credit risk (see Note 4.7.2).

The detail of the allowance for impairment of loans and credit facilities for 2015 is as follows:

Type of transaction	**Carrying amount (millions of euros)**	**Loss/(gain) (millions of euros)**
Secured loans	28,032	648
Unsecured loans or loans without a first lien	2,935	2,684
Participating loans	275	275
SAREB-foreclosed loans	2,684	(595)
Total	**33,926**	**3,012**

As regards the financial statements for 2014 prepared prior to publication of Bank of Spain Circular 5/2015, at the end of 2014 SAREB had recognised allowances of EUR 967,773 thousand relating to participating loans and credit facilities and loans and credit facilities granted to borrowers that were in insolvency proceedings, were not current in their payments and did not have any collateral, taking into consideration the opinions expressed by the Bank of Spain in its rulings on the existence or otherwise of impairment at the end of previous reporting periods. The effect of the restatement as a result of the retrospective application of the Circular entailed the recognition of EUR 1,708 million of impairment losses additional to those recognised at the end of 2014.

Note 7.3.1 contains the required information on the nature and the level of credit risk of the portfolio of loans and receivables at 31 December 2015 and 2014 (see Note 4.7.2).

<u>Other disclosures</u>

At 31 December 2015 and 2014:

- The nominal value of the drawable amounts of the loan and credit facility transactions was EUR 1,895,556 thousand and EUR 2,323,307 thousand, respectively.

- There were no significant commitments to sell any financial assets recognised under “Loans and Credit Facilities to Third Parties”.

- There were no lawsuits or attachments significantly affecting the amount of the Company's non-current and current financial assets.

The Company's directors consider, taking into account also the content of Note 4.7, that the carrying amount of the aggregate balances included under this heading in the balance sheet approximates their fair value.

Following the Company's analyses and the updating of its estimates, the financial assets classified as doubtful were classified as non-current financial assets since it was considered that their recovery will take place over a time horizon of more than twelve months (see Note 2.4).

7.1.2 Non-current and current financial assets- Other financial assets

The detail of "Non-Current Financial Assets - Other Financial Assets" and "Current Financial Assets - Other Financial Assets" in the balance sheets as at 31 December 2015 and 2014 is as follows:

	31/12/15		31/12/14	
Thousands of euros	**Non-current**	**Current**	**Non-current**	**Current**
Cash collateral on derivatives entered into (Note 13.3)	2,659,900	-	2,649,400	-
Security deposits on leases (Note 6)	4,743	-	6,083	-
Deposits and payments into court	6,422	-	-	-
Other financial assets	755	7,411	334	29,899
Total	**2,671,820**	**7,411**	**2,655,817**	**29,899**

Security deposits on leases

Non-current guarantees and deposits relate mainly to amounts delivered by lessees as security deposits which the Company deposits with the housing institute or property association in each autonomous community.

Cash collateral given in derivative transactions

At 31 December 2015, the Company had given cash collateral amounting to EUR 2,659,900 thousand (31 December 2014: EUR 2,649,400 thousand) to counterparties with which it has entered into financial derivative contracts (see Note 13.3). The collateral bears interest at a rate tied to Eonia and 3-month Euribor plus a market spread. The finance income accrued in 2015 and 2014 was not material.

The Company's directors consider that the carrying amount of the balances included under this heading in the balance sheet approximates their fair value.

Deposits and payments into court

At 31 December 2015, the Company had made deposits and payments into court amounting to EUR 6,422 thousand as a result of the mortgage foreclosure processes in which it is involved.

7.2 Detail of investments in associates

The detail of "Non-Current Investments in Associates" at 31 December 2015 and 2014 is as follows:

2015

Thousands of euros	**31/12/14**	**Additions**	**Repayments**	**Derecognition due to inclusion of assets and liabilities in balance sheet**	**31/12/15**
Investments in associates	8,614	1,897	-	(8,614)	1,897
Impairment of equity instruments	-	(2,678)	-	2,678	-
Total equity instruments	**8,614**	**(781)**	**-**	**(5,936)**	**1,897**
Loans to associates	29,314	2,205	(2,845)	(335)	28,339
Impairment of loans to associates	(7,593)	(1,146)	-	-	(8,739)
Total loans to associates	**21,721**	**1,059**	**(2,845)**	**(335)**	**19,600**
Total	**30,335**	**278**	**(2,845)**	**(6,271)**	**21,497**

2014

Thousands of euros	31/12/13	Additions	Repayments/ redemptions	Transfers	31/12/14
Investments in associates	13,172	43,071	(34,457)	(13,172)	8,614
Total equity instruments	**13,172**	**43,071**	**(34,457)**	**(13,172)**	**8,614**
Loans to associates	58,324	62,747	(104,929)	13,172	29,314
Impairment of loans to associates	-	(7,593)	-	-	(7,593)
Total loans to associates	**58,324**	**55,154**	**(104,929)**	**13,172**	**21,721**
Total	**71,496**	**98,220**	**(139,381)**	**-**	**30,335**

7.2.1. Investments in associates

Associates

On 14 December 2015, the Company converted into capital the debt of the borrower Hercesa Internacional, S.L. through the settlement of the loans granted to this company, the gross carrying amount of which was EUR 3,448 thousand. The Company recognised an allowance of EUR 1,551 thousand on these loans in 2014. As a result of this transaction, the Company now owns 78,074 Class B shares of Hercesa Internacional, S.L. representing 6.94% of its share capital.

Bank asset funds - assets derecognised at SAREB

2015

As indicated in Note 4.6.1., on 28 October 2015 the Company repurchased from the majority investor/shareholder 80% of the securities of FAB Crossover I for EUR 19,030 thousand. This purchase gave the Company full control over this fund and, accordingly, the FAB's assets and liabilities were included in the Company's balance sheet and the cost of the investment was eliminated against equity.

Prior to the purchase of securities described above, the Company had received income of EUR 6,525 thousand on the securities, which was recognised under “Revenue” in the accompanying statement of profit or loss. The returns obtained from FAB 2013 Teide and FAB May (see Note 16.1) were also recognised under “Revenue”.

2014

The 2014 additions related to the setting up of FAB Crossover I (see Note 4.6.1). 20% of the securities issued by this fund were held by the Company, at a cost of EUR 8,614 thousand. These securities meet all the requirements of Spanish National Securities Market Commission (CNMV) Circular 6/2013, of 25 September, to be classified as equity instruments.

At 31 December 2014, the Company's directors had not recognised any impairment losses on its 20% ownership interest in the share capital of FAB Crossover I since they considered that, given the value of the properties transferred to this fund, the recoverable amount of its ownership interest in the fund is higher than the cost recognised, and there are no doubts as to the recoverability thereof.

On 8 July 2014, the Company formed FAB May, 5% of the securities issued by the fund being held by the Company at a cost of EUR 2,881 thousand. However, these securities do not meet the requirements stipulated in CNMV Circular 6/2013 to be classified as equity instruments and, accordingly, the Company recognised the cost of the securities under “Loans to Associates” (see Note 7.2.2).

Also, in 2014 FAB 2013 Teide, at the request of the CNMV, reclassified the securities issued when it was formed from equity to liabilities, since it considered that these securities did not meet all the requirements to qualify as equity instruments (see Note 7.2.2). This reclassification did not have any impact on the Company's statement of profit or loss in 2014 and the ownership interest was transferred from “Investments in Associates” to “Loans to Associates”.

The most important information on the funds whose assets were derecognised by the Company is as follows:

2015

Company	Ownership interest	Registered office	Main line of business	Thousands of euros			
				Securities (*)	Reserves and other equity items (**)	Gross margin	Profit/(loss) after tax (**)
1. Unlisted.-							
FAB 2013 Teide	15%	Pza. Pablo Ruiz Picasso 1, Madrid	Sale and management of properties	87,815	-	9,219	-
FAB May	5%	Pº Castellana 143	Sale and management of properties	57,614	-	576	-

(*) Data taken from the latest available financial statements as at 31 December 2015, prepared in accordance with the standards applicable to each entity. At the date when the accompanying financial statements were authorised for issue, this fund's financial statements had not been audited.

(**) In 2015 FAB 2013 Teide and FAB May, at the behest of the CNMV, adopted a change in accounting policy consisting of offsetting the profit for the year through an offsetting item, the balancing entry for which is a correcting account that reduces the amount of the debt securities issued. This change in accounting policy did not have any impact on the Company's financial statements.

2014

Company	Ownership interest	Registered office	Main line of business	Thousands of euros			
				Securities (*)	Reserves and other equity items	Gross margin	Profit/(loss) after tax
1. Unlisted.-							
FAB 2013 Teide (**)	15%	Pza. Pablo Ruiz Picasso 1, Madrid	Sale and management of properties	87,815	-	-	-
FAB May	5%	Pº Castellana 143	Sale and management of properties	57,614	(327)	(210)	(327)
FAB Crossover I	20%	Pº Castellana 143	Sale and management of properties	43,071	43,004	(27)	(67)

(*) Data taken from the latest available financial statements as at 31 December 2014, prepared in accordance with the standards applicable to each entity.

(**) As a result of the aforementioned change in accounting policy, FAB 2013 Teide restated its financial statements for 2014.

Bank asset funds - assets not derecognised at SAREB

In 2015 and 2014 no significant changes took place and no new funds were formed with assets not derecognised at SAREB, except the aforementioned repurchase of securities of FAB Crossover I. The most significant information on these funds is as follows:

2015

Company	Ownership interest	Registered office	Main line of business	Thousands of euros			
				Securities (*)	Reserves and other equity items	Gross margin	Profit/(loss) after tax
1. Unlisted.-							
FAB 2013 Bull (**)	49%	Pza. Pablo Ruiz Picasso 1, Madrid	Sale and management of properties	50,364	-	2,658	-
Corona Bank Asset Fund (FAB Corona) (**)	100%	Pº Castellana 143	Sale and management of rental assets	-	-	(667)	-
FAB Crossover I	100%	Pº Castellana 143	Sale and management of properties	43,071	24,508	15,267	14,128

(*) Data taken from the latest available financial statements as at 31 December 2015, prepared in accordance with the standards applicable to each entity. At the date when the accompanying financial statements were authorised for issue, this fund's financial statements had not been audited.

(**) In 2015 FAB 2013 Bull and FAB Corona, at the behest of the CNMV, adopted a change in accounting policy consisting of offsetting the profit for the year through an offsetting item, the balancing entry for which is a correcting account that reduces the amount of the debt securities issued. This change in accounting policy did not have any impact on the Company's financial statements.

2014

Company	Ownership interest	Registered office	Main line of business	Thousands of euros			
				Securities (*)	Reserves and other equity items	Gross margin	Profit/(loss) after tax
1. Unlisted.-							
FAB 2013 Bull (**)	49%	Pza. Pablo Ruiz Picasso 1, Madrid	Sale and management of properties	50,364	-	-	-
Corona Bank Asset Fund (FAB Corona) (**)	100%	Pº Castellana 143	Sale and management of rental assets	48,000	-	4,255	-

(*) Data taken from the latest available financial statements as at 31 December 2014, prepared in accordance with the standards applicable to each entity.

(**) As a result of the aforementioned change in accounting policy, FAB 2013 Bull and FAB Corona restated their financial statements for 2014.

7.2.2. Loans to associates

The changes in loans to associates in 2015 and 2014 were as follows:

2015

	31/12/14	Drawdowns	Repayments	Derecognition due to consolidation	31/12/15
FAB 2013 Teide	**16,347**	**522**	**(204)**	**-**	**16,665**
Debt securities	13,172	-	-	-	13,172
Impairment of debt securities	(7,593)	(1,146)	-	-	(8,739)
Credit facility	10,768	1,668	(204)	-	12,232
FAB Crossover I	**1,854**	**486**	**(2,005)**	**(335)**	**-**
VAT facility	1,809	-	(1,809)	-	-
Credit facility	45	486	(196)	(335)	-
FAB May	**3,520**	**51**	**(636)**	**-**	**2,935**
Debt securities	2,881	-	-	-	2,881
VAT facility	605	-	(605)	-	-
Credit facility	34	51	(31)	-	54
Total	**21,721**	**1,059**	**(2,845)**	**(335)**	**19,600**

2014

	31/12/13	Drawdowns	Repayments	Transfers (Note 7.2.1)	31/12/14
FAB 2013 Teide	**58,324**	**(4,994)**	**(50,155)**	**13,172**	**16,347**
Debt securities	-	-	-	13,172	13,172
Impairment of debt securities	-	(7,593)	-	-	(7,593)
Senior financing	50,155	-	(50,155)	-	-
Tranche A	-	-		-	-
Tranche B	9,175	-	(9,175)	-	-
Tranche C	17,563	-	(17,563)	-	-
Tranche D	23,417	-	(23,417)	-	-
Credit facility	8,169	2,599	-	-	10,768
					-
FAB Crossover I	**-**	**1,854**	**-**	**-**	**1,854**
VAT facility	-	1,809	-	-	1,809
Credit facility	-	45	-	-	45
FAB May	**-**	**58,294**	**(54,774)**	**-**	**3,520**
Debt securities	-	57,614	(54,733)	-	2,881
VAT facility	-	605	-	-	605
Credit facility	-	75	(41)	-	34
Total	**58,324**	**55,154**	**(50,196)**	**13,172**	**21,721**

No significant changes took place in “Loans to Associates” in 2015.

The main changes in “Loans to Associates” in 2014 arose as a result of the formation of FAB May, of which the Company subscribed all the debt securities issued and simultaneously transferred 95% to a private investor. The cost of the remaining 5% held by the Company amounted to EUR 2,881 thousand (28 securities of EUR 102,882 nominal value each).

Also, on 2 December 2014, the Company formed FAB Crossover I (see Notes 4.6.1 and 7.2.1). At the same time as the fund was formed, the Company granted it 20% of a VAT credit facility, amounting to EUR 1,809 thousand, which was recovered in full in 2015.

The return obtained by the Company in 2015 on the debt securities of FAB Teide subscribed by it amounted to EUR 1,377 thousand (2014: EUR 8,532 thousand). The total returns obtained on securities of the FABs amounted to EUR 9,496 thousand in 2015 (2014: EUR 9,113 thousand) (see Note 16.1).

7.3 Information on the nature and level of risk of financial assets

Risk management is the basic principle for the achievement of the objectives set for the Company, which consist of contributing to the clean-up of the financial system, minimising public financial support, settling the debts and liabilities incurred in the course of its operations, minimising the possible market distortions that could result from its actions and disposing of the assets received whilst optimising their value, within the term for which it has been incorporated, at all times preserving the soundness of the Company's financial and equity position.

The Board of Directors is the governing body responsible for determining and approving general internal control procedures as well as policies regarding the assumption, management, control and mitigation of the risks to which the Company is exposed. Also, exercising the powers delegated by the Board of Directors, the Risk and Business Group, which replaces the former Investment and Divestment Group, and the Network and Direct Management areas perform risk management functions.

The Audit Committee, with the support of the Internal Audit area and the Internal Control and Compliance department, is responsible for supervising the efficiency of the operating processes and the internal control systems, and for checking compliance with the applicable regulations.

The Company manages risk on the basis of the principles of independence, senior management commitment, delegation of functions and proactive management of loans and investment property. Its aim is to minimise defaults and the impairment of investments by monitoring and controlling positions and through technical specialisation, establishing appropriate risk management and measurement tools and methodologies and applying them on a consistent basis.

As a result of the balance sheet structure with which the Company was incorporated, the major risks to which it is subject are as follows:

- Credit and concentration risk, related to the financial asset units acquired by the Company, and certain investments made in the ordinary course of its activities.

- The liquidity risk of financial instruments, arising from the unavailability, at reasonable prices, of the necessary funds to enable the Company to meet its commitments on a timely basis and to maintain in its lending activity.

- Interest rate risk, which is associated with the probability of losses arising as a result of an adverse trend in market interest rates.

- Operational risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

In view of the types of assets and liabilities held by the Company, foreign currency risk, which relates to potential losses arising from adverse fluctuations in the prices of assets and liabilities denominated in foreign currencies, is not significant.

7.3.1 Credit risk

Credit risk is defined as the possibility of loss stemming from the total or partial failure of customers or counterparties to meet their contractual payment obligations, or due to deterioration in their credit rating. At 31 December 2015, 93.9% of the loan portfolio as a whole had payments in arrears (31 December 2014: 89.4%). This risk is managed by the Risk and Business Group following the policies, methods and procedures approved by the Company's Board of Directors.

The Company's policy, in accordance with its company object, focuses on managing the portfolios acquired in order to maximize their recoverability through collection or sale. Accordingly, specific procedures are established for credit risk management according to the different characteristics of the financial asset units, as defined in Note 1 above, and of the transactions included in each of these categories, on the basis of:

- Identification, analysis and monitoring of specific risks over the life of the transaction until termination.
- Measurement and evaluation of these specific risks based on established methodologies, which are consistent with those used for calculating the transfer prices of the financial asset units.

- Recovery management of risk transactions.

Customer risk concentration regarding property rentals and sales is not significant and, for credit risk purposes, there are no significant payment deferrals. Also, it is Company policy, in the event of payment deferrals, to require customers to provide the collateral necessary to ensure recoverability of the deferred amounts, either as guarantees or as conditions precedent or subsequent in the public deeds of transfer.

The Company's exposure to credit risk at 31 December 2015 and 2014 affects mainly the transactions recognised in the "Loans and Receivables" category of financial assets (see Note 7.1). The carrying amount of these assets, including contingent amounts drawable against the loans and credit facilities held at those dates, represents the maximum exposure to credit risk at those dates. In this respect, at 31 December 2015 and 2014, "Non-Current Financial Assets - Loans to Third Parties and Related Parties" and "Current Financial Assets - Loans to Companies" represented 91.3% and 92.1%, respectively, of the Company's total financial assets.

Set forth below is salient information concerning the credit risk profile of the loans included under these headings.

Loans to third parties by borrower sector

The detail, by borrower sector, of "Non-Current Financial Assets - Loans to Third Parties" and "Current Financial Assets - Loans to Third Parties" at 31 December 2015 and 2014 is as follows:

Thousands of euros	Total		Of which: property guarantee (gross of impairment)		Of which: other collateral (gross of impairment)	
	31/12/15	31/12/14	31/12/15	31/12/14	31/12/15	31/12/14
Public sector	11,631	8,924	-	515	-	51
Financial institutions	6,718	11,088	1,784	9,585	-	-
Non-financial companies and individual traders	31,182,164	34,222,799	28,980,866	32,012,449	190,777	241,082
Construction and property development	30,831,708	33,333,249	28,701,575	31,250,045	185,645	228,794
Civil engineering construction	1,183	2,027	460	657	-	-
Other purposes	349,273	887,523	278,831	761,747	5,132	12,288
Large companies	35,429	173,217	1,725	100,245	5,020	2,556
SMEs and individual traders	313,844	714,306	277,106	661,502	112	9,732
Other households	27,549	22,750	18,525	27,303	553	499
Capitalised expenses (Note 4.6.2)	14,571	16,254	-	-	-	-
Impairment losses	(3,012,418)	(2,675,245)	-	-	-	-
Total	**28,230,215**	**31,606,570**	**29,001,176**	**32,049,852**	**191,330**	**241,632**

Recovery measures - debt refinancing and restructuring

As part of the recovery management carried out by the Company, a number of measures have been implemented to provide borrowers with the conditions required to meet their established contractual obligations, on the basis that the continuation of their activities is the main guarantee of their honouring those obligations.

These measures include, inter alia, the foreclosure of property guarantees or dation in payment (see Note 5), settlement of guarantees and debt refinancing and restructuring transactions.

The recovery activities, especially in the case of debt refinancing and restructuring transactions, have been carried out on the basis of objective criteria that took into account both circumstances common to certain portfolios of loans and credit facilities and the specific circumstances of the borrowers, such as their economic and financial position and the viability of their business activities. The essential criterion governing the analysis and performance of these recovery measures is to provide a solution to existing payment problems, avoid deferring them over time and maximise the recoverable value of the assets received.

The debt refinancing and restructuring tools implemented include changes in the conditions originally agreed with debtors in respect of terms to maturity, interest rates, guarantees provided and, in certain circumstances, forgiveness or partial reduction of the amounts owed. Refinancing or restructuring transactions entail that the related debt payments are brought fully or partially up to date.

In no case has the refinancing of transactions given rise to an equity impact for the Company with respect to the status of the refinanced or restructured transaction, or to a deferral of the recognition of possible impairment losses on such transactions based on the circumstances thereof. Therefore, all transactions which have to be classified as impaired in accordance with the regulatory framework applicable to the Company have been classified as such for the purposes of preparing these financial statements.

The number of transactions refinanced in 2015 and 2014 and the amounts thereof are as follows:

2015:

	Number of transactions	Amount (thousands of euros)
Refinanced / restructured transactions	364	607,347
Renegotiated / renewed transactions	19	26,307
Total	383	633,654

2014:

	Number of transactions	Amount (thousands of euros)
Refinanced / restructured transactions	468	739,935
Renegotiated / renewed transactions	18	6,056
Total	486	745,991

Geographical distribution of loans and credit facilities

The geographical distribution of “Non-Current Financial Assets - Loans to Third Parties”, “Current Financial Assets - Loans to Third Parties” and “Cash and Cash Equivalents” at 31 December 2015 and 2014 is as follows:

Thousands of euros	31/12/15	31/12/14
Andalusia	3,104,030	3,245,814
Aragon	1,662,568	1,510,308
Asturias	506,646	549,633
Balearic Islands	749,867	779,823
Canary Islands	664,925	717,053
Cantabria	545,500	456,005
Castilla-La Mancha	802,949	1,048,429
Castilla y León	1,646,526	1,926,864
Catalonia	5,909,695	6,649,590
Extremadura	313,563	341,828
Galicia	1,723,442	2,020,864
Madrid	8,699,857	9,089,439
Murcia	1,584,373	1,561,936
Navarre	48,425	101,102
Valencia	5,593,172	6,280,922
Basque Country	410,420	403,617
La Rioja	475,283	510,522
Ceuta and Melilla	21,054	22,426
Other non-resident sectors	-	-
- Other - Capitalised expenses (Note 4.6.2)	14,571	16,254
- Impairment losses	(3,012,418)	(2,675,245)
Total	**31,464,448**	**34,557,184**
Of which: Cash and cash equivalents	3,234,233	2,950,614
Of which: Non-current and current loans to third parties	28,230,215	**31,606,570**

7.3.2 Liquidity risk

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

The Company determines cash requirements periodically and specifically through the preparation of a cash budget with a twelve-month time horizon, which is updated on a recurring basis with the aim of identifying any short-term cash requirements or cash surpluses. Additionally, for liquidity risk management purposes, generic medium- and long-term funding requirements are identified, as well as how to address them in a manner consistent with business projections.

In any event, liquidity risk is also mitigated by the Company having the power to renew on maturity the bonds issued as consideration for the assets received from the transferor institutions (see Note 13.2).

Over the first few years of the Company's life, criteria of prudence have prevailed in liquidity management, which it is intended to endow with greater versatility. For this purpose, a system of liquidity auctions has been established among entities to which counterparty risk limits have been assigned. The auctions are carried out in accordance with SAREB's principles of transparency, competition and maximisation of profitability.

Also, the Board of Directors has approved a liquidity risk management policy for the Company that envisages the measurement and periodic monitoring of a series of short- and long-term liquidity indicators and the activation, where appropriate, of contingent measures aimed at maintaining the Company's liquidity position.

Detail of financial assets by maturity date

As discussed in Note 2.4, the Company considers that its financial assets will be recovered in accordance with the contractual payment schedule, except for those experiencing difficulties - doubtful financial assets - (see Note 1), which will be recovered over a period of more than twelve months, according to the Company's updated estimates.

Due to the unilateral option for the renewal of the maturity of the senior debt (see Notes 2.4 and 13.2), the Company classifies the probable maturities of this debt in accordance with updated forecasts. The detail of the maturities of the Company's financial assets and liabilities at 31 December 2015 and 2014 is as follows:

	Thousands of euros						
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
Assets:							
Cash and cash equivalents	***3,234,233***	-	-	-	-	-	***3,234,233***
Financial assets	***2,681,991***	***3,626,223***	***3,756,820***	***3,649,396***	***3,265,396***	***13,929,648***	***30,909,446***
- Loans and credit facilities to third parties	2,674,580	3,626,223	3,756,820	3,649,396	3,265,368	11,257,828	28,230,215
- Other financial assets	7,411	-	-	-	-	2,671,820	2,679,231
Investments in associates	-	-	-	-	***16,665***	***4,832***	***21,497***
- Equity instruments	-	-	-	-	-	1,897	1,897
- Loans to companies	-	-	-	-	16,665	2,935	19,600
Total at 31 December 2015	**5,916,224**	**3,626,223**	**3,756,820**	**3,649,396**	**3,282,061**	**13,934,480**	**34,165,176**
Liabilities:							
Non-current and current liabilities							
- Debt instruments and other marketable securities	4,228,772	3,694,982	3,178,814	3,125,550	3,217,459	29,640,572	47,086,149
- Bank borrowings	57,823	-	-	-	-	-	57,823
- Other financial liabilities	22,998	67,949	81,766	73,258	70,269	294,643	610,883
- Derivatives	-	-	-	-	-	2,591,073	2,591,073
Total at 31 December 2015	**4,309,593**	**3,762,931**	**3,260,580**	**3,198,808**	**3,287,728**	**32,526,288**	**50,345,928**

The Company's cash position amounted to EUR 3,234,233 thousand at 31 December 2015. This liquidity, together with the cash generated from full or partial repayments and sales of loans and credit facilities, from sales of property assets and from rentals of the Company’s assets, enables the Company’s directors to be confident that sufficient resources will be available to meet cash needs resulting mainly from the maturity of senior bonds and accrued finance costs. In this respect, it must be stated that SAREB has the unilateral right to redeem the senior bonds on maturity by delivering new senior bonds with similar features, which reduces the liquidity risk to a highly significant extent. In addition, if certain circumstances arise, SAREB also has the option to lengthen the terms of the marketable securities issues.

7.3.3. Interest rate risk

Structural interest rate risk is defined as the Company’s exposure to changes in market interest rates resulting from the different maturity and repricing dates of the asset and liability items on its balance sheet. The purpose of the management of on-balance-sheet interest rate risk is to maintain the Company's exposure to fluctuations in market interest rates at levels that are in line with its strategy and compatible with its Business Plan.

Regarding assets, tools have been developed internally that allow loan principal and interest flows to be simulated in accordance with contractual terms and conditions based on the information provided by the managers. These tools enable interest rate fluctuation scenarios to be included and the impact on future interest flows to be evaluated, taking into account the probability of the borrower being solvent.

Similarly, the modelling of liabilities makes it possible to simulate the cash flows of issued debt considering market conditions or simulated scenarios and to value such debt. To mitigate the Company's heavy exposure to interest rate fluctuations, resulting from the high level of sensitivity of the Company's liabilities and the considerable insensitivity of its assets to such fluctuations, in 2013 the Company decided to hedge, with derivative instruments, around 85% of the expected outstanding balance of the senior debt over a time horizon of nine years (at 31 December 2015: seven years) with the aim of reducing the risk that increases in interest rates could have a significant adverse effect on the statement of profit or loss in the future. This decision was taken bearing in mind that the rates in force at the date the hedge was entered into were compatible with the Company's Business Plan.

Benchmark interest rates

Regarding the contractual interest rates to which the acquired portfolio of loans and credit facilities is linked, 90.7% (31 December 2014: 91.4%) of the aforementioned loans and credit facilities are benchmarked to variable interest rates and 9.3% (31 December 2014: 8.6%) are benchmarked to fixed interest rates. However, since a significant portion of the portfolio of loans received are non-performing, the actual sensitivity thereof to fluctuations in interest rates is very low.

The variable interest rates applied to the above balances are benchmarked to Euribor for various maturities, plus the related spread. However, the Company accrues interest income as described in Note 4.13.

Interest rate hedging derivatives

As indicated in Note 13.3, the Company has arranged interest rate derivatives with various financial institutions enabling it to fix the interest rate of approximately 85% of the estimated senior bonds for the next seven years, thus eliminating any uncertainty in the coming years, regarding the statement of profit or loss and future cash flows, that would result from fluctuations in benchmark interest rates.

The Company's directors consider that, in view of the low sensitivity of its portfolio of financial assets to fluctuations in interest rates and the management of the interest rate risk of its financial liabilities, at 31 December 2015 interest rate risk exposure was not significant for the purposes of the Company's financial position.

8. Inventories

The detail of "Inventories" at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	31/12/15	31/12/14
Completed buildings	**12,121**	**12,338**
Residential property	12,121	12,338
Offices, premises and multi-purpose industrial buildings	-	-
Other properties	-	-
Residential property other than the borrower's usual residence	-	-
Buildings under construction	**77,286**	**94,507**
Residential property	77,286	94,507
Offices, premises and multi-purpose industrial buildings	-	-
Other properties	-	-
Residential property other than the borrower's usual residence	-	-
Advances to suppliers	**28,212**	**3,628**
Total	**117,619**	**110,473**

The changes in "Inventories" in 2015 and 2014 were as follows:

	Thousands of euros			
	Completed buildings	Buildings under construction	Advances to suppliers	Total
Balance at 31 December 2013	**-**	**50,420**	**114**	**50,534**
Additions	-	6,358	3,514	9,872
Reductions	(4,807)	(242)	-	(5,049)
Corrections (Note 1)	-	(7,342)	-	(7,342)
Transfers to completed buildings	17,145	(17,145)	-	-
Transfers from investment property (Note 5)	-	62,458	-	62,458
Impairment losses	-	-	-	-
Balance at 31 December 2014	**12,338**	**94,507**	**3,628**	**110,473**
Additions	20	3,267	28,212	31,499
Reductions	(10,115)	-	(3,628)	(13,743)
Transfers to completed buildings	9,878	(9,878)	-	-
Transfers to investment property (Note 5)	-	(10,610)	-	(10,610)
Impairment losses	-	-	-	-
Balance at 31 December 2015	**12,121**	**77,286**	**28,212**	**117,619**

The most significant changes in “Inventories” in 2015 and 2014 were as follows:

Additions

In 2015 the Company incurred expenses amounting to EUR 3,267 thousand (2014: EUR 6,358 thousand) relating to the execution of construction work and the development of its construction in progress. These amounts were capitalised as additions to the value of inventories at 31 December 2015 and 2014.

Transfers between items

In 2015 and 2014 the Company conducted a detailed analysis of its work in progress with the aim of maximising its value. This analysis sought mainly to distinguish the work in progress from which it expects to obtain a higher level of return through the execution of construction work, the development and completion of properties, and their sale through the retail channel. As a result of this analysis, the Company made transfers of EUR 10,610 thousand from “Inventories” to "Investment Property”. In 2014 EUR 62,458 thousand were reclassified from “Investment Property” to “Inventories” as a result of construction work that the Company capitalised in order to develop the related assets.

Corrections

In 2015 no corrections were made that affected “Inventories”.

In 2014 the Company formalised corrections to inventories amounting to EUR 7,342 thousand (see Note 1). These corrections were carried out for certain assets classified as “inventories” that did not meet the requirements to be included in the scope of assets that were to be transferred to the Company, as well as for others that did qualify for transfer to SAREB but whose price had been calculated incorrectly based on the type of asset.

Other disclosures

At 31 December 2015 and 2014, all the Company's inventories were free of liens and encumbrances.

Furthermore, in 2015 and 2014, no borrowing costs were capitalised as an increase in the cost of inventories.

As a standard procedure, substantially all of the pre-sales are subject to late delivery indemnity clauses as they are formalised in agreements with similar characteristics. The aforementioned late delivery indemnity clauses comprise mainly the legal interest on the amounts delivered between the forecast contractual delivery date and the effective delivery date. The Company does not expect these clauses to have any impact mainly because the forecast delivery date in the agreements includes a safety margin of a specific number of months with respect to the forecast delivery date. Accordingly, and in view of the few transactions of this type in 2015 and 2014, the Company did not recognise any impact in this connection in the 2015 and 2014 financial statements. In addition, pre-sales generally include compensation payable to the Company in the event of cancellation by the customer. However, no amount is recognised in this connection until the contract is formally terminated for reasons not attributable to the Company.

The Company's policy regarding guarantees covering advances received from customers is that all advances received from customers must be guaranteed. At 31 December 2015, the advances delivered by customers as down payments totalled EUR 433 thousand (31 December 2014: EUR 477 thousand).

The Company's directors consider that the carrying amount of the balances included under "Inventories" in the balance sheet at least approximates their fair value (see Note 5).

9. Trade and other receivables

The detail of "Trade and Other Receivables" at 31 December 2015 and 2014 is as follows:

	31/12/15	31/12/14
Trade receivables for sales	168,856	129,634
Sundry accounts receivable	37,517	206,562
Doubtful trade receivables	31,938	7,806
Allowance for doubtful debts	(31,938)	(7,806)
Current tax assets (Note 15.1)	13,406	19,051
Other accounts receivable from public authorities (Note 15.1)	-	2,258
Total	**219,779**	**357,505**

"Sundry Accounts Receivable" includes mainly the deferred collection from FAB Crossover I arising from the sale of land owned by this fund (see Note 4.6.1). The Company's policy is to require guarantees for deferred collections, either first-demand bank guarantees or guarantees provided by guarantors of proven solvency.

In 2015 the Company collected the amounts deferred in 2014 in connection with the sale of securities of FAB Crossover I and FAB May, totalling EUR 10,337 thousand (and EUR 28 thousand accrued on this account receivable) and EUR 16,420 thousand, respectively (see Note 4.6.1). At 31 December 2014, "Sundry Accounts Receivable" also included performance bonds of EUR 176,750 thousand not yet collected relating to the Íbero project. These bonds were collected in full in 2015.

The amount recognised by the Company under "Trade Receivables for Sales" includes the uncollected amount arising mainly from sales of property assets and rental income earned by the Company in 2015 and 2014. The most significant amount at 31 December 2015 and 2014, totalling EUR 19,395 thousand, relates to the deferred sale price for the "Dorian" transaction (see Note 5), which falls due in 2016.

The Company's directors consider that the carrying amount of trade and other receivables approximates their fair value.

10. Cash and cash equivalents

"Cash and Cash Equivalents" includes the Company's cash and short-term bank deposits with an original maturity of three months or less.

The detail of "Cash and Cash Equivalents" at 31 December 2015 and 2014 is as follows:

	31/12/15	**31/12/14**
Cash equivalents	1,595,979	9,118
Cash at banks	1,638,254	2,941,497
Total	**3,234,233**	**2,950,615**

The amount recognised under “Cash Equivalents” at 31 December 2015 relates to several fixed-term deposits held by the Company at various banks amounting to EUR 1,595,979 thousand (31 December 2014: EUR 9,118 thousand). Although the initial maturity of these fixed-term deposits was set at more than three months, the Company decided to classify them under “Cash Equivalents” since it may opt to redeem them early without having to pay a penalty fee.

In 2015 the Company recognised EUR 11,868 thousand (2014: EUR 33,292 thousand) of interest on these investments and on the money deposited in current accounts (see Note 16.6).

At 31 December 2015 and 2014, there were no restrictions on the use of cash and cash equivalents.

11. Equity

11.1 Share capital

At 31 December 2015, the Company's share capital was represented by 300,060,000 fully subscribed and paid bearer shares of EUR 1 par value each. All these shares carry identical voting and dividend rights.

At 31 December 2015 and 2014, the shareholders holding an ownership interest of more than 2.5% of the Company's share capital were as follows:

	% ownership interest	Share capital	Share premium
Fondo de Reestructuración Ordenada Bancaria (FROB)	45.01%	135,060	405,000
Banco Santander, S.A.	17.28%	51,850	155,550
Caixabank, S.A.	12.69%	38,075	114,202
Banco de Sabadell, S.A.	6.93%	20,800	62,400
Banco Popular Español, S.A.	5.97%	17,925	53,775
Kutxabank, S.A.	2.62%	7,875	23,625
Other shareholders	9.50%	28,475	85,448
Total	**100%**	**300,060**	**900,000**

The Company is not aware of any other ownership interests of 3% or more of the Company’s share capital or voting power, or of any interests which, although lower than the established percentage, allow significant influence to be exercised over the Company.

11.2 Legal reserve

Use of the legal reserve is restricted by several legal provisions. According to Article 274 of the Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least one fifth of the share capital. The legal reserve can be used for offsetting losses or increasing capital, provided that the remaining reserve balance does not fall below 10% of the increased share capital amount, and for distribution to the shareholders in the event of liquidation.

11.3 Other reserves

The detail of “Other Reserves” at 31 December 2015 and 2014 is as follows:

Thousands of euros	**31/12/15**	**31/12/14**
Prior years’ losses	(2,418,369)	(1,614,386)
Total	**(2,418,369)**	**(1,614,386)**

11.4 Valuation adjustments

"Valuation Adjustments" in the accompanying balance sheet includes the amount of changes in the value of financial derivatives designated as cash flow hedging instruments, net of the related tax effect (see Note 13.3).

The changes in "Valuation Adjustments" in 2015 and 2014 were as follows:

2015

	Thousands of euros		
	Beginning balance	Additions/ Reductions	Ending balance
Measurement of derivatives	(2,032,492)	89,187	(1,943,305)
Balance	(2,032,492)	89,187	(1,943,305)

2014

	Thousands of euros		
	Beginning balance	Additions/ Reductions (*)	Ending balance
Measurement of derivatives	(265,959)	(1,766,533)	(2,032,492)
Balance	(265,959)	(1,766,533)	(2,032,492)

(*) This decrease includes EUR 123,431 thousand as a result of the change in the tax rate from 30% to 25% since the Company considered that the deferred tax asset resulting from the measurement of the derivatives at market value will be realised at the latter rate (see Note 15).

The valuation adjustments in equity are as follows:

	Thousands of euros	
	31/12/15	31/12/14
Interest rate derivatives (Note 13.3)	(2,591,073)	(2,709,990)
Tax effect	647,768	677,498
Valuation adjustments - Hedges (net of taxes)	(1,943,305)	(2,032,492)

11.5 Equity position of the Company

At 31 December 2015, the equity position of the Company was as follows:

	Thousands of euros
Equity per the financial statements of SAREB, S.A. as at 31/12/15	(3,161,282)
Of which:	
Valuation adjustments relating to cash flow hedges	*1,943,305*
Equity for the purposes of capital reductions and dissolutions at 31/12/15	**(1,217,977)**

It should be noted that, in accordance with current accounting rules, changes in the value of hedging derivatives are recognised in the Company's equity until they are recognised in profit or loss in the corresponding year. The entire fair value of the interest rate risk derivative, net of the related tax effect, is recognised under "Valuation Adjustments - Hedges". However, from a corporate standpoint and pursuant to the provisions of Article 36 of the Spanish Commercial Code, these changes in the value of hedging derivatives that have not yet been taken to profit or loss do not qualify as equity for the purposes of distributions of profit, obligatory reductions of share capital or obligatory dissolution due to losses incurred.

Due to the accumulated losses at 31 December 2015 arising mostly from the impairment of its financial assets, the Company had an equity deficit of EUR 1,218 million for the purposes of capital reductions and dissolutions and, therefore, was in a situation of mandatory dissolution pursuant to Article 363 of the Spanish Limited Liability Companies Law.

However, as detailed in Note 2.4, on 30 March 2016 the Company's directors will commence measures aimed at restoring its equity position.

12. Provisions and contingencies

"Long-Term Provisions" in the balance sheets as at 31 December 2015 and 2014 includes the long-term provisions recognised by SAREB in order to cover certain contingent and other liabilities acquired by SAREB as part of its normal course of business, which are reasonably covered. The changes in 2015 and 2014 in "Long-Term Provisions" in the balance sheets were as follows:

	Thousands of euros	
	2015	2014
Balance at beginning of year	49,886	53,322
Charge for the year	5,724	2,619
(Reversals)	(46,125)	(6,055)
Transfers and other changes	-	-
Balance at end of year	**9,485**	**49,886**

In 2015 the Company reversed provisions of EUR 46,125 thousand since the outcome of the litigation for which these provisions were made was favourable to the Company.

The charge for the year recognised by the Company in 2014 amounting to EUR 2,619 thousand related to the Company's maximum level of risk exposure to the FAB May fund on the transfer of a portfolio of land lots with respect to which the Company undertook to assume a certain amount of urban development costs (see Note 4.6.1).

The Company is the defendant in certain proceedings in relation to the liability inherent to the business activities carried on by it. The provisions recognised in relation to litigation in 2015 represent immaterial amounts when considered individually, and there are no other particularly noteworthy lawsuits. In this regard, SAREB recognises provisions for likely litigation risks based on the opinion of its legal advisers.

13. Detail of financial liabilities

The detail, as required by applicable legislation, of the financial liabilities assumed by SAREB at 31 December 2015 and 2014 is as follows:

2015

Classes / Categories	Thousands of euros						
	Non-current financial instruments			Current financial instruments			Total
	Bank borrowings	Debt instruments and other marketable securities	Derivatives and other	Bank borrowings	Debt instruments and other marketable securities	Derivatives and other	
Accounts payable	-	42,857,376	587,885	57,823	4,228,773	22,998	47,754,855
Hedging derivatives	-	-	2,591,073				2,591,073
Total	**-**	**42,857,376**	**3,178,958**	**57,823**	**4,228,773**	**22,998**	**50,345,928**

2014

Categories \ Classes	Thousands of euros						
	Non-current financial instruments			Current financial instruments			Total
	Bank borrowings	Debt instruments and other marketable securities	Derivatives and other	Bank borrowings	Debt instruments and other marketable securities	Derivatives and other	
Accounts payable	-	45,975,600	643,339	53,233	3,179,053	341	49,851,566
Hedging derivatives	-	-	2,709,990	-	-	-	2,709,990
Total	**-**	**45,975,600**	**3,353,329**	**53,233**	**3,179,053**	**341**	**52,561,556**

13.1 Bank borrowings

At 31 December 2015, the Company had been granted credit facilities by several Group 1 and Group 2 institutions, against which EUR 47,220 thousand (31 December 2014: EUR 47,628 thousand) had been drawn down.

The interest rate on the amounts drawn down against these credit facilities is tied to Euribor plus a market spread. The interest accrued in 2015, amounting to EUR 265 thousand (2014: EUR 130 thousand), was recognised under “Finance Costs - On Debts to Third Parties” in the accompanying statement of profit or loss (see Note 16.5).

In addition, at 31 December 2015, the Company had recognised EUR 9,400 thousand (31 December 2014: EUR 5,605 thousand) under “Bank Borrowings” in relation to accrued interest payable on the hedging derivatives entered into in 2013 (see Note 13.3).

13.2. Non-current and current debt instruments and other marketable securities

The detail of “Non-Current Payables - Debt Instruments and Other Marketable Securities” and “Current Payables - Debt Instruments and Other Marketable Securities” at 31 December 2015 and 2014 is as follows:

	31/12/15		31/12/14	
Thousands of euros	Non-current	Current	Non-current	Current
Marketable securities - senior debt	41,427,900	2,048,500	42,375,600	3,152,000
Marketable securities - subordinated debt	1,429,476	2,170,524	3,600,000	-
Accrued interest payable		9,749	-	27,053
Total	**42,857,376**	**4,228,773**	**45,975,600**	**3,179,053**

Marketable securities - senior debt

The detail of “Marketable Securities - Senior Debt” in the foregoing table at 31 December 2015 and 2014 is as follows:

31 December 2015

Bonds	Issue date	Contractual maturity date	Current applicable rate	Thousands of euros
SAREB/VAR BO 20151231 2015-3	31/12/15	31/12/16	3-month Euribor + 0.199%	10,262,600
SAREB/VAR BO 20141231 2014-3	31/12/14	31/12/16	3-month Euribor + 0.428%	13,918,000
SAREB/VAR BO 20150228 2015-1	28/02/15	26/02/16	3-month Euribor + 0.103%	4,084,500
SAREB/VAR BO 20150228 2013-3	28/02/13	26/02/16	3-month Euribor + 2.464%	2,537,900
Total current contractual maturities				30,803,000
SAREB/VAR BO 20151231 2015-4	31/12/15	31/12/18	3-month Euribor + 0.388%	6,569,700
SAREB/VAR BO 20150228 2015-2	28/02/15	28/02/17	3-month Euribor + 0.263%	6,103,700
Total non-current contractual maturities				12,673,400
Total				**43,476,400**

31 December 2014

Bonds	Issue date	Contractual maturity date	Current applicable rate	Thousands of euros
SAREB/VAR BO 20141231 2014-2	31/12/14	31/12/15	3-month Euribor + 0.297%	10,284,900
SAREB/VAR BO 20121231 2012-3	31/12/12	31/12/15	3-month Euribor + 2.964%	6,622,500
SAREB/VAR BO 20130228 2013-2	28/02/13	28/02/15	3-month Euribor + 2.017%	6,104,100
SAREB/VAR BO 20140228 2014-1	28/02/14	28/02/15	3-month Euribor + 0.272%	4,084,700
Total current contractual maturities				27,096,200
SAREB/VAR BO 20141231 2014-3	31/12/14	31/12/16	3-month Euribor + 0.428%	15,427,500
SAREB/VAR BO 20130228 2013-3	28/02/13	28/02/16	3-month Euribor + 2.464%	3,003,900
Total non-current contractual maturities				18,431,400
Total				**45,527,600**

At 31 December 2015 and 2014, all the marketable debt securities were represented by book entries. Also, they are secured by an unconditional and irrevocable guarantee of the Spanish Treasury, with a waiver of the right of excussion.

SAREB holds an option to unilaterally renew the senior debt issues described above at maturity. However, at the transaction date there were no significant differences between their fair value and their nominal amount.

This unilateral option enables the Company, also on the basis of its business forecasts and the experience acquired since its incorporation, to consider that approximately EUR 28,754,500 thousand of the short-term contractual maturities shown above will occur in the long term.

The interest rates on these bonds are tied to 3-month Euribor plus a spread. This spread remains unchanged throughout the term of the issue.

2015

Redemption of bonds in 2015

The summary of the redemptions of senior debt carried out by the Company in 2015 is as follows:

Bonds	Redemption in cash	Redemption due to corrections (Note 1)	Redemption through a new issue	Total
SAREB/VAR BO 20141231 2014-2	-	16,200	10,262,600	10,278,800
SAREB/VAR BO 20141231 2014-3	1,476,000	33,500	-	1,509,500
SAREB/VAR BO 20130228 2012-3	34,200	13,500	6,569,700	6,617,400
SAREB/VAR BO 20150228 2015-1	-	200	4,084,500	4,084,700
SAREB/VAR BO 20150228 2015-2	-	400	-	400
SAREB/VAR BO 20150228 2013-3	465,800	200	-	466,000
SAREB/VAR BO 20150228 2013-2	-	-	6,103,700	6,103,700
SAREB/VAR BO 20151231 2015-3	-	6,100	-	6,100
SAREB/VAR BO 20151231 2015-4	-	5,100	-	5,100
Total	**1,976,000**	**75,200**	**27,020,500**	**29,071,700**

On 17 February 2015, the Company carried out an additional redemption, amounting to EUR 34,200 thousand, of the bonds issued for the acquisition of the assets transferred by the Group 1 institutions.

The detail of this redemption is as follows:

	Outstanding balance before redemption	Redemption in cash	Balance after redemption	Maturity
SAREB/VAR BO 20151231 2012-3	6,622,500	34,200	6,588,300	31/12/15
Total	**6,622,500**	**34,200**	**6,588,300**	

Correction of asset purchase deed

As indicated in Note 1, in 2015 the Company redeemed the following bonds as a result of the corrections formalised in the year:

Thousands of euros	Bankia, S.A.	Catalunya Caixa, S.A.	CEISS, S.A.	Banco Gallego, S.A.	Banco de Valencia, S.A.	Banco Mare Nostrum, S.A.	Total
SAREB/VAR BO 20141231 2014-2	-	14,100	-	2,000	100	-	16,200
SAREB/VAR BO 20141231 2014-3	9,200	21,200	-	3,000	100	-	33,500
SAREB/VAR BO 20131231 2012-3	-	11,800	-	1,700	-	-	13,500
SAREB/VAR BO 20140228 2015-1	-	-	100	-	-	100	200
SAREB/VAR BO 20150228 2015-2	-	-	200	-	-	200	400
SAREB/VAR BO 20160228 2013-3	-	-	100	-	-	100	200
SAREB/VAR BO 20151231 2015-3	6,100	-	-	-	-	-	6,100
SAREB/VAR BO 20151231 2015-4	5,100	-	-	-	-	-	5,100
Total	**20,400**	**47,100**	**400**	**6,700**	**200**	**400**	**75,200**

<u>2014</u>

Redemption of bonds in 2014

The summary of the redemptions of senior debt carried out by the Company in 2014 is as follows:

	Redemption in cash	Redemption due to corrections (Note 1)	Redemption through a new issue	Total
SAREB/VAR BO 20141231 2013-4	49,300	147,100	10,284,900	10,481,300
SAREB/VAR BO 20141231 2012-2	74,000	220,800	15,427,500	15,722,300
SAREB/VAR BO 20151231 2012-3	1,989,600	122,500	-	2,112,100
SAREB/VAR BO 20151231 2013-1	116,600	15,700	4,085,300	4,217,600
SAREB/VAR BO 20151231 2013-2	198,000	24,600	-	222,600
SAREB/VAR BO 20151231 2013-3	497,300	13,500	-	510,800
SAREB/VAR BO 20150228 2014-1	-	600		600
Total	**2,924,800**	**544,800**	**29,797,700**	**33,267,300**

Redemption in cash and through a new issue

On 28 February 2014, the Company simultaneously carried out a partial redemption and a renewal at maturity of the outstanding senior debt issued in 2013 to acquire Group 2 assets, and an extraordinary redemption of the debt issue launched by the Company to acquire Group 1 assets.

The simultaneous redemption and renewal are summarised below:

Bonds	2014 beginning balance (*)	Redemption	Renewal	Outstanding amount	Maturity	New ISIN following novation
SAREB BONOS SENIOR 2013-01	4,201,900	116,600	4,085,300	4,085,300	28/02/15	ES0352506077
SAREB BONOS SENIOR 2013-02	6,303,100	175,100	-	6,128,000	28/02/15	N/A
SAREB BONOS SENIOR 2013-03	3,501,600	97,300	-	3,404,300	28/02/16	N/A
Total Group 2	**14,006,600**	**389,000**	**4,085,300**			
SAREB/VAR BO 20141231 2012-2	15,722,300	74,000	-	15,648,300	31/12/14	N/A
SAREB/VAR BO 20151231 2012-3	8,734,600	41,200	-	8,693,400	31/12/15	N/A
SAREB/VAR BO 20141231 2013-4	10,481,300	49,300	-	10,432,000	31/12/14	N/A
Total Group 1	**34,938,200**	**164,500**	**-**			
Total redemption 28 February		**553,500**	**4,085,300**			

(*) Net of corrections formalised between the Company and the Group 2 institutions until 28 February 2014.

On 10 April 2014, the Company made an offer to the bondholders for the buyback and subsequent retirement of bonds totalling EUR 1,400,000 thousand. This bond buyback was carried out below par and gave rise to finance income of EUR 5,020 thousand, which was recognised under "Finance Income - From Marketable Securities" in the accompanying statement of profit or loss (see Note 16.6). The detail of the retired bonds is as follows:

Bonds	Retirement	Buyback price	Discount	Maturity	ISIN
SAREB BONOS SENIOR 2012-03	1,000,000	999,480	520	31/12/15	ES0352506028
SAREB BONOS SENIOR 2013-03	400,000	395,500	4,500	28/02/16	ES0352506051
Total	**1,400,000**	**1,394,980**	**5,020**		

In addition, in 2014 the Company bought back, for subsequent retirement, 484 bonds of the 2012-3 series and 229 bonds of the 2013-2 series for EUR 48,400 thousand and EUR 22,900 thousand, respectively. The Company settled the purchase of these bonds through the delivery of an office building located in Madrid and a series of mortgage loans owned by the Company.

Furthermore, on 31 December 2014, the Company simultaneously carried out a partial redemption and a renewal at maturity of the outstanding senior debt issued in order to acquire Group 1 assets, in exercise of its right to novate the maturity of the issued bonds (see Note 1). This redemption is summarised as follows:

Bonds	Outstanding balance before redemption	Redemption in cash	Redemption through issue of new securities	Total amount redeemed
SAREB/VAR BO 20141231 2013-4	10,284,900	-	10,284,900	10,284,900
SAREB/VAR BO 20141231 2012-2	15,427,500	-	15,427,500	15,427,500
SAREB/VAR BO 20151231 2012-3	7,522,500	900,000	-	900,000
Total	**33,234,900**	**900,000**	**25,712,400**	**26,612,400**

Correction of asset purchase deed

As indicated in Note 1, in 2014 the Company redeemed the following bonds as a result of the corrections formalised in the year:

Thousands of euros	Novagalicia Banco, S.A.	Catalunya Caixa, S.A.	CEISS, S.A.	Banco Gallego, S.A.	Banco de Valencia, S.A.	BMN, S.A.	Total
SAREB/VAR BO 20151231 2013-1	-	-	15,700		-	-	15,700
SAREB/VAR BO 20141231 2012-2	82,200	92,500	-	5,700	40,400	-	220,800
SAREB/VAR BO 20151231 2012-3	45,600	51,300	-	3,200	22,400	-	122,500
SAREB/VAR BO 20140228 2013-4	54,800	61,600	-	3,800	26,900	-	147,100
SAREB/VAR BO 20150228 2013-2	-	-	23,600		-	1,000	24,600
SAREB/VAR BO 20160228 2013-3	-	-	13,100		-	400	13,500
SAREB/VAR BO 20150228 2014-1	-	-	-	-	-	600	600
Total	**182,600**	**205,400**	**52,400**	**12,700**	**89,700**	**2,000**	**544,800**

Other disclosures

The interest accrued in 2015 in relation to these marketable securities, amounting to EUR 398,255 thousand (2014: EUR 1,019,555 thousand), was recognised under “Finance Costs - On Debts to Third Parties” in the accompanying statement of profit or loss (see Note 16.5). At 31 December 2015, the accrued interest payable amounted to EUR 9,749 thousand (31 December 2014: EUR 27,053 thousand), which were recognised under “Current Payables - Debt Instruments and Other Marketable Securities” in the accompanying balance sheet. At the date of preparation of these financial statements, this interest had been paid in full.

At 31 December 2015 and 2014, the senior marketable securities issued by the Company had been listed and admitted to trading.

The directors consider that the carrying amount of the marketable securities approximates their fair value.

Marketable securities - subordinated debt

The detail of “Marketable Securities - Subordinated Debt” in the foregoing table at 31 December 2015 and 2014 is as follows:

31 December 2015

	Issue date	Maturity date	Current applicable rate	Thousands of euros
SAREB/8,00 OBSUBDCONV 20271127 2013	26/02/13	27/11/27	8.00%	3,600,000
Total				3,600,000

31 December 2014

	Issue date	Maturity date	Current applicable rate	Thousands of euros
SAREB/8,00 OBSUBDCONV 20271127 2013	26/02/13	27/11/27	8.00%	3,600,000
Total				3,600,000

The main terms and conditions of the contingent convertible unsecured subordinated debentures are detailed below:

- All the securities belong to a single series and have the same terms and conditions. Therefore, they confer identical rights on the holders. They are freely transferable, are represented by book entries and are registered in the book-entry registries by Iberclear and its authorised participating entities.

- These bonds bear a fixed rate of interest that accrues annually, provided that profits are obtained and that there are sufficient distributable reserves. Accordingly, in 2014 and 2013 the Company did not incur or pay any coupon in this connection in view of the difficulty in estimating distributable future cash flows.

- Full redemption: obligatory on 27 November 2027.

- Partial redemption: at the Company's discretion, this is possible from the fifth year from the issue onwards, depending on the existing solvency and gearing ratios.

- Conversion: the subordinated debt will be convertible into capital if the Company has insufficient equity as a result of: i) the existence of accumulated losses equal to or greater than its share capital plus reserves; or ii) the Company being in a situation of mandatory dissolution as a result of losses reducing its equity to below one-half of share capital. If the conversion takes place, the shares will have the same par value, be of the same class and series and have the same rights as the ordinary shares outstanding. Their amount will be such that the Company's share capital will represent 2% of the value of its assets following the conversion. As detailed in Notes 2.4 and 11.5, at 31 December 2015, the Company had an equity deficit and was in a situation of mandatory dissolution pursuant to Article 363 of the Spanish Limited Liability Companies Law. Accordingly, the conversion mechanism will come into operation in 2016 in order to restore the Company's equity position. The Company classified EUR 2,170,524 thousand under “Current Liabilities” as a result of the estimated conversion that will take place in 2016.

- Seniority: the convertible subordinated debentures are ranked in order of priority as follows:

    - Junior to all the Company's general (senior) creditors;

    - “Pari passu” with any of the Company's non-convertible or convertible subordinated debt already issued or that may be issued in the future, or any debt already incurred or that may be incurred in the future under any other security.

    - Senior to the Company's preference or ordinary shares.

13.3 Derivatives

At 31 December 2015 and 2014, SAREB's main source of funding comprised the floating-rate debt instruments and marketable securities issued in 2013 and 2012, or renewed where appropriate on maturity, in order to acquire the property and loan assets described in Note 1. In view of the large size of the transaction, and in order to reduce the high exposure and consequent risk for the Company in the event of a possible interest rate increase, on 2 August 2013, the Company entered into an interest rate swap enabling it to hedge this risk for an initial notional amount of EUR 42,221 million, which will gradually decrease as the hedged senior bonds mature in future years. The hedge sets the annual interest on the debt at fixed rates ranging from 0.491% to 3.145%. This transaction was not speculative in nature but rather it is classified as a cash flow hedge. It in fact gave rise to the conversion of a portion of the Company's debt over the term of the hedge into fixed rate debt, as opposed to the floating rate profile of the bonds issued.

The cash flow hedge was entered into at a time and in a market context in which interest rates were compatible with those envisaged in the Company's Business Plan. Therefore, the Company used this transaction to cover a substantial portion of this plan, thus reducing uncertainty and the risk that a rise in interest rates might jeopardise the Company's Plan and viability. In contrast, as a consequence of this transaction, the Company forwent any possible gains, in respect of the portion of its debt hedged and the hedge term, from a decline in benchmark interest rates.

The monetary policy easing measures adopted by the European Central Bank since the end of 2013 have contributed to a gradual decline in interest rates that are currently at all-time lows. This trend was transferred to the value of the hedging derivative entered into by the Company.

The balance of “Non-Current Payables - Derivatives” on the liability side of the balance sheets as at 31 December 2015 and 2014 relates in full to the fair value of this interest rate risk hedging derivative entered into with various banks. At 31 December 2015, the fair value of this derivative, obtained by applying generally accepted valuation techniques based on the use of observable market inputs, amounted to EUR 2,591,073 thousand (31 December 2014: EUR 2,709,990 thousand) (see Note 11.4).

The detail of the notional amount and the fair value of these transactions, in relation to the periods within which the related cash flows are expected to occur and the years in which they are expected to affect the statement of profit or loss, is as follows (in thousands of euros):

INTEREST RATE SWAPS	Fixed rate range	Maturity	2016	2017	2018	2019	2020	More than 5 years	Total
Notional amounts	0.49%-3.15%	2016 - 2023	30,571,00	25,453,000	22,181,000	18,986,000	15,936,000	26,919,000	140,146,000
Fair value			**(443,101)**	**(497,633)**	**(476,081)**	**(397,000)**	**(256,563)**	**(520,694)**	**(2,591,073)**

The Company estimates that the effect on the market value of these derivatives of an increase of one basis point in benchmark interest rates would give rise to a positive impact of EUR 14,159 thousand on its equity. The estimated impact of a decrease of one basis point in benchmark interest rates would be a negative impact of a similar amount.

In accordance with current accounting rules, changes in the value of hedging derivatives are recognised in the Company's equity until they are recognised in profit or loss in the corresponding subsequent years. At 31 December 2015, the entire fair value of the interest rate risk derivative, amounting to EUR 1,943,305 thousand, net of the related tax effect, was recognised under “Valuation Adjustments - Hedges” (31 December 2014: EUR 2,032,492 thousand). As a result, the Company had an equity deficit. However, from a business perspective, and pursuant to Article 36 of the Spanish Commercial Code, for the purposes of profit distribution, mandatory share capital reduction and mandatory dissolution as a result of losses, these changes in value of the hedging derivative that have not yet been recognised in the statement of profit or loss are not classified as equity.

In addition, at 31 December 2015, EUR 302,058 thousand had been transferred from equity to “Finance Costs - On Debts to Third Parties” in the statement of profit or loss (31 December 2014: EUR 113,241 thousand) (see Note 16.5).

The credit risk associated with the derivative transactions is minimised by collateral swap agreements and other types of guarantees that depend on the nature and type of counterparty, in accordance with the standards of the International Swaps and Derivatives Association (ISDA).

At 31 December 2015 and 2014, for the purpose of ensuring compliance with the clauses in the aforementioned derivative contracts, SAREB had provided cash collateral amounting to EUR 2,442,400 thousand and EUR 2,431,900 thousand, respectively, to the counterparties of the derivatives entered into which had a negative value for the Company at those dates. This collateral is recognised under "Non-Current Financial Assets - Other Financial Assets" in the balance sheet. SAREB had also set up deposits at the counterparties for a total amount of EUR 217,500 thousand in both years (see Note 7.1.2).

13.4 Other non-current financial liabilities

The detail of "Other Non-Current Financial Liabilities" in the balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	31/12/15	31/12/14
Fair value of the Íbero guarantees	543,981	563,629
Effect of financial indicators on discounted present value of Íbero guarantees	8,688	24,971
Total nominal amount of Íbero performance bonds	*552,669*	*588,600*
FAB 2013 Bull advance (Note 5).	25,685	25,685
Security deposits of lessees and Other	9,531	29,054
Total	**587,885**	**643,339**

Pursuant to Recognition and Measurement Standard 9.5.6 of the Spanish National Chart of Accounts, the Company estimated the fair value of the performance bonds detailed in Note 1 in relation to the Íbero Project. The weighted average cost of the Company's debt (see Note 13.1) was taken into consideration in order to calculate the discounted present value.

14. Trade and other payables

The detail of "Trade and Other Payables" in the balance sheets as at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	31/12/15	31/12/14
Payable to suppliers	97,016	68,466
Payable to suppliers - unreceived invoices	255,983	239,981
Remuneration payable	6,942	5,294
Current tax liabilities (Note 15.1)	-	-
Other accounts payable to public authorities (Note 15.1)	63,693	69,099
Customer advances	2,022	477
Total	**425,655**	**383,317**

"Trade and Other Payables" includes mainly the amounts outstanding for trade purchases and related costs, and the advances received from customers prior to recognition of the sale of the properties or land.

At 31 December 2015, "Payable to Suppliers - Unreceived Invoices" included EUR 84,703 thousand and EUR 67,251 thousand (31 December 2014: EUR 97,122 thousand and EUR 71,178 thousand) of expenses incurred in relation to management fees and sales commissions, respectively, and EUR 104,029 thousand (31 December 2014: EUR 71,681 thousand) of general and maintenance expenses relating to the assets managed by the Company, for which it had not received the related invoices.

The directors consider that the carrying amount of trade payables approximates their fair value.

Disclosures on the periods of payment to suppliers. Additional Provision Three. "Disclosure obligation" provided for in Law 15/2010, of 5 July

In accordance with Final Provision Two of Law 31/2014, of 3 December, amending Additional Provision Three of Law 15/2010, of 5 July, which amended Law 3/2004, of 29 December, on combating late payment in commercial transactions, and in respect of the disclosures to be included in notes to financial statements on periods of payment to suppliers in commercial transactions, calculated in accordance with the Spanish Accounting and Audit Institute Resolution of 29 January 2016, the detail of the Company's average period of payment to suppliers in 2015 is as follows:

	Days in 2015
Average period of payment to suppliers	50
Ratio of transactions settled	48
Ratio of transactions not yet settled	111
	Thousands of euros
Total payments made	557,518
Total payments outstanding	97,013

As established in Additional Provision One of the Spanish Accounting and Audit Institute Resolution of 29 January 2016 on the disclosures to be included in notes to financial statements in relation to the average period of payment to suppliers in commercial transactions, since this is the first year of application, no comparative information is presented, as these financial statements are considered to be initial financial statements for the sole purposes of the principle of uniformity and the requirement of comparability.

15. Tax matters

15.1 Current tax receivables and payables

The detail of the current tax receivables and tax payables at 31 December 2015 and 2014 is as follows:

31 December 2015

	Thousands of euros			
	Receivables		Payables	
	Non-current	Current	Non-current	Current
Deferred output VAT payable	-	-	-	-
VAT refundable	-	-	-	-
Deferred and other tax assets	1,461,722	-	-	-
Tax provision	-	-	-	23,600
VAT payable	-	-	-	36,016
Personal income tax withholdings payable	-	-	-	3,671
Canary Islands general indirect tax payable	-	-	-	17
Accrued social security taxes payable	-	-	-	389
Income tax	-	13,406	-	-
Other tax receivables and payables	-	-	-	-
Total	**1,461,722**	**13,406**		**63,693**

31 December 2014

	Thousands of euros			
	Receivables		Payables	
	Non-current	Current	Non-current	Current
Deferred output VAT payable	-	-	-	-
VAT refundable	-	745	-	-
Deferred and other tax assets	1,018,846	-	-	-
Tax provision	-	-	-	28,132
VAT payable	-	-	-	38,961
Personal income tax withholdings payable	-	-	-	1,148
Canary Islands general indirect tax payable	-	-	-	458
Accrued social security taxes payable	-	-	-	330
Income tax	-	19,051	-	-
Other tax receivables and payables	-	1,513	-	70
Total	**1,018,846**	**21,309**	**-**	**69,099**

15.2 Reconciliation of the accounting loss to the tax loss

The reconciliation of the accounting loss for the year to the tax loss for income tax purposes is as follows:

2015

	Thousands of euros				
	Profit or loss		Income and expense recognised directly in equity		Total
Net income (expense) for the year		332		(137,356)	(137,025)
	Increase	Decrease	Increase	Decrease	
Income tax		(472,668)	-	(45,786)	(518,452)
Permanent differences	12,766	(17,621)	-	-	(4,855)
Temporary differences	-	-	-	-	-
- Arising in the year	14,495	-	183,142	-	197,636
- Arising in prior years	-	(2,064,098)	-	-	(2,064,098)
Tax loss	**27,261**	**(2,554,055)**	**183,142**	**(183,142)**	**(2,526,794)**

2014

	Thousands of euros				
	Profit or loss		Income and expense recognised directly in equity		Total
Net income (expense) for the year		(803,984)		(1,851,464)	(2,655,448)
	Increase	Decrease	Increase	Decrease	
Income tax	-	(196,619)	-	(617,155)	(813,774)
Permanent differences	1,823	(89,451)	-	-	(87,628)
Temporary differences	-	-	-	-	-
- Arising in the year	514,621	-	2,468,619	-	2,983,239
- Arising in prior years	78,156	(100,546)	-	-	(22,390)
Tax loss	**594,600**	**(1,190,600)**	**2,468,619**	**(2,468,619)**	**(596,000)**

At 31 December 2015 and 2014, the main temporary differences arose from period depreciation and amortisation charges, among other items.

The foregoing tables are presented in accordance with the model required by the 2007 Spanish National Chart of Accounts. The amounts included under "Income and Expense Recognised Directly in Equity" relate to accounting adjustments that are not reflected in the tax loss for income tax purposes and, therefore, are not included in an effective manner in the tax loss for income tax purposes for the year.

The only significant tax effect recognised directly in equity at 31 December 2015 relates to the financial derivatives designated as hedging instruments, amounting to EUR 647,768 thousand (31 December 2014: EUR 677,497 thousand) (see Note 11.4).

The reconciliation of the income tax expense recognised by SAREB to the result of multiplying the applicable income tax rate by the total recognised income and expense before tax for 2015 and 2014 is as follows:

2015

	(Income)/Expense (thousands of euros)		
	Profit or loss	Amounts recognised directly in equity	Total recognised income and expense
Profit/(Loss) before tax	(472,336)	(183,141)	(655,477)
Permanent differences	(4,855)	-	(4,855)
Total	(477,191)	(183,141)	(660,332)
Income tax rate	28%	28%	28%
Total	(133,614)	(51,280)	(184,893)
Tax credits and tax relief	-	-	
(Profit)/Loss recognised for income tax purposes	**(133,614)**	**(51,280)**	**(184,894)**
Adjustments due to change in tax rate	14,316	5,494	19,810
Adjustment to income tax expense for previous year	2,542	-	2,542
Recognition of prior years' tax assets	(426,868)	-	(426,868)
Adjustment due to the limit on tax assets	70,957	-	70,957
Total (income)/expense recognised in profit or loss	**(472,667)**	**(45,786)**	**(518,453)**

2014

	(Income)/Expense (thousands of euros)		
	Profit or loss	Amounts recognised directly in equity	Total recognised income and expense
Profit/(Loss) before tax	(1,000,604)	(2,468,619)	(3,249,897)
Permanent differences	(87,629)	-	(87,629)
Total	(1,088,233)	(2,468,619)	(3,337,526)
Income tax rate	30%	30%	30%
Total	(326,470)	(740,586)	(1,001,258)
Tax credits and tax relief	-	-	-
(Profit)/Loss recognised for income tax purposes	**(326,470)**	**(740,586)**	**(1,001,258)**
Adjustments due to change in tax rate	66,573	123,431	190,004
Adjustment to income tax expense for previous year	(2,520)	-	(2,520)
Adjustment due to the limit on tax assets	65,798	-	65,798
Total (income)/expense recognised in profit or loss	**(196,619)**	**(617,155)**	**(813,774)**

Due to the restatement made as a result of the entry into force of Bank of Spain Circular 5/2015 (see Note 2.5), the Company assessed the recognition in 2014 of the tax assets generated in the restated year considering a time horizon of ten years to be applicable, in accordance with the accounting legislation in force in 2014. Taking into account this time horizon, the Company did not recognise additional tax assets as a result of the restatement of 2014.

On 9 February 2016, the ICAC published the Resolution establishing the rules for the recognition, measurement and preparation of financial statements to account for income tax, which is prospectively applicable for reporting periods beginning on or after 1 January 2015. This Resolution establishes the possibility of considering a time horizon longer than ten years in certain circumstances. Consequently, in

2015 the Company reassessed the recognition of tax assets pursuant to this Resolution, and recognised EUR 472,667 thousand of deferred tax assets generated in prior years, as a result mainly of the impairment recognised on the Financial Asset Unit. This recognition was made taking into account the time horizon envisaged in the Company's business plan, which provides for the generation of future taxable profits enabling the tax assets recognised to be offset.

In addition, it should be noted that the Company requested a ruling from the Spanish Directorate-General of Taxes in respect of certain tax matters, including the tax treatment of impairment losses recognised and calculated in accordance with Bank of Spain Circular 5/2015. In this regard, the response received from the Directorate-General of Taxes establishes that such impairment losses are considered deductible for income tax purposes.

The most significant changes introduced by Spanish Income Tax Law 27/2014, which came into force in 2014, were as follows:

- Tax losses may be offset over an unlimited period of time, compared to 18 years under the previous legislation. The limit for the offset of tax losses in 2015 is based on revenue: 60% of the tax base for 2016 and 70% of the tax base for subsequent years. This limit does not apply to the year in which a company is dissolved.

- The tax rate is reduced from the current rate of 30% to 28% for 2015 and to 25% for subsequent years.

Accordingly, the Company adjusted the valuation of the deferred tax assets and liabilities recognised at 31 December 2015 and 2014 at the tax rates at which it expects them to be recovered. The impact of the remeasurement of the deferred tax assets at the corresponding tax rates was an expense of EUR 16,489 thousand and EUR 66,573 thousand, respectively, which was recognised under "Income Tax" in the accompanying statement of profit or loss.

The reconciliation of the tax loss to net income tax payable for 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Tax loss	**(2,526,794)**	**(596,000)**
Tax loss by tax rate (28%/30%)	(707,502)	(178,800)
Tax credits and tax relief	-	-
Tax withholdings and prepayments	(3,950)	(9,458)
Net tax (refundable) / payable	**(3,950)**	**(9,458)**

The detail of the tax loss carryforwards recognised at 31 December 2015 and 2014 is as follows:

2015

	Thousands of euros	At 25%	Amount recognised in 2015
Tax loss carryforwards			
2012	200	50	50
2013	106,561	26,640	26,640
2014	535,424	133,856	133,856
2015	2,526,794	631,698	560,742
Total	**3,168,979**	**792,244**	**721,288**

The income tax expense accrued for 2015 and 2014 related in full to continuing operations.

15.3 Deferred tax assets

The detail of “Deferred Tax Assets” at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Tax assets		
- Tax loss carryforwards	721,288	175,690
- Tax credit carryforwards	440	-
Temporary differences - 2013	44,551	96,791
Temporary differences - 2014	44,073	68,850
Temporary differences - 2015	3,602	-
Fair value measurement of derivatives	647,768	677,498
Other		17
Total deferred tax assets	**1,461,722**	**1,018,846**

The deferred tax assets and the tax loss carryforwards were recognised on the balance sheet because the Company’s directors considered 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 review by the tax authorities

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired. At 31 December 2015, all taxes applicable to the Company that it had filed since its incorporation were open for review by the tax authorities. As a result of, among other factors, varying interpretations of current legislation, additional liabilities may arise as a result of a tax audit. In any case, the directors consider that these liabilities, should they arise, would not have a material effect on the financial statements.

At 2015 year-end, the Company did not have any tax audits in progress.

16. Income and expenses

16.1 Revenue

The detail, by line of business, of “Revenue” at 2015 and 2014 year-end is as follows:

	Thousands of euros	
	2015	2014
Income from sales of loans and credit facilities (Note 7.1.1)	395,848	853,357
Finance income from loans and credit facilities (Note 7.1.1)	588,706	722,230
Income from sales of investment property (Note 5)	769,076	1,068,065
Income from sales of inventories	14,086	6,103
Rental income (Note 6)	42,011	49,436
Remuneration of Bank Asset Fund (FAB) securities (Note 7.2.2)	9,496	9,113
Recoveries of gains on loans and credit facilities (Note 7.1.1)	382,776	604,531
Total	**2,201,999**	**3,312,835**

The Company obtained all its revenue in Spain.

16.2 Cost of sales and changes in inventories

The detail of these line items in the accompanying statement of profit or loss is as follows:

	Thousands of euros	
	2015	2014
Changes in inventories	(10,327)	(4,806)
Total changes in inventories	**(10,327)**	**(4,806)**
Cost of investment property (Note 5)	(606,554)	(850,162)
Cost of sales of financial assets (Note 7.1.1)	(369,728)	(730,561)
Total cost of sales	**(976,282)**	**(1,580,723)**

16.3 Staff costs

The detail of "Staff Costs" in 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Wages and salaries	31,773	23,248
Employee benefit costs	5,201	4,067
Total	**36,974**	**27,315**

The average number of employees in 2015 and 2014, by professional category, was as follows:

	Number of employees	
	2015	2014
Executives	61	50
Senior and line personnel	198	141
Clerical and sales staff	66	53
Total	**325**	**244**

The distribution of employees by gender and by professional category at 31 December 2015 and 2014 was as follows:

	2015			2014		
	Women	Men	Number of employees	Women	Men	Number of employees
Executives	14	52	66	14	50	64
Senior and line personnel	81	133	214	65	117	182
Clerical and sales staff	46	26	72	41	27	68
Total	**141**	**211**	**352**	**120**	**194**	**314**

In 2015 and 2014 the Company employed one person with a disability greater than 33%.

16.4 Outside services

The detail of “Outside Services” in 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Management fees and asset sale commissions (Note 1)	221,537	207,818
Rent and royalties	9,048	1,380
Repair and upkeep expenses	54,023	53,887
Independent professional services	79,091	58,164
Insurance premiums	2,625	3,187
Advertising, publicity and public relations	688	788
Banking services	392	97
Utilities	6,962	4,338
Other services	920	3,500
Total outside services	**375,286**	**333,159**
Total taxes other than income tax	**192,902**	**122,040**

In 2015 "Repair and Upkeep Expenses" includes mainly the expenses of community associations relating to the property assets, amounting to EUR 45,485 thousand (2014: EUR 49,169 thousand). "Taxes Other than Income Tax" includes mainly the cost of property tax on the Company's property assets, and non-deductible input VAT borne by it in 2015 and 2014.

The fees paid to PricewaterhouseCoopers Auditores, S.L. for the audit of the Company's separate financial statements for 2015 amounted to EUR 1,135 thousand (2014: EUR 780 thousand). In 2015 fees amounting to EUR 95 thousand were paid to other companies using the PricewaterhouseCoopers brand for other services (2014: EUR 174 thousand).

16.5 Finance costs - On debts to third parties

The detail of “Finance Costs - On Debts to Third Parties” in the statements of profit or loss for 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Interest on debt instruments and other marketable securities (Note 13.2)	398,255	1,019,555
Interest on financial derivatives (Note 13.3)	302,058	113,241
Other finance costs	24,141	7,588
Total	**724,454**	**1,140,384**

"Other Finance Costs" includes mainly the finance charge arising from the funding granted in 2015 by the investor of FAB Bull 2013 amounting to EUR 7,744 thousand (2014: EUR 7,095 thousand), which was not derecognised from the accompanying balance sheet (see Note 4.6.1), and the effect of discounting the Íbero guarantees amounting to EUR 16,283 thousand (see Note 13.3).

16.6 Finance income

The detail of "Finance Income" in the statements of profit or loss for 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Interest on cash and cash equivalents (Note 10)	11,868	33,292
Proceeds from "Other Financial Assets" (Note 7.1.2)	741	3,325
Other finance income	106	5,664
Total	**12,715**	**42,281**

At 31 December 2014, "Other Finance Income" included, mainly, EUR 5,020 thousand as a result of the below-par redemption of senior debt by the Company (see Note 13.4).

17. Related party transactions and balances and legal information relating to the Board of Directors

17.1 Related party transactions

The detail of the balances held and the transactions performed by SAREB with related parties recognised in these financial statements in 2015 and 2014 is as follows:

2015

	Thousands of euros				
	FROB and entities under FROB's control	Significant shareholders	Bank asset funds	Board of Directors (*)	Senior executives (*)
Assets:					
Credit facilities and loans	319,288	-	-	-	-
Non-current investments in Group companies and associates	-	-	30,335	-	-
Current investments in Group companies and associates	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-
Liabilities:					
Non-current debt instruments and other marketable securities	23,660,263	-	-	-	-
Current debt instruments and other marketable securities	1,169,937	-	-	-	-
Income and expense items:	-	-	-	-	-
Income from sales of investment property	-	-	45,591	-	-
Remuneration of Bank Asset Fund (FAB) securities	-	-	9,113	-	-
Other operating expenses	(9,081)	-	-	(1,191)	(3,833)
Impairment of financial instruments	-	-	(7,593)	-	-
Finance income	-	-	-	-	-
Finance costs	(227,451)	-	(7,095)	-	-
Contingent liabilities:					-
Guarantees provided	-	-	-	-	-

(*) These amounts relate to the remuneration received by the Company's directors and senior executives in 2015 (see Note 17.3).

2014

	Thousands of euros				
	FROB and entities under FROB's control	Significant shareholders	Bank asset funds	Board of Directors (*)	Senior executives (*)
Assets:					
Credit facilities and loans	583,055	-	-	-	-
Non-current investments in Group companies and associates	-	-	30,335	-	-
Current investments in Group companies and associates	-	-	-	-	-
Cash and cash equivalents	253,928	-	-	-	-
Liabilities:					
Non-current debt instruments and other marketable securities	31,643,700	-	-	-	-
Current debt instruments and other marketable securities	-	-	-	-	-
Income and expense items:					
Income from sales of investment property	-	-	100,685	-	-
Remuneration of Bank Asset Fund (FAB) securities	-	-	9,113	-	-
Other operating expenses	(125,126)	-	-	(1,527)	(2,187)
Impairment of financial instruments	-	-	(7,593)	-	-
Finance income	2,481	-	-	-	-
Finance costs	(708,379)	-	-	-	-
Contingent liabilities:					
Guarantees provided	-	-	-	-	-

(*) These amounts relate to the remuneration received by the Company's directors and senior executives in 2014 (see Note 17.3).

17.2 Disclosure of directors' ownership interests and activities

With regard to conflicts of interest, pursuant to Article 22 of the Board Regulations and the Conflict of Interest and Related Party Transactions Policy, the directors are obliged to notify the Board of any direct or indirect conflict of interest with the interests of the Company in which they may be involved. Pursuant to the procedure established in the Conflict of Interest and Related Party Transactions Policy, once the Company becomes aware of the existence of a conflict of interest, either on its own or through notification by the director, it shall not provide information about the transaction in question to the director, and the latter shall not take part in the debate, or vote, on the matter giving rise to the conflict of interest.

As part of their duties to avoid conflicts of interest with the Company's interests, the directors who held positions on the Board of Directors in the year complied with the obligations set forth in Article 228 of the Consolidated Spanish Limited Liability Companies Law and in the Company's Conflict of Interest and Related Party Transactions Policy. Furthermore, the directors and persons related to them did not become involved in the cases of conflict of interest provided for in Article 229 of the aforementioned law.

17.3 Remuneration and other benefits of directors and senior executives

For the purpose of preparing these financial statements, 17 persons were considered senior executives (31 December 2014: 12 persons) and were classified as key personnel for SAREB.

The salaries, attendance fees and remuneration of all kinds earned in 2015 by the members of the Company's governing bodies and senior executives amounted to EUR 5,024 thousand (2014: EUR 3,714 thousand), the detail being as follows:

2015

	Thousands of euros		
	Board of directors	Senior executives	Total
Fixed remuneration	1,135 (1)	3,183 (3)	4,318
Variable remuneration	56 (2)	367 (4)	423
Loyalty plan	-	283 (5)	283
Total	**1,191**	**3,833** (6)	**5,024**

(1) Includes the fixed remuneration at 31 December 2015 of the Company's executive director, which amounts to EUR 385 thousand.

In addition to the fixed remuneration included in this section, payments were made as a result of the changes that took place on the Board in 2015, the detail being as follows:

In the first quarter of 2015, the former executive chairwoman of SAREB submitted her resignation, having received a total of EUR 28 thousand for services rendered until that date. In March, an independent director submitted his resignation, having received EUR 28 thousand for services rendered until that date.

In May an independent director and proprietary director submitted their resignations, having received EUR 48 thousand and EUR 38 thousand, respectively, and in October a proprietary director submitted his resignation, having received EUR 78 thousand.

(2) Including the two-thirds of variable remuneration for 2014 received in 2015 (one third) and in January 2016 (another third), with the remaining third to be received in the first quarter of 2017.

The executive director earned EUR 75 thousand in variable remuneration in 2015, the payment of which, pursuant to the Remuneration Policy for the members of SAREB's Board of Directors, is deferred over three years.

(3) This section includes aggregate information for 17 members of SAREB's senior management at 31 December 2015.

(4) Including the variable remuneration for 2014 received in 2015; five of the 17 members of senior management only received two-thirds of this variable remuneration because it was deferred; the remaining third is to be received in the first quarter of 2017.

The senior executives earned an aggregate total amount of EUR 560 thousand in variable remuneration in 2015, the payment of which, for those to whom it is applicable, is deferred over three years.

(5) Only nine of the 17 members of senior management received loyalty plan payments in January 2015.

(6) In addition to this remuneration, in the first half of 2015 two members of senior management ceased to perform their duties, having received an aggregate total amount of EUR 225 thousand for services rendered until their respective terminations.

2014

	Thousands of euros		
	Board of directors (*)	Senior executives (**)	Total
Fixed remuneration	1,527	2,187	3,714
Total	**1,527**	**2,187**	**3,714**

(*) Including the fixed remuneration, amounting to EUR 613 thousand, of the two executives who, at 31 December 2014, were members of the Board of Directors. In the first quarter of 2014, the Managing Director of SAREB submitted his resignation, having received EUR 64 thousand in total for services rendered until that date. A non-executive proprietary director submitted his resignation in March 2014, having received EUR 21 thousand for services rendered until that date.

One of the executive directors earned EUR 83 thousand in variable remuneration in 2014, the payment of which, pursuant to the Remuneration Policy for the members of SAREB's Board of Directors, is deferred over three years. The other executive director waived receipt of his variable remuneration for 2014.

(**) This section includes aggregate information for SAREB's senior management at 31 December 2014. In 2014, two members of senior management ceased to perform their duties, having received an aggregate total amount of EUR 253 thousand for services rendered until their respective resignations.

The senior executives earned an aggregate total amount of EUR 473 thousand in variable remuneration in 2014, the payment of which, pursuant to the Remuneration Policy, is deferred over three years.

The Company has taken out third-party liability insurance for directors and senior executives. Pursuant to current tax legislation, SAREB stated the cost of the premium for each director as remuneration. However, the cost of this premium was passed on to each director and senior executive as a reduction to their monetary remuneration and, therefore, it did not represent remuneration in excess of the total remuneration approved at SAREB's 2015 Annual General Meeting.

At 31 December 2015 and 2014, the Company had not granted to the executive directors or senior executives any guarantee or golden parachute clauses in the event of termination of the employment contract caused by changes in control of the Company or by events depending in full or in part on the executive's volition.

The Company does not have any pension obligations to the directors or senior executives.

The Company has granted no advances, loans or guarantees to the members of the Board of Directors and has made no share-based payments to any director or senior executive.

18. Guarantee commitments to third parties and other contingent liabilities

At 31 December 2015 and 2014, the Company had provided the following guarantees to third parties:

	Thousands of euros	
	2015	2014
For outstanding obligations relating to land, urban developments and other items	18,193	10,505
Total	**18,193**	**10,505**

The Company's directors do not expect any additional liabilities to arise for the Company in connection with these guarantees.

19. Events after the reporting period

On 28 February 2016, the Company simultaneously carried out a partial redemption and novation of the maturity of the outstanding senior debt issued in 2013 to acquire the Group 2 assets.

	2016 beginning balance	Redemption	Novation	Outstanding amount	Maturity	New ISIN following novation
SAREB/VAR BO 20150228 2015-2	6,103,700	382,000	-	5,721,700	28/02/17	N/A
SAREB/VAR BO 20150228 2015-1	4,084,500	-	4,084,500	4,084,500	28/02/17	ES0352506143
SAREB/VAR BO 20160228 2013-3	2,537,900	-	2,537,900	2,537,900	28/02/19	ES0352506101
Total Group 2	**12,726,100**	**382,000**	**6,622,400**	**12,344,100**		

20. Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company in Spain (see Note 2.1). Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

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

Directors' Report for the
year ended 31 December 2015

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

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

Directors' Report for the
year ended 31 December 2015

1. Highlights of 2015

Prior years

The extent of the original challenge facing SAREB at the end of 2012 was borne out by the size of the figures involved: EUR 50,781 million in transferred assets in the form of almost 200,000 property and financial assets, over 18,000 borrowers, and more than 400,000 properties securing loans and credit facilities.

This challenge was even more manifest in view of the need to create a human structure (3 employees at the beginning, 100 in 2013 and 352 at present) and a technical structure to navigate the difficulties arising from the technological and business dependence on the banks transferring assets, even more so since they differed greatly from each other and showed signs of weakness as a result of their own restructuring processes. As such, the information they provided on the assets was at times limited and their asset management and sales efforts were not always sufficiently active.

In this context, in 2013 SAREB had to work on two fronts at the same time:

- Firstly, to build its own internal structure, forming teams and creating procedures to achieve progress in the orderly process to liquidate its assets; and

- At the same time, to address its main mission, which is none other than to manage and sell the properties, loans and credit facilities acquired, thereby enabling the transferor institutions not only to boost their commercial activity but also to offset their budgetary shortfalls, by actively positioning itself in the wholesale markets through portfolio sales.

In 2014, while certain shortcomings arising from the urgency in incorporating the company still remain, the efforts made to build the company and gain more detailed knowledge of the assets are beginning to produce results. These efforts were based on unifying the criteria for optimising the centralised management of the assets received, focusing the business on disposing of assets with a degree of maturity considered ideal for this purpose, strengthening the Company's logistical aspects and rolling out the implementation of the technical, legal and human infrastructure required for carrying on the Company's activities.

In this regard, the Company's management structures were consolidated, with a clearer definition of roles and responsibilities in order to improve its ability to achieve its business objectives; the Company's policy map in the strategic, management, business and business support areas was filled in further; further progress was made in improving information and knowledge of the assets under management, enabling the Company to be more precise in the definition of divestment strategies and channels, and in the related management approaches.

2014 in particular saw notable improvement in sales growth, which the Company strove so hard to achieve in 2013; certain business lines were strengthened and streamlined and, above all, SAREB's position as a significant actor in the institutional market was consolidated, thereby contributing significantly to growth in this segment.

However, at a strategic level, 2014 was marked by the launch of the Íbero project, with the Company having become aware of the difficulties of maintaining the administration and sales arrangement with the transferor institutions once the agreements matured at the end of the year, in the second quarter of 2014. The main purpose of this project was none other than to move on to an externalised management model that is professional and vocational and also to achieve a clearer identification and alignment of objectives among the parties, based on the principles of wilfulness, specialised management and commitment to service. This process concluded at the end of the year with the allocation of the various portfolios to four servicers, as described in Note 1 to the financial statements - servicers that in 2015 performed the operational and management migration processes.

In parallel to the performance of the tender process, SAREB commenced a process of re-engineering its internal procedures structured around complex information projects (Colabora, Medea, Alejandría, Carcasa, etc.) which, having commenced at the end of 2014, have in 2015 required great effort by the Company so as to be fully operational in 2016, when the servicers will then have complete control over the assets they received in the migration processes in 2015.
These information projects form a structure that provides greater and more direct control by SAREB of the activities carried out by the new servicers.

This process was implemented without neglecting the Company's main task, which is to maximise the value of its assets and their orderly liquidation, and to meet the business targets set forth in its business plan.

2015

For SAREB, once the Íbero project was completed, 2015 was marked by the operational migrations from the transferor institutions to the new servicers. The complexity of the process (14 migrations) made it a challenge for the Company, which it resolved satisfactorily, having completed all the planned migrations except for two, which will be performed in the first half of 2016. This challenge is even greater considering that in many cases the same transferor institutions were the result of previous mergers whose operational integration had not always been completed to satisfaction.

The transferor-to-servicer transition, with a major focus on technical issues, brought with it a certain waning of the business to the extent that the transferor institutions cut back on their marketing efforts in view of the upcoming cessation of management, and the servicers took time to put into place an efficient commercial management of the portfolios received.

As regards the gradual incorporation of the servicers, SAREB reconfigured its internal organisation to meet the needs arising from the management model sought to be implemented with them. It does so using a dual approach:

- Operational aspects:
    - Specialised units were created to support the operational migration between transferors and servicers.
    - Specific units were created at each servicer to coordinate steps to be taken by both parties to achieve Period Objective I and in which the operational and information connection arranged in the agreements will take place.
- Commercial aspects:
    - SAREB centrally reorganised its commercial areas with a dual product and servicer parameter. The former manages, guides and drives the various lines of business for all agents; the latter manages the performance at each servicer of the business proposals and budgets.
    - From this central position, the commercial links enabling not only control over the servicers but also the growth of their sales activity are established.

Commencing at the end of 2014, in 2015 several technological projects were in progress under the "Híspalis" name that aimed to complete a proprietary technological infrastructure to facilitate interaction with the new servicers' systems. These projects include, most notably:

- Medea: generation of a data warehouse at SAREB containing both the inventory of assets with regard to their master data and other business data required, and any economic events occurring in relation to them.

- Alejandría: a document manager associated with the assets, and to their static and dynamic data.

- Colabora: a set of tools to channel the work flows (authorisations, communications, service levels, etc.) and the interconnection between SAREB's systems and those of the servicers in order to ensure agile, systematic communication among the parties.

- Carcasa: construction at SAREB, and subsequent connection with the servicers, of a proprietary, independent accounting system for property assets.

These projects are expected to be operational in 2016, in compliance with the Period Objective I phase and, hence, with the systems' aforementioned operational interaction.

Given the importance of the management of these technological projects, the Company redoubled its efforts in this connection in order to improve the information on, and status of, its assets (legal situation, ownership, characteristics, location, etc.), since this information is necessary for asset management and to focus the marketing of the assets in order to meet the dual objective of generating funds and sustaining margins. As disclosed in the notes to the financial statements, SAREB has improved the quality of information and gained a very high degree of knowledge, similar to that of the immediate manager itself, of more than half of its assets. The effort is remarkable, as it covers more than 300 thousand assets or collateral identified with very high-quality information. In this improvement the entire organisation has actively participated under the coordination of a group created for that purpose within the Company - a group that continues its efforts so as to complete the entire portfolio before the end of 2016.

To this end, in addition to specific processes of massive filtering, the legal and court-related filtering working lines have continued to be strengthened, the monitoring of the court proceedings in progress in relation to the foreclosure of assets that extends and makes more precise the information underlying the loans and related collateral has been extended and improvements have been made to the systems monitoring the information on the prices and volumes of transactions performed by the Company and third parties, in order to evaluate market trends and apply intelligence measures enabling it to offer more competitive prices.

In terms of lines of business, a suite of high-value proactive actions has been undertaken, following the guidelines provided in the Business Plan, under the direction of the Business-Products and Services area and in cooperation with servicers, in relation to:

- Development of assets under construction that were received as property assets.

- Encouragement, from the borrower's balance sheet, of the development and sale of the assets under construction that represent the guarantee for the loans in the Company's portfolio.

- Urban transformation of land.

- Maximisation of the profitability of the commercial assets and those residential assets held by the Company that do not have immediate sale prospects.

Lastly, of particular relevance to the life of the Company was the publication in October 2015 of Bank of Spain Circular 5/2015. Bank of Spain Circular 5/2015 establishes the central methodological lines around which the valuation of SAREB's assets must revolve. The main issues are referenced in the various notes to the financial statements, although note should be made of the principle of offsetting gains and losses within the two units that are established for practical purposes - the property assets unit and the financial assets unit, with the nexus of value being the mortgage value relating to valuations performed using ECO appraisals.

The first and obvious effect of Bank of Spain Circular 5/2015 is that, since it is the first time the methodology is applied, SAREB had to recognise substantial impairment losses on financial assets - impairment losses that most certainly had been latent since the very date of transfer of the assets to SAREB, taking into account the fact that the property market has seen a slight uptick in the last two years. For the Company, this first-time application entailed (in spite of its following of the Bank of Spain's write-down recommendations in prior years) the consumption of all of its initial equity and the commencement of the process to convert a highly substantial amount of its subordinated debt into capital.

Also, Bank of Spain Circular 5/2015 has framed an accounting regime that puts the focus of future results not only on the ability of our sales network to operate optimally in the market, but also on the performance of prices in the property market. Furthermore, it should be recalled that the Company bears substantial burdens: the finance costs and the costs of maintaining the assets that it owns.

In this regard, Bank of Spain Circular 5/2015 changed, through accounting legislation, the management rules of the Company, since the significant effect on equity of its first-time application is combined with the introduction of severe volatility in its balance sheet and statement of profit or loss and, therefore, its assets must be reassessed regularly.

The following items of the 2015 financial statements are worthy of note:

- profit for the year after tax and impairment stood at EUR 0.3 million, up from EUR 804 million of losses in restated 2014. It should be noted that the change between the two years is due mainly to the substantial impairment losses recognised as a result of the restatement of 2014.
- In application of the valuation methodology established by Bank of Spain Circular 5/2015, the Company recognised impairment of EUR 3,012 million at its Financial Asset Unit, of which only EUR 337 million arose in 2015, since the remainder arose in prior years, especially in the year in which it began its activities.
- The recognition of this impairment, taking into account the tax effects in 2015, gave rise to accumulated losses of EUR 2,418 million and, accordingly, an equity deficit of EUR 1,218 million arose, although the Company has EUR 3,600 million of convertible subordinated debt that can be used to restore its equity position.
- As regards ordinary business data, 2015 was marked by not only the technical challenge but also the business difficulties arising from the migration processes between its former transferors and the new servicers.
- Accordingly, it is also important to note that the Company's revenue significantly diminished from EUR 3,173 million (before restatement) in 2014 to EUR 2,202 million in 2015. This decrease is explained by the Company's reduced recourse to sales to institutional wholesalers whose profitability is lower and to the process of replacing the former transferors with the new servicers, with the consequent temporary brake on ordinary sales activities.
- The following aspects in relation to profit from operations are also noteworthy:
    - Profit from operations before impairment amounted to EUR 579 million, which fell to EUR 237 million subsequent to the recognition of impairment of EUR 337 million. These figures are significantly lower than in 2014, in which profit from operations before impairment amounted to EUR 1,170 million, which, after recognising EUR 1,067 million of impairment as a result of the restatement, still allowed for a slight surplus of EUR 94 million.

- Sales of properties amounting to EUR 769 million, with a margin of EUR 162 million (21.1% on average). While maintaining a level of profitability equal to that of 2014, income and the margin fell by 24%.

- As regards the sale of financial assets, the Company saw its level of income and margins significantly reduced by 27% as a result of the limited contribution of its wholesale channels and the time required for the acquisition of control by the new servicers.

- Finance income totalling EUR 970 million, of which EUR 588 million (2014: EUR 722 million) related to the interest accrued on loans and credit facilities and EUR 382 million (2014: EUR 604 million) related to recoveries, through the collection of nominal amounts on loans and credit facilities acquired at a discount.

- Overhead costs (operating expenses, depreciation and amortisation and staff costs) amounted to EUR 688 million (2014: EUR 558 million), most of which related to building maintenance expenses, local taxes (property tax), management fees and commissions on asset sales and to the tax-related costs arising from the foreclosure and dation in payment processes that SAREB cannot pass on. This item mostly explains the increase experienced.

With regard to cash generation, in its third year in existence, the Company managed to generate a sufficient cash surplus to repay EUR 1,976 million in addition to the EUR 2,925 million paid with cash from the previous year. This was in addition to the Company's overhead costs, the asset maintenance expenses, the management fees, sales commissions and, in particular, somewhat more than EUR 700 million in finance charges relating to the senior debt and its hedging derivatives.

In relation to the reduction in senior debt, the main aspect of the Company's activity, in addition to the ordinary redemptions, bonds amounting to EUR 75 million were cancelled in 2014 as a result of the corrections to the transfer process. As a result, the Company reduced the volume of issued senior debt in 2015 by EUR 2,051 million in 2015. Together with the EUR 5,254.5 million from the previous years, this reduction in the original debt is EUR 7,305 million in total, i.e. 14.5%, which would increase to 15.2% were the redemption of EUR 382 million performed in February 2016 with a charge to the funds generated in 2014 taken into account.

Lastly, it should be noted that the average period of payment to suppliers in 2015 was 50 days, as detailed in Note 14.

2. Outlook for the Company

The Company faces 2016 as a year of consolidation of its new internal and external structure with the full operation of the new servicers -given the completion of the migration processes- so that the servicers can devote greater efforts to their sales tasks. This commercial management will be guided by obtaining margins that make it possible to support the Company's structural costs, while generating sufficient cash resources to gradually repay its debt.

Another strategic goal for the Company is to strengthen its corporate infrastructure in order to streamline its activities and optimise its efforts in relation to management and information, thereby enabling it to achieve greater operating efficiency. To this end, the organisation is configured under a dynamic principle of change, improvement and adaptation, with the necessary reorganisations and restructurings of the various areas and extension of the coordination mechanisms among them, while continuing to increase functional specialisation.

The improvement of information on assets and the continuation of the projects begun in 2015 was also prioritised, with the goal of completing the identification and provision of additional information on all its assets, particularly its collateral. As a result of this range of improvements, there is more information, which is more granular and of a higher quality and enables the Company in 2016 to better identify assets for either sale or property development. This information was also used to carry out the annual update of the Business Plan, which is a contractual requirement. This plan includes the improvements to the business model that are required in order to ensure that the Company meets the objectives for which it was created.

The aforementioned Business Plan delves into the lines of value creation drawn in 2015, with special emphasis paid to the early marketing of assets with a limited range vis-à-vis their price expectations and to value created by improving the possible marketing conditions of those assets in which price growth is forecast. This all rests atop better and more in-depth knowledge of our portfolio of assets, as mentioned above.

The Company's Business Plan has a time horizon encompassing the whole lifetime of the Company and is updated each year. This plan is based on the Company's cash flow projections arising from the orderly disposal of the assets according to the amount expected to be recovered on each asset at the disposal date.

In relation to the cash flows, the 2016 Business Plan includes in its projections the effects on equity that might arise from the impact for accounting purposes of impairment of the Company's assets. This means that any such losses are included in the cash flows at the disposal date. Accordingly, the principle of offsetting the value of assets and their value over a long-term time horizon is applied to the Business Plan. In this regard the write-downs do not have a material impact on the expected cash flows or on the return for shareholders over the life of the Company as a whole.

With regard to the market performance forecast for 2016, it seems evident that, although the property market is highly fragmented, signs of a slight recovery in residential assets are being observed in general, most notably in certain sub-markets such as the provinces of Madrid, Barcelona and the Mediterranean coastline.

For a large part of 2015 the return of confidence to the Spanish market, and the monetary environment, encouraged the appearance of new players in the property market with a strong investment appetite. This has led to a market rally and higher levels of competition on the demand side. However, international macroeconomic developments, together with political uncertainty in Spain, led at the end of the year to a certain holding pattern in decision-making by these investors, which, for now, is affecting domestic acquirers much less.

However, the volume of transactions in the domestic end-customer market is expected to grow substantially on last year. Prices of housing (our main property asset and collateral) are expected to stabilise with a slight upward trend. In this regard, modest growth in prices and transactions is starting to be seen in certain geographic areas of Spain (Andalusia, Catalonia, Valencia, Murcia and Madrid), which will enable the Company to focus its sales efforts in these areas.

Overall, the consolidation of positive expectations in the macroeconomic environment, the infrastructure that has been created, the strong operational capabilities of our retail channels and, above all, the commercial dynamism of the servicers (once they have taken effective control of the migrated portfolios) should enable us in 2016 to earn revenue at least similar to that of 2015, with an even more positive subsequent performance in terms of volume. Nevertheless, the Company aims to remain among the five largest housing property sellers in Spain.

3. Main risks inherent to the business, risk management and use of financial instruments

In addition to the financial risk factors and the related management described in Note 7 to the accompanying financial statements, the Company had initially identified the following risk factors that may potentially affect its ability to meet its objectives:

- Crisis in the property market (prices, occupancy and non-payment).
- Falling asset values, although the recent market trend points to stabilisation in the property market.
- The financial and liquidity crisis that may affect future purchasers of the Company's assets. This risk is mitigated by a certain macroeconomic improvement in the Spanish market, although the effects on purchasers are not yet very evident.
- Impact of possible changes in tax and legal legislation. In particular, it is important to note the potential impact of the implementation, through a Bank of Spain Circular, of certain accounting policies such as the entry into force of changes in autonomous community legislation governing the property market.
- While in the previous year the risks of changes in the Company's servicing model became evident, following the Íbero Project, the risks for the current year stem from the complexity of the migration from the previous servicers to the new servicers, the twofold dimension of the administrative challenge (whereby the new servicers have to take effective and technological control of the assets) and the business challenge. The latter refers to the fact that, for a certain amount of time, gaps may appear in sales management. As a result, turnover may be lower than in a situation in which effective control had been taken.

With regard to the use of interest rate hedging instruments, it is important to note that in 2014 the Company maintained the hedge structure that it had defined in 2013 for the purpose of reducing the potential negative impact of an upward interest rate trend that could jeopardise the viability of the Company.

4. Acquisition of treasury shares

At 31 December 2015, the Company did not own any treasury shares and did not carry out any transactions involving treasury shares in 2015.

5. Related party disclosures

Note 17 to the accompanying financial statements details the transactions with related parties. Most of these transactions relate to financing agreements and the related finance costs, and management fees and sales commissions accrued in the year, payable to the financial institutions entrusted with the management and sale of the Company's assets.

6. Events after the reporting period

No subsequent events took place other than those detailed in Note 19 to the financial statements.

7. Research and development

Due to the nature of its business activities, the Company did not incur any significant research and development expenditure in 2015.

In compliance with the provisions of Article 253 of the Spanish Limited Liability Companies Law and Article 37 of the Spanish Commercial Code, on 30 March 2016 the Board of Directors of Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A. authorised for issue the financial statements and the directors' report for the year ended 31 December 2015, which consist of the attached documents preceding this page.

Jaime Echegoyen Enríquez de la Orden Chairman	Rodolfo Martín Villa Director
Enric Rovira Masachs Director	Remigio Iglesias Surribas Director
Antonio Massanell Lavilla Director	José Ramón Montserrat Miró Director
Francisca Ortega Fernández-Agüero Director	Fondo de Reestructuración Ordenada Bancaria (represented by Jaime Ponce Huerta) Director

Rafael de Mena Arenas	Antonio Merino García
Director	Director
Emiliano López Atxurra	Isidoro Lora-Tamayo Rodríguez
Director	Director
José Poveda Díaz	Luis Ángel Sánchez-Merlo Ruíz
Director	Director