



**ANNUAL
ACTIVITY REPORT**

2020

 **Sareb**

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



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Sareb presents its Annual Activity Report corresponding to 2020 in line with the guidelines of the International Integrated Reporting Framework and the provisions of the Global Reporting Initiative Standards (GRI) for the preparation of sustainability reports.

This report, which includes the audited annual accounts, complies with the obligations on transparency required in Royal Decree 1559/2012, which establishes the Company's obligation to draw up six-monthly reports on its activity, giving systematic and easily understandable details of the essential data of Sareb's activity during the corresponding period, and also the degree of fulfilment of the objectives set out in its Business Plan and the reasons that explain any possible deviations from it.

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

The images used to illustrate this report show Sareb and Arqura Homes real estate. The building on the front page and on this page is the company's new headquarters, located in the district of Mirasierra in Madrid.



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

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

i Further information on the **2030 Agenda**



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1

Interview

Some thoughts on 2020 from
Jaime Echegoyen and Javier García del Río

5

Some thoughts on 2020 from Jaime Echegoyen and Javier García del Río



Jaime Echegoyen, *Chairman of Sareb*, analyses the company's performance last year and focuses the long-term vision on the challenges and opportunities for the organisation and its environment

How would you sum up 2020?

2020 was a challenging year for all companies and Sareb was no exception. Clearly, the pandemic took a negative toll on health and the economy, but it is safe to say it also strengthened us as a country and as individuals. Moreover, it has given companies the chance to step up to the plate and show our commitment to Society.

With regard to our business, we deployed the contingency plans we had prepared, which has enabled us to attain almost two-thirds of the activity level of 2019, mainly as a result of the impact of Covid-19. Our entire team of professionals has shown a commendable capacity to adapt and respond. And I am sure that what we have all learned will be extremely valuable going forward.

Also key has been the unwavering support of our shareholders, whose decisions have enabled the company to tackle this challenging situation in a manner consistent with its strategic and business model. This is especially difficult to achieve at times of widespread turmoil such as those we experienced, especially in March and April last year.

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

“

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“

We deployed the contingency plans we had prepared, which has enabled us to attain almost two-thirds of the level of activity of 2019.

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

We must bear in mind that a significant part of our mission, the first part of our first mandate, was completed in the first few years, when we helped restore the financial system and reactivate the real estate sector. Thanks to the massive asset purchases by Sareb in the first few months after its launch, nine banks¹ were able to stay in business and today they belong to restructured financial groups.

Now we confront the second and most difficult part of our mandate, namely to sell the portfolio while ensuring the lowest possible impact for taxpayers. And that is what we are working on now. I think that as soon as the economy begins to revitalise we will pick up a faster cruise speed. Over the years we have garnered considerable knowledge of our assets, we have developed individual segmentation strategies to increase the value of each of them and we have strived to find the best partners and suppliers to assist us on this journey. I am confident that all this will soon bear fruit.

Over the course of eight years of activity, we have slashed the size of Sareb's asset portfolio by almost 38% and we have repaid 31% of the debt guaranteed by the central Government. And I must emphasise again that these figures are driven by a magnificent team of professionals whose work has enabled us to sell more than 118,500 properties and generate income of almost €28,000M.

However, our work has gone further, since between 2013 and 2020 Sareb contributed more than €31,400M to the Spanish economy, according to estimates by consultancy firm EY. This contribution has, furthermore, impacted directly and indirectly on various agents in Society.

At the same time, Sareb has generated added value, perhaps more intangible, in terms of helping to reinvigorate the real estate market and contributing to the recovery of Spain's financial sector. And it is precisely this that shows that the professional management of complex asset portfolios through ad hoc companies is a reasonable alternative.



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¹ Reference to assigning banks that sold their assets to Sareb: BFA-Bankia, Catalunya Banc, NCG Banco, Banco Gallego, Banco de Valencia, BMN, Liberbank, Caja3 and CEISS).

What challenges does Sareb face in the next few years?

Aside from the usual challenges facing all companies in the course of their business, Sareb has a unique purpose that is limited in time and it must continue to prove that its professional and thorough management is the best way to ensure the least possible impact on the public coffers.

To meet this challenge, the professionals working at Sareb will require constant training, unflinching determination in executing the established strategy and the capacity to always find the partners and suppliers most closely aligned with the company's mandate. In short, the aim is to attain our objectives in an efficient, sustainable manner that enables Sareb to maintain the same pro-active approach that it has shown in becoming involved in social initiatives such as making homes available to vulnerable groups.



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Picture: Interior of Sareb headquarters, located in the district of Mirasierra in Madrid.



Javier García del Río,

managing director of Sareb, overviews the 2020 results and explains the strategic lines with a view to 2021

What were the key aspects of the business in 2020?

The year was dominated by the market situation that resulted from the pandemic, with two main effects: the disruption in the activity of selling to end consumers, especially in the second quarter, and the sharp contraction in the acquisition of non-performing loans (NPLs) by investors, which persisted throughout 2020.

In this context, Sareb decided to trim its revenue forecasts, primarily in the sale of NPLs, commercial assets and land, the buyers of which tend to be investors. In my view this has been a prudent response because, if we had opted to maintain a high volume of transactions the discounts required by the market in these types of assets would have destroyed value, an option that would have been worse than waiting for the market to bounce back in 2021.

Within the framework of this strategy, in 2020 we focused our efforts on selling homes to private individuals, end consumers, through marketing campaigns at retail channels, which generate the highest profitability for Sareb in price terms. We believe that selling our properties to the people who need them must be a core pillar of our business, not only because we obtain a higher return, but also because of the social value this unlocks. Furthermore, the residential market has shown greater dynamism than others. Evidence of this is that, despite the economic backdrop, Sareb's sales of homes to individuals in the second half of 2020 exceeded those of the same period in 2019. The same applies to land sales between July and December 2020, which outstripped those of the previous year.

At the same time, note that Covid-19 had a very moderate impact on the sales of new homes, which has encouraged us to continue investing in property developments, an activity that contributes significantly to boosting Sareb's capacity to repay government-backed debt, as compared with the alternative of selling land in its current condition. We conduct the bulk of this business in partnership with Arqura Homes, a developer of quality homes at competitive prices which are being very well received by families in all Spain's regions.



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Note that Covid-19 had a very moderate impact on the sales of new homes, which has encouraged us to continue investing in property developments.

Sareb has launched an Efficiency Plan to streamline its cost structure. What are the core pillars of this initiative?

In my view, companies need to seize the opportunities of anomalous periods like the one we have just experienced, shaped by the lockdown, to optimise our structure and business. And that is what we have done. Sareb must focus its expenditure on activities directly linked to increasing the value of its assets or to selling them. And we must constantly review all those opportunities that allow us to detect and reduce inefficiencies.

In this regard, our Efficiency Plan enabled us to save more than €40M in 2020 and its 12-month impact will be greater still in 2021, at around €70M. This Plan focuses on reducing expenses linked to the company's existence, in other words those that relate to its structure and the management of ownership of a very sizeable portfolio of assets. And, on the sales or conversion side (expenses linked to the activity), on trying to remove potential work overlaps between Sareb and its suppliers and avoid doing work that does not contribute high added value.

Considering the current economic and real estate context, what can we expect for Sareb's business in 2021?

Firstly, I think we are going to see a considerable recovery in revenue in 2021, while margins will fall because the profile of our sales will adapt to that of our portfolio, and we expect there will be sales not only of the best assets. Furthermore, over the course of the year land development will gain traction, with the completion of building work in progress and property development.

On the expense side, all expenses linked to the company's existence and the management of its asset portfolio will continue to ease.

Despite our efforts for spending 'austerity', in 2021 we will take special care to protect and nurture our relations with SMEs, micro-SMEs and self-employed professionals who are direct or indirect suppliers of Sareb. We have already launched initiatives to increase incentives for last-mile real estate agents with Sareb.



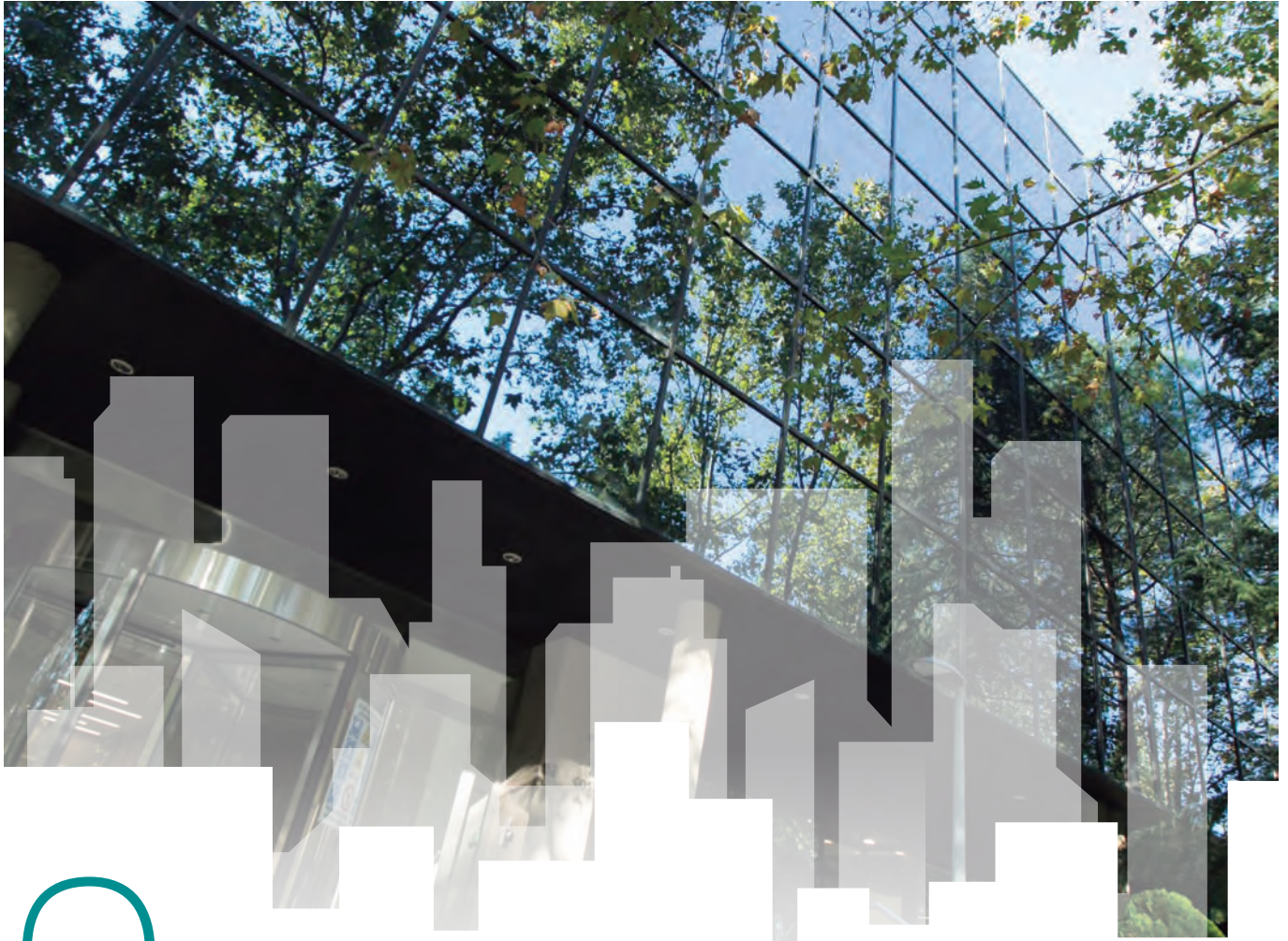
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What is Sareb?

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

This agreement established that a management company would be set up to which the properties awarded and developer loans would be transferred from banks undergoing difficulties due to their excessive exposure in the real estate sector.

A key aspect for the recovery of the financial sector created in 2012 in the context of the paralysis of the real estate market in Spain



Sareb's contribution to the United Nations 2030 Agenda

Sareb's primary goal is restoring the Spanish financial sector and helping in reactivating the real estate market, assuming part of the assets of banks experiencing difficulties when the company was created. It is thereby contributing to targets 8.10 and 17.13 of the United Nations 2030 Agenda, advocating: **To "strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all" and to "enhance global macroeconomic stability, including through policy coordination and policy coherence"**.

VISION

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

MISSION

To liquidate its assets in an orderly manner, optimising their value over a 15-year period. The company has to meet the commitments assumed with shareholders, investors and society as a whole.

VALUES

Integrity

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

Transparency

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

Civic engagement

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

What is Sareb?



Our milestones during this time

Balance of the period 2012-2020

2012

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

2013

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

2014

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

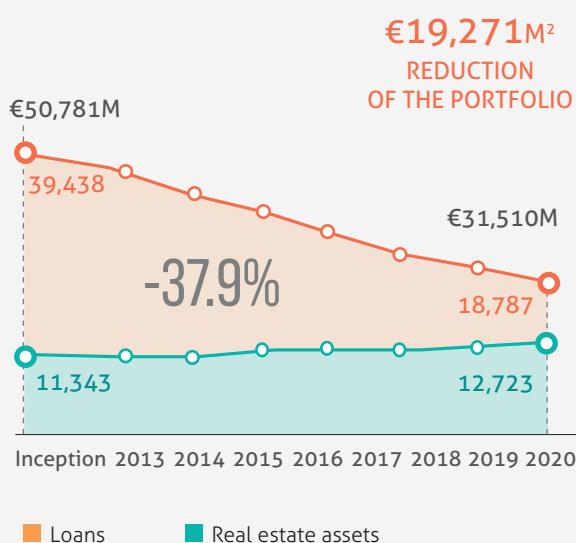
2015

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

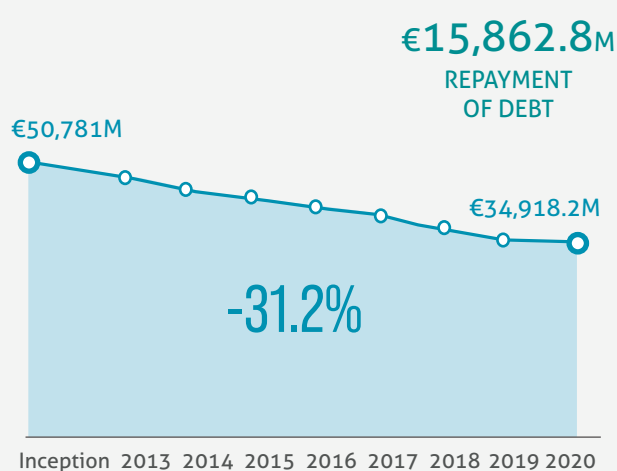
2016

- A further write-off to the Sareb portfolio with €2,044M in provisions³.
- The company approved the capitalising of €2,170M of subordinated debt to cover write-offs in the portfolio.

1. Evolution of the portfolio



2. Reduction of senior debt



² The portfolio figures are presented without impairment and with amortisation/depreciation.

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

2017

- Creation of the department for development, promotion and investment to enhance the value of the company's assets.
- Launching of the online channel for the sale of loans.
- Creation of the REIT, Témopre Properties, with a portfolio of 1,554 assets transferred by Sareb for the value of €175M.

2018

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

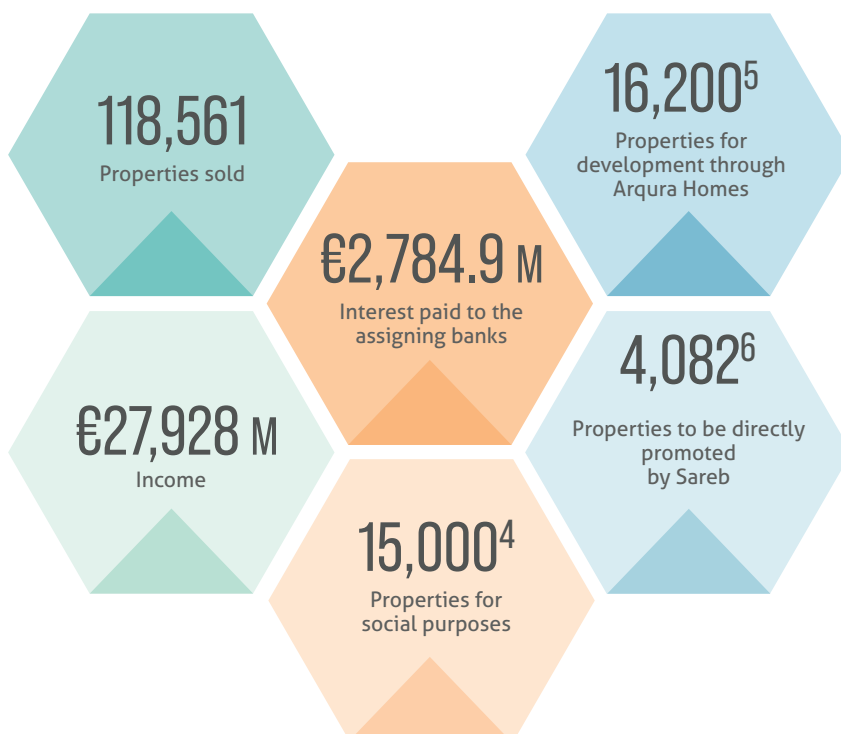
2019

- Sareb, in partnership with Värde Partners, launched Arqura Homes to promote 16,200 properties on Sareb-owned land.
- The company arranged the sale of 75% of Témopre Properties to TPG Real Estate Partners.
- The Board of Directors approved the Esparta Project, on the basis of developments in the company's operating model.
- Under the Esparta Project, Sareb chose Haya Real Estate for the commercial management of a portfolio of €8,400M.
- Sareb concluded the first sale to a Public Administration (Town Council of Badalona) of properties for social purposes.

2020

- The company launched a business initiative that includes a cautious sales strategy focussed on the retail market.
- Sareb puts an Efficiency Plan into effect to streamline its operating expenditure.
- In March the company increased its pool of social housing to 10,000 units. Months later, in February 2021, it went a step further and agreed with the government to release up to 15,000 homes for that purpose, after receiving the Board of Directors' approval.
- Review of the portfolio segmentation strategy to strengthen the commercial approach.
- The company focuses its income model on retail channels for selling homes to individuals and marketing land and commercial assets to the real estate industry.
- Appointment of Javier García del Río as CEO and, later, as managing director.
- Executive management waived receipt of the variable remuneration for 2019 and 2020, and a 15% reduction was approved in the basic salary of external directors and the chairman.
- Sareb has relocated its headquarters to a building of its own with the aim of saving more than €14M by 2027.
- At the same time as signing agreements for the temporary assignment of homes, the company completed home sales for social purposes in the Basque Country, Canary Islands, Madrid, Valencia and Castile and Leon regions.

Key figures since its inception



i Further information on the present-day Sareb



⁴ In February 2021, Sareb announced it was increasing its pool of social housing to 15,000 units.

⁵ The figure differs slightly from that published in previous reports, due to the developments in processes to approve investment proposals and because of adjustments to the real estate projects.

⁶ The figure differs slightly from that published in the Annual Activity Report for 2019 due to adjustments in building projects.

Our business model

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

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

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

MANAGEMENT AND SALE OF LOANS



Acceleration of the conversion process

- > Strategies for segmenting the portfolio and increasing the conversion of loan guarantees into real estate assets.



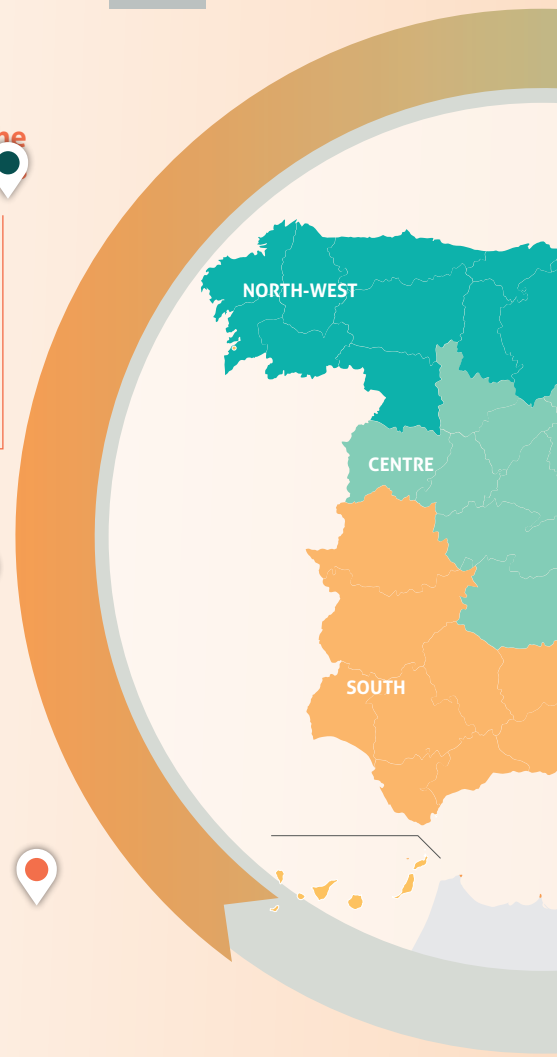
Proactive management of developer loans

- > Agreements with the developers for facilitating the sale of the properties given as collateral for their loans.



Sale of loans

- > Sale of debt positions to third parties.



PORTFOLIO
(€50,781M ORIGINALLY)

DIVESTMENT SINCE 2012 (-37.9%)

SENIOR DEBT
(€50,781M ORIGINALLY)

REDUCTION SINCE 2012 (31.2%)

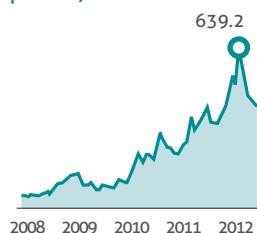
Evolution of the Spanish economy between 2008 and 2012

Year-on-year growth of GDP (%)



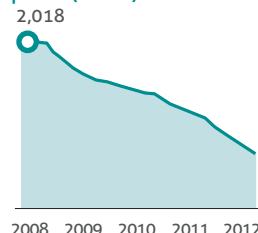
Source: National Institute of Statistics (INE).

Risk premium (basis points)



Source: Bloomberg.

Free-market housing price (€/m²)



Source: Ministry of Transport, Mobility and Urban Agenda.

Year-on-year growth of GDP (%)

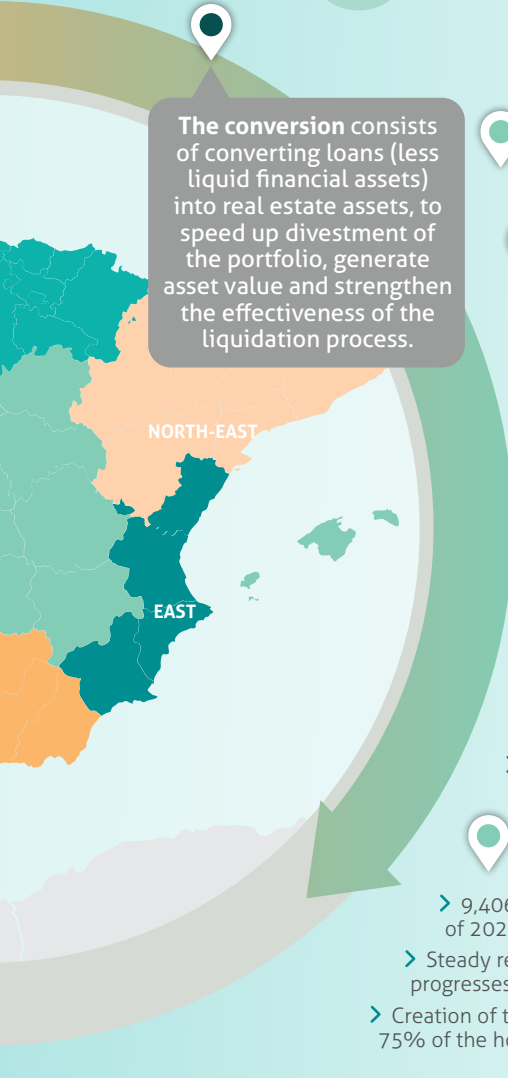


Source: National Institute of Statistics (INE). March 2021.
(P) Provisional estimate
(A) Forecast estimate
(PE) First estimate

MANAGEMENT AND SALE OF PROPERTIES



The conversion consists of converting loans (less liquid financial assets) into real estate assets, to speed up divestment of the portfolio, generate asset value and strengthen the effectiveness of the liquidation process.



Management and retail property sales through servicers.



Property development and promotion



- > Creation of Arqura Homes to promote more than 16,200 homes.
- > Sareb property development:
 - Construction of new developments.
 - Completion of unfinished construction works.

Social housing



- > Agreement with the government to release up to 15,000 homes for social purposes.
- > Agreements with autonomous regions and town councils for the temporary assignment of properties.
- > Sale of properties to autonomous regions and town councils.
- > Affordable lease agreements signed for people in vulnerable situations.

Stock of properties for rental



- > 9,406 properties leased at the end of 2020.
- > Steady reduction in the leased property portfolio as Sareb progresses in the sale of all its assets.
- > Creation of the REIT Tempore Properties and subsequent sale of 75% of the holding in the company.

STRATEGIC GUIDELINES TO THE 2021-2027 BUSINESS PLAN

- REDUCTION IN VOLUME OF THE PORTFOLIO
- INTENSIFICATION OF THE CONVERSION OF THE BALANCE SHEET
- EFFICIENCY AND STREAMLINING OF COSTS
- INVESTMENT AND SPECIALISED MANAGEMENT FOR THE CREATION OF VALUE

NEW MANAGEMENT MODEL

- Assets under management and marketing:**
 - Loan portfolio
 - Real estate portfolio
- Assets undergoing conversion:**
 - Dations in payment
 - Foreclosures
 - Insolvency proceedings
- Direct management:**
 - Major debtors
 - Property developed and promoted by Sareb and through Arqura Homes
 - Single items of assets
- Specialist suppliers** (property maintenance, conversion, legal recovery, etc.)

PORTFOLIO AT THE END OF 2020... €31,510M

LOANS €18,158M (59.6%)

REAL ESTATE ASSETS €12,723M (40.4%)

Balance of outstanding debt at the end of 2020 €34,918.2M

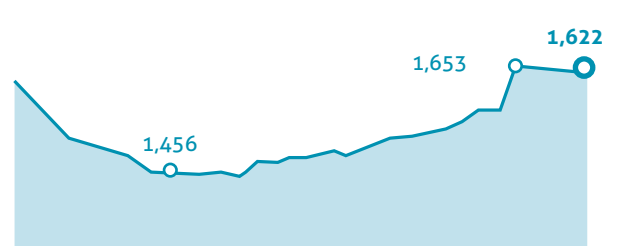
Evolution of the Spanish economy between 2012 and 2020

Risk premium (basis points)



Source: Bloomberg.

Free-market housing price (€/m²)



Source: Ministry of Transport, Mobility and Urban Agenda. March 2021.

Measures taken by Sareb to tackle the health crisis

In 2020, Sareb rolled out a series of measures to mitigate the effects of the pandemic so as to guarantee the health and well-being of its employees and suppliers, and to avoid paralysing the business and help the public administrations as much as it could

Covid-19 and its effects have become the great global risk facing Society and all actors in the system in 2020 and subsequent years.

Against this backdrop, the company took a preventive and pro-active approach from a dual perspective—business and corporate—to address the short term contingencies and to try to anticipate and minimise any possible deviations that this crisis could cause to business in the medium and long term.





Conversion of the balance sheet

- More collaboration with the debtors, including dation in payment. This measure has acquired greater importance in a context in which judicial proceedings came to a standstill.

i More information under the captions **Conversion of the balance sheet and Management and sale of properties.**



Reinforcement of the retail channel

- The company launched a number of campaigns to sell properties within the framework of a prudent sales strategy focusing on the retail market.



Collaboration with the Administrations

- Contacts with the Public Administration to place properties for different uses at its disposal (hotels, warehouses, apartments, etc.).
- Talks with around a hundred local governments and agreements for the temporary assignment of properties with various town councils and one autonomous region.
- Increase in the pool of social housing to 10,000 units, a figure that was further raised to 15,000 in 2021.



Measures regarding rentals

- Management of around 200 moratoriums on rental payments in compliance with renegotiation obligations imposed on large owners.

i More information under the caption **Rentals.**



Decisions of the Board of Directors and senior management regarding remuneration

- Senior management decided to waive receipt of the variable remuneration for 2019 and 2020, while keeping the salaries of the rest of the employees unchanged in 2020.
- External directors and the chairman saw a 15% reduction in their basic salaries.

i More information under the captions **Good governance and Human capital.**



Employees' health as a priority

- Teleworking for 100% of the workforce from days before the state of emergency was declared, thanks to the availability of the necessary technological resources and training in digital tools.
- Significant efforts in communication to inform workers of the situation and keep the company's professionals engaged.
- Staggered return to the office, with a shift system in which occupancy never exceeded 50% and all safety measures were guaranteed.

i More information under the caption **Closeness and communication with stakeholders and Human capital.**



Adjustment in the management and maintenance of assets

- Conditioning work was halted and non-urgent maintenance was rescheduled in the weeks of full lockdown.
- Statements of responsibility were issued to suppliers needing to conduct maintenance that could not be postponed.

i More information in the chapter **Management and sale of properties.**

Beyond our mandate: creating value responsibly

Sareb contributes to the growth and progress of the real estate sector in the hope of leaving a legacy that extends beyond the end of its mandate

Sareb's activity is focused towards the fulfilment of its assignment to divest but, at the same time, it implements innovative initiatives that enable it to extend its influence beyond its mandated term and contribute to the progress and the growth of the sector, discharging its mission in the fastest and most efficient way.

With a permanent focus on safeguarding the value of the asset portfolio, the company's decision-making is based on a medium and long-term vision.

Orderly and responsible liquidation of the loan and property portfolios

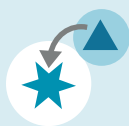


Comprehensive knowledge of the portfolio and specialist management tailored to each asset

Through implementation of the Esparta Project, the company's management model is based on selecting specialist suppliers, performing certain activities directly from Sareb, centralising information on the assets and the best knowledge of local markets by means of our own geographical structure.



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Conversion of the balance sheet

Conversion consists of converting loans—which are less liquid for selling—into real estate, using foreclosure or dation in payment procedures which, once concluded, enable properties which were previously collateral for financial assets to be added to the Sareb portfolio.

Although this process means having to assume lengthier time periods, it is essential for optimising the value of the Sareb's assets and avoids having to sell loans in the wholesale market at significant discounts.



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Sales Growth Plans (SGP)

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



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Impetus for the individual homebuyers' market

The company's commercial strategy based on nurturing sales to individual buyers has gained traction.

Sareb's contribution to the United Nations 2030 Agenda

Sareb's activity and the development of cutting-edge initiatives applied to the sector by the company have contributed to target 8.2 of the of the United Nations 2030 Agenda which seeks to **"achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors"**.

Moreover, the development of residential projects and the implementation of collaboration agreements with public bodies in connection with social housing and the social and economic development of regions constitute a contribution by Sareb to targets 11.1 and 17.17 of the United Nations 2030 Agenda, which respectively propose to: **"Ensure access for all to adequate, safe and affordable housing and basic services"** and **"Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships"**.



Value creation in a portfolio with losses and reactivation of the real estate market



Increase in the supply of new homes in areas where there is demand

Residential property development by Sareb and via investment vehicles like Arqura Homes helps increase the supply of homes in those areas where there is demand.



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Revitalisation of local areas

Part of Sareb's portfolio is comprised of unfinished projects and land that had been undeveloped for years. The company invests in completing certain projects and in urban land management, helping to revitalise the areas where these assets are located and to increase the supply of residential property.



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Témpore Properties: specialists in the rental market

In 2017, Sareb promoted the creation of Témpore Properties, a REIT specialising in the rental of residential real estate assets, in order to accelerate the divestment rate of its portfolio. At present, the company owns a 21.2% stake in Témpore.



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Collaboration with the Public Administration to contribute to progress and social and economic development



Social housing initiatives and affordable rent

Since 2013, Sareb has been committed to responding to Spain's housing needs. The initiatives implemented by the company include the temporary assignment of properties to autonomous regions and town councils to increase their pool of social housing (which in some cases also translates into the subsequent sale of these assets to those administrations) and directly signing affordable lease agreements with people in a vulnerable situation, in coordination with Social Services.



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Assignment and sale of property of special public interest

Sareb's portfolio also includes certain single items of assets which are sometimes useful for the public administrations.

The company has reached agreements to swap, sell and assign this kind of property to local and regional institutions.



Agreements for stimulating regional economies

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

Contribution to sustainable development: focussing action on a positive impact, in line with the 2030 Agenda



2020-2023 Strategic Sustainability Plan

After the Corporate Social Responsibility Plan for 2017-2019, the company conducted a review to define a new 2020-2023 Strategic Sustainability Plan involving the key departments of the company in order to launch it.

A new organisation for boosting business

In 2020, the company launched a new organisational structure to speed up its divestment process

Aware of the challenges posed in the second half of its mandate, in 2020 Sareb concluded the reorganisation of its internal structure to adapt it to the new business strategy, focused on protecting the value of the assets, transforming loans into properties, creating value through new construction and developing land, and also giving momentum to sales through five geographical branch offices and a new model of relations with its sales management companies, the servicers.

In this context, the responsibilities and functions of the business offices were also redefined and seven operational units were established that report directly to the managing director, Javier García del Río. The Management Committee of the company is made up of

the Chairman, Jaime Echegoyen, the managing director, Javier García del Río, and the directors of those seven units.

At the same time, the geographical branch offices continue as they were under the previous structure and they will also report directly to Javier García del Río.

After implanting this new structure, Sareb centred its efforts on ensuring that the different associates are properly aware of their new roles and responsibilities and feel that the company accompanies them along that path.



Javier García del Río, managing director of Sareb since October 2020

The incorporation of this executive, with extensive experience in the real estate industry, is intended to give a boost to the business strategy and support the transition of the Sareb model to that of a company focussed on the management and sale of properties.

Javier García del Río joined Sareb as CEO in February 2020. Since October he has also been a member of the Board of Directors—as executive director—acting as managing director of the company.

Between 2014 and 2019 he was CEO of Solvia, a servicer that became one of the market leaders under his management.

He has also been deputy managing director of Banco Sabadell, having joined this bank in 2012 after leaving Caja de Ahorros del Mediterráneo. Until 2010 he was project manager for The Boston Consulting Group. García del Río is an industrial engineer and has an MBA from the Instituto de Empresa Business School.



From left to right, Javier García del Río and Jaime Echegoyen, Sareb's Managing Director and Chairman, respectively.



More information on the new organisation in the chapter **Good Governance**

Seven operational units under the responsibility of Javier García del Río



Moreover, in the framework of the new organisational structure introduced, the following departments report to the Chairman, Jaime Echegoyen: Legal Department and Secretary of the Board, Internal Audit, Compliance and Institutional Relations, Sustainability and Communication.



Portfolio Management

This defines the strategy for action, asset by asset, ensuring full consistency with the company's Business Plan and in all the activities developed by the company in its various spheres.

Its functions include fixing prices, market analysis and strategic segmentation, and it also has portfolio managers for each type of asset: loans, residential properties, land and commercial assets.



Loan management

The department responsible for promoting the collection and sale of NPLs⁷ and the conversion of the loans into property, putting them on a sound footing—both technically and legally—so these assets can be included in the portfolio for their promotion and subsequent sale.



Management of real estate assets

Its function is to preserve and increase the value of the real estate assets, mainly by industrialising the process of conditioning, maintenance and administration of the portfolio of Sareb-owned real estate, maintaining a suitable level of efficiency and risk control.



Sales

The sales department is in charge of Sareb's divestment activity. In this context, it heads the sales activity (including sales with institutional investors) and the design and supervision of the sales networks contracted by the company with the servicers.



Property developments and asset management

It carries out the work of land development, promotion, management of real estate transactions and management of major borrowers.

In order to perform this work, this department has to create and foster Sareb's capacity for production in these fields, ensuring that the activities are carried out in line with the Business Plan in terms of value created and completion time.



Finances and Management Control

The department in charge of drawing up and supervising the performance of the Business Plan.

It provides the financial, accounting and tax information and carries out the entire control function for managing Sareb, in addition to managing the company's purchases and payments, liquidity, market risks and Efficiency Plan.



People, Processes and Technology

This unit works to guarantee that the service is covered and equipped with the means necessary for all departments of the company as regards people, processes, projects, technology and safety so that they can perform all the functions with the required quality, backup and reliability.

It ensures that Sareb operates focussed on efficiency and effectiveness.

⁷ NPL, non-performing loans.

Social footprint

Since 2013, Sareb has been working closely with public administrations to make properties available to it for the purposes of affordable rental

Along with the commitment assumed by Sareb for complying with its mandate of divestment, the company demonstrates its social vocation by responding to the housing needs of groups at risk of exclusion in different regions of Spain.

Collaboration with the Public Administration in 2020

During the course of the year, five public administrations have acquired properties from the company, which they had already been using under temporary assignment agreements with Sareb.

In 2020 the company negotiated with nearly a hundred town councils and, within the framework of its plans, it has entered into temporary assignment agreements for social purposes with 15 councils, namely Torrent, Sagunto, Gandía, Calafell, Sant Feliu de Guixols, L'Ametlla del Vallés, Santa Coloma de Gramanet, Sant Joan les Fonts, Sant Jaume d'Enveja, Sabadell, Archena, Cardedeu, Canet de Mar, Granollers and La Pobla de Vallbona, and one autonomous region, La Rioja. A total of 550 properties were placed at the disposal of the administrations.



Agreement with the government to release up to 15,000 social housing units

The company has signed a protocol with the Ministry of Transport, Mobility and Urban Agenda and the Ministry for Economic Affairs and Digital Transformation, enabling town councils and autonomous regions to receive this body's funding to avail themselves of social housing

In early 2020, Sareb approved an increase in the pool of social housing to 10,000 units, from the previous figure of 4,000 units. In 2021, the company has taken another step forward in this commitment by signing a protocol with the Ministries of Transport, Mobility and Urban Agenda and for Economic Affairs and Digital Transformation to further increase the number of properties to be released for this purpose, to 15,000 units, having received the approval of the Sareb Board of Directors.

The signing of the protocol was presided by the Prime Minister, Mr Pedro Sánchez, and the agreement was initialled by the Minister of Transport, Mobility and Urban Agenda, Mr José Luis Ábalos, the Minister for Economic Affairs and Digital Transformation, Ms Nadia Calviño, and the Chairman of Sareb, Mr Jaime Echegoyen.

Under this agreement, the company will place 5,000 properties at the disposal of the local and regional public administrations in the short term so that they can use them for affordable renting, and a further 5,000 in the medium term.

The Ministry of Transport, Mobility and Urban Agenda will partially assume the expenses of assigning them and the refurbishment and reconditioning work necessary for ensuring the properties are habitable, and they will then be rented at a reduced rate to people with limited income and demonstrated to be in a situation of vulnerability by the Autonomous Regions and local institutions.

Sareb's pool of social housing is completed with a further 5,000 properties, most of which have already been assigned by the company to Autonomous Regions and town councils or made available to people in a vulnerable situation, after signing affordable lease agreements.



Picture: Signing the agreement with the Government to release up to 15,000 social housing units.

Before the temporary assignment agreements expire, Sareb offers the public administrations the possibility of acquiring those properties so that they can become part of their pool of properties.

During 2020, the Basque Country (9), the Canary Islands (11), the Region of Valencia (75), Castile and Leon (6) and the Town Council of Madrid (98) acquired properties for inclusion in their social housing programmes. In addition is the Town Council of Badalona, which in 2019 acquired two Sareb properties.

Between 2013 and 2020, Sareb signed agreements for the temporary assignment of properties with 13 Autonomous Regions and 27 Town Councils, to whom it had assigned a total of 3,032 properties. Of these, 2,836 properties are currently committed to the administrations.

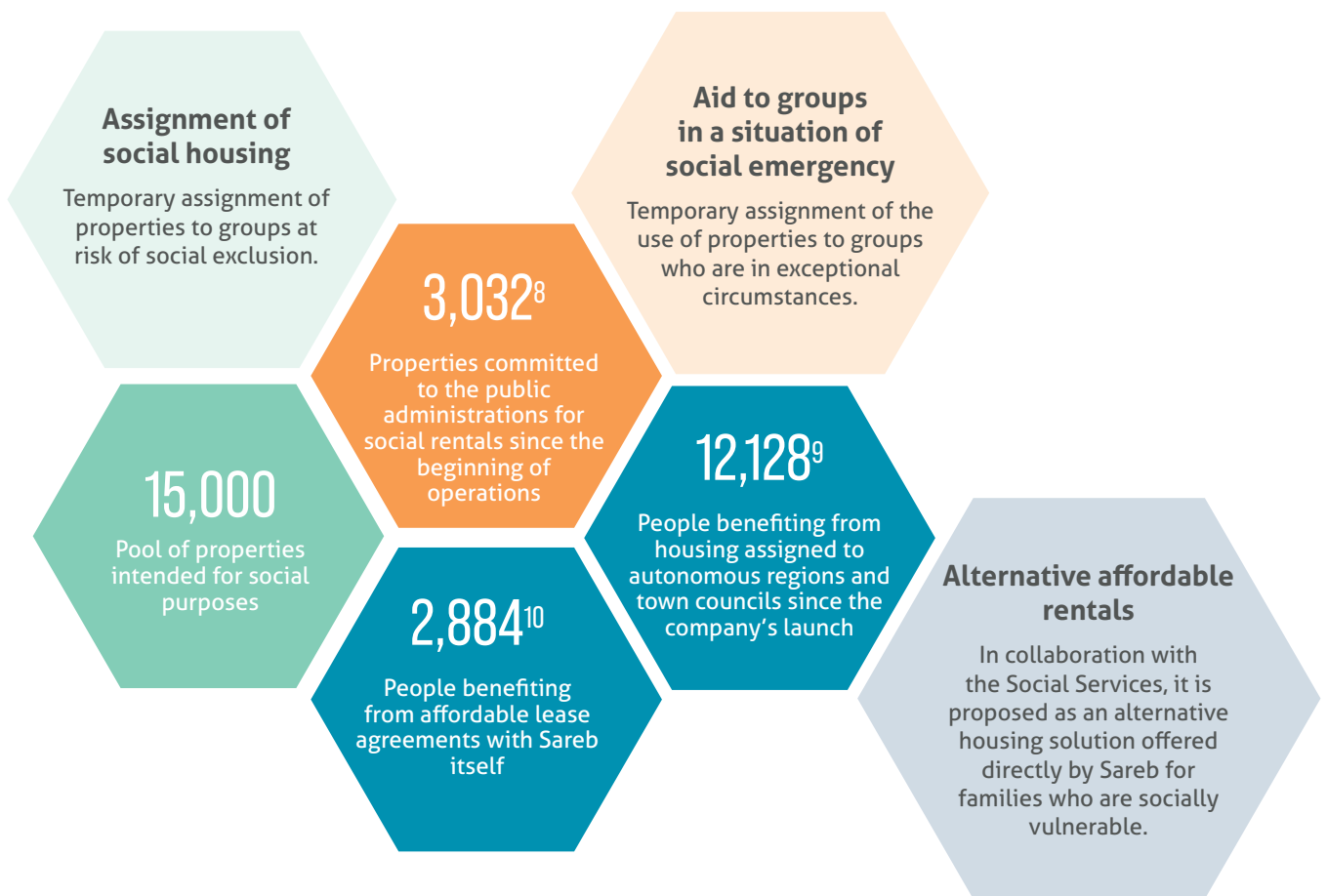
Parallel to the initiatives of collaboration with public institutions, Sareb makes its own arrangements with families who are socially vulnerable.



Sareb’s contribution to the United Nations 2030 Agenda

Sareb’s assignment of real estate enables the company to respond to housing needs in Spain and demonstrates its voluntary commitment to targets 10.2 and 11.1 of the United Nations 2030 Agenda which aim to **“empower and promote the social, economic and political inclusion of all”** and **“ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums”**, respectively.

3. Social housing initiatives and their main results



⁸ Includes the housing units committed to the public administrations for social rentals since Sareb commenced its activity. The figure includes properties assigned by means of agreements that are currently in force and those that were covered by agreements that have now expired.
⁹ Estimate calculated for an average of four persons per home in Sareb homes pledged to public administrations since the company commenced its activity. The figure includes properties assigned by means of agreements that are currently in force and those that were covered by agreements that have now expired.
¹⁰ Estimate calculated for an average of four people per home, taking into account a total of 721 applications approved since Sareb was created. At the same time, the company is studying another 479 applications.

4. The historical map of social housing assigned or sold by Sareb (No. of properties)



Key:

Properties under agreements with Autonomous Regions still in force

Properties under agreements with Town Councils still in force

Properties under agreements already expired with Autonomous Regions or Town Councils

Properties acquired

Illegally occupied properties

Since its creation, the company has a protocol for acting in the case of the illegal occupation of properties which aims, on the one hand, to take into consideration situations of vulnerability, and on the other, to fulfil its legal obligations as an owner by starting criminal proceedings to assure its liability toward third parties.

In this respect, the company collaborates with the social welfare departments of the Town Councils to evaluate whether a situation of vulnerability exists, and in this way to provide housing solutions for the occupants of the properties. Sareb also coordinates closely with the police and security forces and the different authorities in order to put an end to problems of civil insecurity that might arise as a result of certain cases of occupations and, with this, to ensure the safety of other tenants and owners living lawfully in the neighbouring properties.

How Sareb acts when it finds that one of the properties in its portfolio has been illegally occupied, step-by-step

- A report is filed within 24/48 hours of detecting the occupation.
- A mediation process is started with the occupants of the property to assess their personal situation and evaluate whether a social rental contract can be signed in the same or in another property, if it meets the conditions for a property intended for this purpose, provided that a favourable report is obtained from the people in charge of the regional or local Social Services.
- Contact with the people in charge of Social Services and establishing whether a situation of vulnerability exists or not, after studying the documents received.
- If such a situation is considered to exist, the company would sign a social rental contract with the occupants or it would refer the case to the Council or Regional Authority if Sareb has an agreement for assignment of social housing with either of them.
- If it is decided that there is no case of vulnerability, Sareb would continue with the legal process for recovering possession. If this concludes with the eviction of the occupant, the company would regain possession of the property.

The implications of the illegal occupation of Sareb properties for its mandate to divest

In 2012 Sareb received the mandate from the European economic authorities to divest its entire asset portfolio in 15 years, both properties and loans. The illegal occupation of properties means that the company has to bear a number of expenses (legal, processing, conditioning...) to recover possession of those properties.



Picture: Arqura Homes apartment building in Granada (Andalusia).

Creation of jobs with social value

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

In 2020, a new edition of the programme "Building future: jobs with social value", was implemented, run by the Integra Foundation. This programme makes available the social and employment tools that people benefiting from the social housing programme need for being able to enter the employment market through sessions of technical and motivational training.

As a result of the health crisis, the training workshops scheduled for March and June 2020 had to be postponed.

A workshop was eventually held in November 2020, involving 12 volunteer employees. Of the 12 beneficiaries of the programme, three have already found jobs.

Activity is set to resume normally in 2021 and a session has already been planned.

5. 'Building future: jobs with social value', in figures



12 PARTICIPANTS

in a situation of vulnerability received advice in this third edition



12 SAREB VOLUNTEERS

taught the workshops



3 HAVE FOUND WORK



Sareb's contribution to the United Nations 2030 Agenda

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

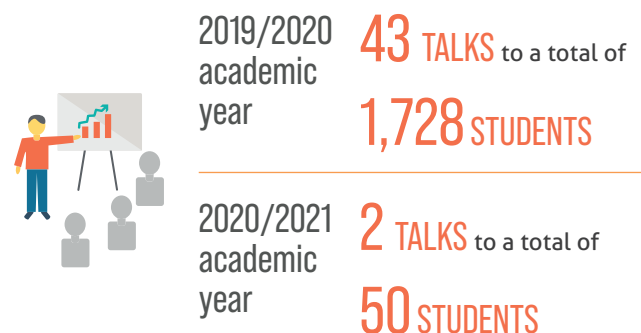
'Sareb Ambassadors': transparency and raising awareness in the classrooms

This initiative was conceived with the aim of making younger people more aware of how the company operates and its raison d'être, its values and the commitments undertaken by Sareb for contributing to the growth of the financial and real estate sector in Spain.

To do so, the company has a group of employees who voluntarily give these talks in different education centres around Spain.

During the 2019/2020 academic year, 43 talks were given to 1,728 students. During the course of 2020/2021, as classes are only being taught online, two talks have been given, attended by 50 students.

6. Impact of 'Sareb Ambassadors' in the last academic years





Sareb's contribution to the United Nations 2030 Agenda

Through the "Building future: jobs with social value" job creation programme, the company aims to contribute to target 8.3 of the United Nations 2030 Agenda which seeks to **"promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalisation and growth of micro-, small- and medium-sized enterprises, including through access to financial services"**.



Sareb's contribution to the United Nations 2030 Agenda

The implementation of collaboration agreements with Autonomous Regions and Town Councils on matters of social housing, and the partnerships with the civil society for creating jobs, are Sareb's contribution to target 17.17 of the United Nations 2030 Agenda: **"Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships"**



Picture: Construction work at an Arqura Homes residential property development in Huelva (Andalusia).



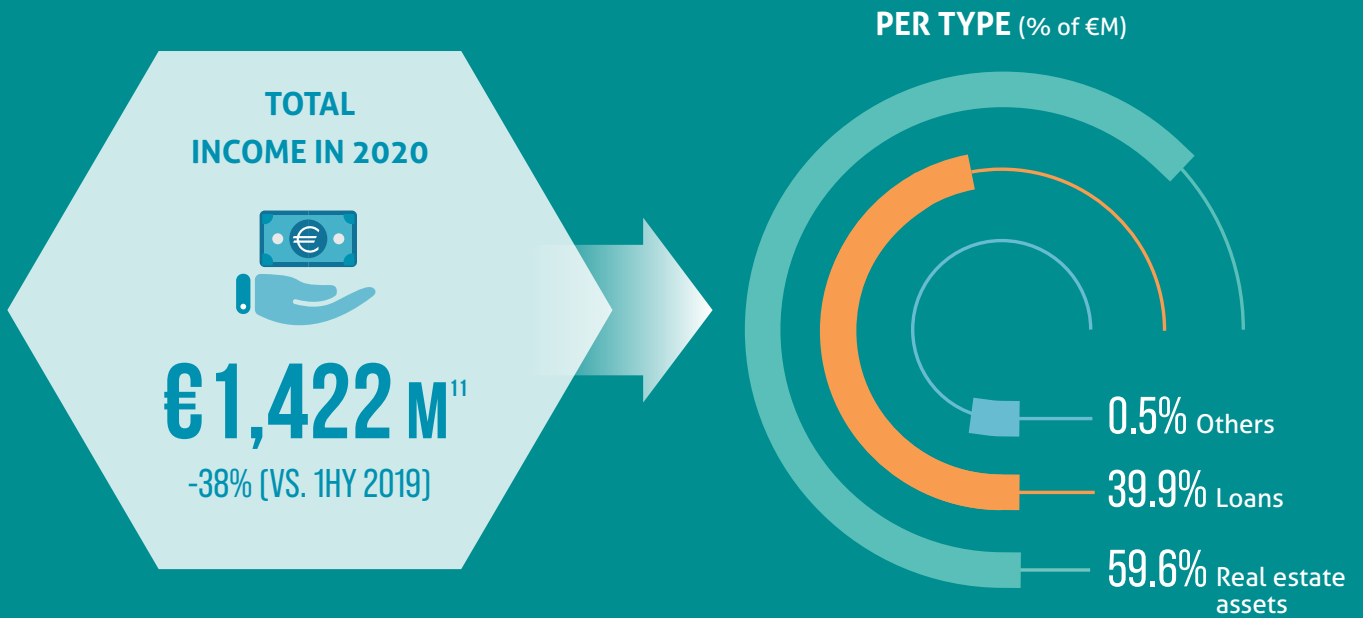
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Our business

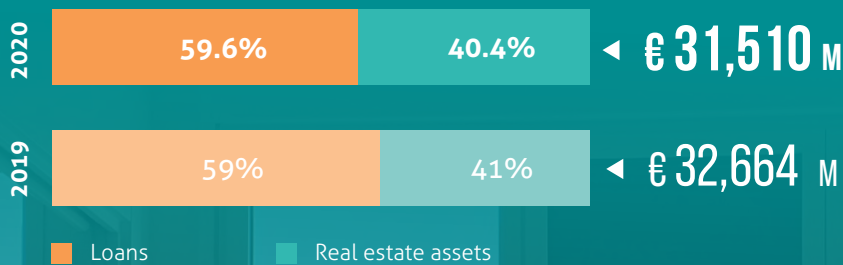
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Main figures

Advances for the fulfilment of our mandate in 2020



REDUCTION OF THE ASSET PORTFOLIO



REPAYMENT OF SENIOR DEBT¹²



¹¹ This figure includes the income from loans, properties and other income (€7M in 2020) The 2019 figure includes an adjustment with respect to the figure published in the Annual Activity Report for that year.

¹² The 2020 figure includes €138.9M repaid in February and March 2021 charged against 2020. The 2019 amount includes €293.3M corresponding to the cash generated in 2019 and €10.7M corresponding to the escrow account for 2018 repaid in February 2020.

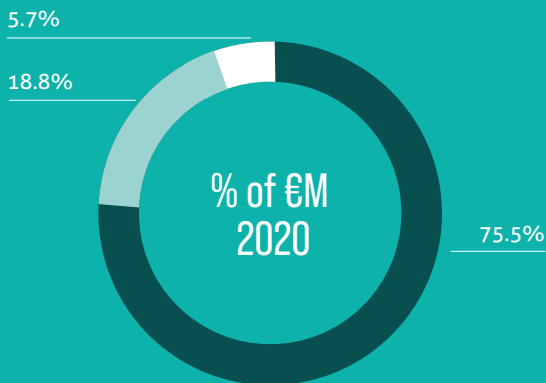
REAL ESTATE ASSETS

Income in 2020



€ 848 M

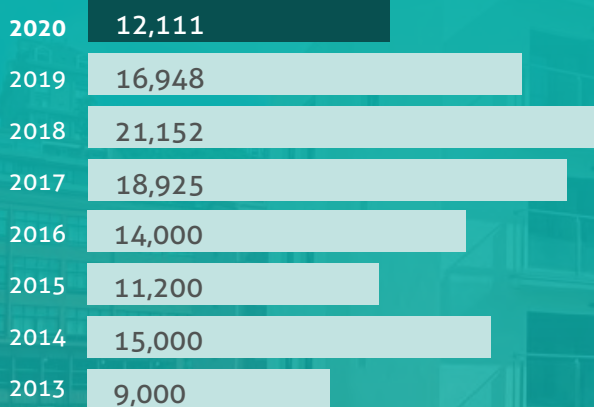
-36% (VS. 2019)



■ Residential ■ Land and Commercial real estate ■ Rent and others

Residential sales (excluding institutional operations) ▶ € 595 M (-8% vs. 2019)

Properties sold (units)



12,111
PROPERTIES SOLD
IN 2020

Own sales
10,359
units

Sales by agreement
with developers
1,752
units

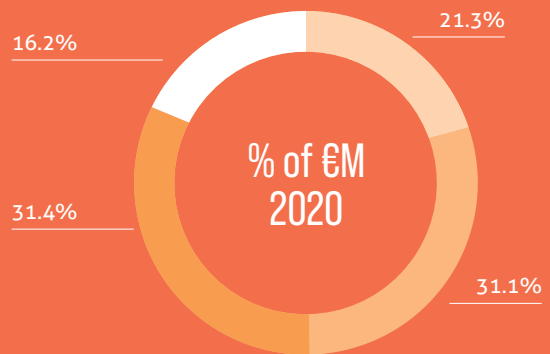
LOANS

Income in 2020



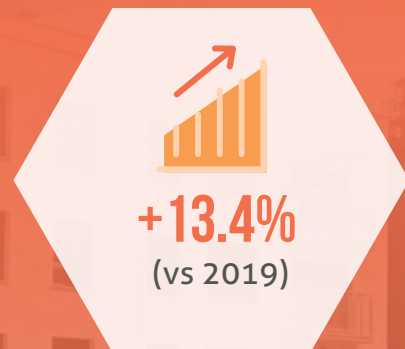
€ 567 M

-40% (VS. 2019)



■ Repayment and sale of loans ■ Liquidation of collateral properties and SGP
■ Repayments ■ Interest

Conversion of the balance sheet



€ 1,867 M

2019

€ 2,116.8 M

2020

Evolution of the Business Plan

Sareb annually reviews compliance with the goals set out in its Business Plan

2020 was dominated by the impact of Covid-19 on economic activity in general and, in particular, on that of the real estate market. Sareb's 2020-2027 Business Plan was devised and approved prior to this eventuality, so the goals it established did not take into account its effects, although the company has worked to review the plan to adapt to the new circumstances in the short and medium term.

As a result of the crisis, fulfilment of the Business Plan in 2020 in income terms was significantly lower than expected, with a notable reduction in comparison with the income recorded in 2019. In addition to the economic slowdown, results in the period were also shaped by Sareb's prudent sales strategy aimed at avoiding the sizeable discounts required in sale-purchase transactions.

The 2020-2027 Business Plan envisaged the company strategically withdrawing from the market for sales of non-performing loans as a result of the hefty price discounts demanded in that market and which Sareb, seeking to maximise the value of its portfolio, does not intend to accept.

The Plan had envisaged reducing the level of activity in this business line and, at the same time, continuing the strategy for transforming financial assets, in order to bring the underlying collateral properties into the Sareb portfolio and then market and sell them through the retail channel. The reduction in sales in this segment of non-performing loans was more severe than expected, since the number of transactions fell sharply and the discounts expected by buyers (with a clear professional bias) were still considered to be high by Sareb. Accordingly, the company decided not to accept the lower prices, and instead to wait until conditions return to normal.

In general, the circumstances of 2020 led to a reduction in wholesale sale-purchase activity in portfolios of non-performing loans and real estate assets, in terms of both the number and size of the transactions performed.

The leading international funds have focused more on managing and marketing portfolios already acquired so as to accelerate their rotation, driven by the pressure of their short-term business plans and the high cost of capital, and, in some cases, the tight financing standards at international banks.

With regard to real estate assets, the circumstances have also taken their toll, resulting in a very different performance than that forecast. Specifically, prices fell by an average of 1.8% in Spain in 2020, compared with estimates that pointed to at least moderate growth. Moreover, free-market housing transactions in Spain fell by 14.4% year-on-year in 2020, to 467,579 units¹³.



Picture: Interior of an Arqura Homes property in Granada (Andalusia).

¹³ In accordance with the latest data from the Ministry for Transport, Mobility and Urban Agenda. March 2021.

Accomplishment of the Business Plan in 2020

Considering the market context, at the end of 2020 the level of fulfilment of the goals set forth in the Business Plan with respect to the volume of income was 53%, down 38% compared with the figure for 2019. In addition, in terms of margins the level of budgetary compliance was 54%.

The loan conversion process was also impacted by the social and economic situation, albeit to a lesser degree than the company's commercial activity. Accordingly, the volume of properties converted rose by 13% in the period, to €2,117M, i.e. 81% compliant with the budget assigned to the transformation of the balance sheet. Prior to 2020, Sareb had already estimated that volumes above that of 2019 could be transformed, so the company is continuing the process of mass litigation in respect of the portfolio (a process it commenced in mid-2017). However, in 2020 agreements by means of dations in payment were the most important channel for conversion, followed by mortgage foreclosures and, to a lesser extent, insolvencies.

Income obtained directly from managing and selling real estate assets was significantly lower than expected before the outbreak of Covid-19, logging 69% compliance with targets. The performance of properties was shaped by the steady recovery in commercial activity in the residential segment in the year, with sales totalling €641M (€1,043M in 2019) and accounting for 76% of total income from the properties business.

Note that almost all sales of residential properties were in the individual homebuyers' market, in which the pace of recovery was also faster in the second half of the year. Not counting institutional operations, sales in the residential segment were just 8% lower than in 2019. Moreover, 2020 saw a continuation of the trend commenced in the previous year of income from managing and selling real estate assets exceeding that of loans.

With regard to loans, levels of fulfilment, of 40% in income and 187% in net margin, also deviated from initial forecasts. Income on financial assets amounted to €567M, i.e. 40% lower than in 2019, given the contraction of this market. We highlight the volume of transactions involving contractual repayments without haircuts, and interest payments—coming from Sareb's best quality portfolio—down year-on-year in parallel to the repayment and the maturity of those loans.

Transactions involving haircuts fell by 43.5% to €296.8M in 2020.

i More information in [Market and trends for the sector](#), [Management and sale of properties](#) and [Management and sale of loans](#).



Picture: Aerial view of a series of Arqura Homes developments in Baiona (Galicia).

Keys to the 2021-2027 Business Plan

The new Business Plan, recently approved for the 2021-2027 period, maintains the same structure as its predecessor, with a particular focus on details of the first three years of activity (2021-2023), supplemented with a series of long-term scenarios that include various performance assumptions in connection with the real estate market. In addition, when drawing up the current Business Plan, five core aspects were taken into account:

- Approval of Royal Decree-Law 6/2020, of 10 March¹⁴, enabling Sareb to continue conducting its activity and not to incur in grounds for dissolution due to being in a negative equity situation. This affords the company greater flexibility when it comes to designing the asset divestments, since the gross margin becomes less important compared to maximising cash flows, which is established as the company's ultimate goal with respect to the strategy to be implemented in divesting its asset portfolio.
- The Covid-19 crisis has had a major impact on both the general macroeconomic picture in 2020 and the future outlook. This impact was also present in the reality of the real estate market in 2020, with prices and transaction volume down, along with the forecasts for these variables.
- The new strategic segmentation of the asset portfolio goes deeper than the one previously implemented. The model includes sales and conversion in accordance with the segmentation of each asset, and a more in-depth approach to value-generating businesses (land and property development).
- The decision to focus on the sale of residential real estate assets in the retail market, with a significant reduction in transactions involving asset portfolios in wholesale markets.
- Approval of the Efficiency Plan—executed by the company in 2020—whereby the Business Plan forecasts include building on the efficiency achieved in 2020.

Furthermore, Sareb's updated Business Plan for 2020-2027, approved by the Board of Directors, shows that it is not possible to generate sufficient cash flows over the course of the period to fully repay the debt issued by the company. This circumstance and the outstanding amount will depend on the performance of a number of variables, including the price of real estate assets over the course of each year.



Picture: Interior of a property developed by Arqura Homes in Jerez de la Frontera (Andalusia).

¹⁴ Royal Decree-Law 6/2020, of 10 March, on adopting certain urgent financial measures and for the protection of public health.

The basic pillars of the company's strategy outlined in the Business Plan take the following aspects into account:



Creation of value for assets

- **Property development:** Using new developments on Sareb-owned land and on land which currently appears as collateral for loans but which in the future will form part of the Sareb balance sheet. This business segment has started to be developed specifically with the creation of Arqura Homes in 2019, which executes a large portion of the property development activity with the involvement of a specialist manager. Its activity was further strengthened in 2020 through a specific Business Plan to be implemented in the coming years.
- **Completion of unfinished construction works:** Part of Sareb's portfolio comprises works that have been halted and are at various stages of completion. The current status of these assets makes them especially difficult to market and would mean Sareb accepting very low prices, while completion of the projects and their sale as completed homes could generate significant value for the company.
- **Urban land development:** The company owns a large volume of land and, as a result of the conversion process, it is expected to add more assets of this kind. The degree of development of the land portfolio is highly varied, so that, along with specialist managers, the necessary investments are made to progress in its achieving planning status. Accordingly, the company strives to maximise its sale price, rather than to market the land in its current condition.



Streamlining the company's expenditure

- In 2020, the company's Efficiency Plan was devised and implemented, focusing on savings and containing expenditure. Since its launch, the company has significantly reduced its cost base, especially costs with a higher fixed component and less dependent on the level of activity, and it has conducted a review of all sources of expenditure to identify areas for improvement.
- The 2021-2027 Business Plan includes a consolidation of these savings over the forecast period.
- In addition, the company has worked on the unification of services provided by the different suppliers, simplification of the foreclosure process, and identification of operational synergies that will result in improved economic conditions for contracting.



Opting for the conversion process

- The strategic commitment is ongoing to creating value by transforming a large portion of the financial asset portfolio secured by real estate collateral.
- This takes place in the case of loans where the recovery capacity is focused on taking control of the collateral properties, reorganising their status, publicising and then selling them on the retail market in the form of assets that are more liquid and easier to sell.



Strategic segmentation of the portfolio

The improved knowledge of the assets brought with it an increase in the strategic segmentation thereof, with a view to maximising the recoverable value of the portfolio. Various segmentations were defined with this in mind:

Financial assets:

- Use of channels for the collection, on the one hand, of performing loans and, on the other, of unsecured loans with low-interest collateral.
- Assets combining the view of monetisation potential with obtaining value through asset conversion.
- Collateral to which a strategy is pre-allocated as real estate assets, so the goal is to incorporate them by means of the recovery process.

Real estate assets:

- Properties to which a value strategy is assigned that enables a higher return on the divestment, such as property development or urban land development.
- Assets for which the priority is their immediate sale since they do not have any scope for generating additional value.
- Properties allocated to a social housing initiative or programme.

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

Over and above the risks pertinent to the market and business activity that could arise in normal situations, the health crisis caused by Covid-19 has become one of the major risks that Sareb is facing in the short and medium term.

The slowdown in economic activity in the year had a material impact on Sareb's business, giving rise to deviations from the forecasts in its Business Plan.

This effect was simultaneously observed in demand, with a tightening of both private consumer activity and investment in leisure and tourism, with the resulting effects on the relevant real estate segments. Buying a property is an important investment decision which is conditioned by future expectations—whether for

an individual buying a home, for a company or for a wholesale investor. In this regard, many potential buyers have opted to postpone their purchase decisions to a time of less uncertainty.

The manner and pace in which the outlook on economic recovery develops, and its transfer to the main variables of the real estate market, imply a significant risk in regard to the attainment of the goals set forth in the 2021-2027 Business Plan.

There is also another risk for the company linked to greater commercial pressure and competitiveness from large investment funds, if they opt for a rapid outlet for their investments by means of price-cutting strategies.

i More information on Sareb's risk management under the caption [Good Governance](#)



Picture: A property belonging to Arqura Homes in Casares, Malaga

Efficiency Plan

The Efficiency Plan put into effect by Sareb in 2020 is intended to streamline the company's expenditure through three channels which will be undertaken in different stages:

Sareb as manager

The reorganisation of activities to ensure that Sareb places the focus on its activity as manager of loans and real estate assets, eliminates any duplication with the servicers and other suppliers and optimises the cost associated to the maintenance and management of its assets.

Operating costs

The evolution of the Esparta Project and the company's main processes for generating synergies.

Segmentation of assets

The introduction of action policies segmented according to type of asset in order to streamline the costs arising from their management and conversion and maximise income.



Picture: Living room in a residential property developed by Arqura Homes in Dos Hermanas (Seville, Andalusia).

Estimated savings

The estimated savings amount to €70M annualised. These forecasts were made on the total expenditure budget drawn up at the beginning of 2020, without taking into account the consequences and impacts of the Covid-19.



An effort oriented toward efficiency and streamlining of expenditure

The company's total expenditure (excluding financial expense) decreased by 9% with respect to 2019, to €603M, due mainly to the reduced commercial activity, although also to the introduction of the first measures developed under the Efficiency Plan which was launched in the year.

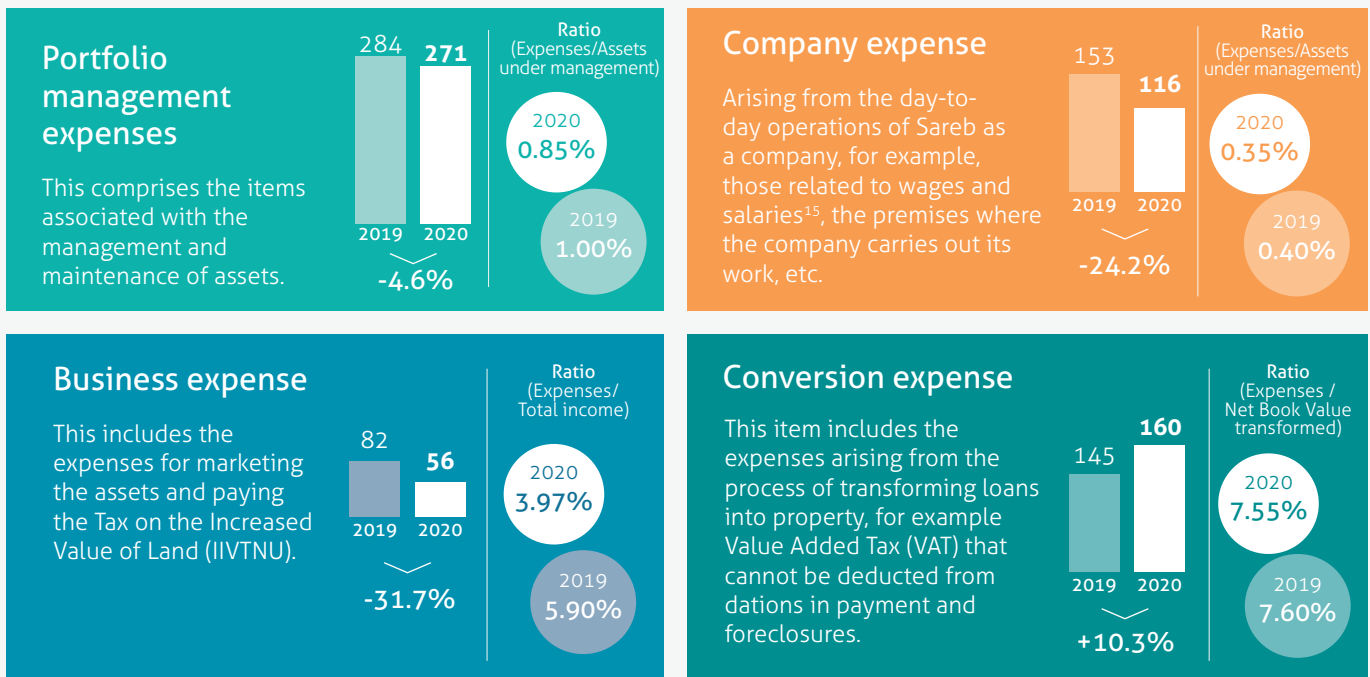
The new company strategy groups expenses together in four major items –business expenses, conversion expenses, portfolio management expenses and company expenses—with a common objective: to save on costs and increase efficiency in order to meet the terms established in the Business Plan and execute the mandate of divestment in the best possible way.

All items are lower than in 2019, except for conversion expenses, which have increased by 10% due to Sareb's progress in its strategy of incorporating properties to the balance sheet. The largest cuts have come in business

expenses, which were 31.7% lower than in 2019, due to the reduction in sales volumes, and in company expenses, down almost 25% thanks to the implementation of initiatives to generate structural cost savings.

The company's efforts also enabled it to reduce costs linked to portfolio management, which fell by 4.6% year-on-year even though the volume of properties—which generate higher maintenance costs—increased in 2020 due to the addition of 22,853 real estate assets to the balance sheet.

7. Breakdown of expenses per type (in €M and % of variation compared to 2019)



¹⁵ Staff expenses are included in this item and amounted to €36M in 2020.

The market and trends for the sector

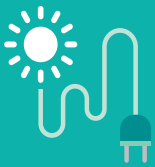
In 2020, the Spanish economy endured the consequences of the Covid-19 crisis: Spain's GDP shrank by an annual rate of 10.8%, due mainly to the restrictions introduced to curb the pandemic (National Institute of Statistics – INE).

New challenges on the horizon...



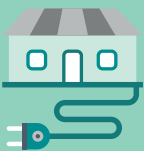
Demographic and social changes

- In 2027, Spain will have a population of over 47.5 million. Around a quarter will be over the age of 65 according to the National Institute of Statistics (INE). There is also a trend towards smaller families and households (single-parent families, singles)
- Covid-19 increased mortality rates in 2020 and birth rates are expected to fall, in accordance with the latest figures from the INE.



Infrastructure resilient to climate change

- Investment in modernising infrastructure has been low for decades, even though it accounts for 60% of the planet's greenhouse gas emissions. There is now considerable potential for economic growth associated with the decarbonisation of infrastructure which, combined with structural reforms to encourage transformation and innovation in this field, could increase global GDP by as much as 5% by 2050, while also helping to reduce CO₂ emissions and mitigate the risks and costs associated with extreme weather events. This need is in line with the European and Spanish post-Covid recovery plans, and are a pillar of the 'Recovery, Transformation and Resilience Plan', headlined 'Spain Can'. (OECD, European Commission and Spanish Government).
- The Spanish Law on Climate Change and Energy Transition (currently going through Parliament) includes articles referring to adaptation of buildings to climate change.



Circular cities: towards zero waste

- Cities are heading towards the circular economy, minimising waste and seeking to include it in the value chain.
- A number of European cities, including Murcia and Seville, in 2020 signed the 'European Circular Cities Declaration', acknowledging the need to accelerate the transition to a circular economy in Europe and the role played by cities in this regard.



Changes in consumer preferences in the wake of Covid

- Following the lockdowns, buyers are prioritising space and sunlight.
- People have increased their savings as a precaution in view of the economic and employment situation.



Energy efficiency in buildings

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

... with an impact on the real estate market

Innovation applied to the real estate business

- Customers have grown used to a seamless digital experience.
- The pace of digitalisation has picked up and it is now a priority on the agenda of companies in the sector, incorporating virtual reality, artificial intelligence and the Internet of Things in their operations, as well as the industrialisation of construction processes.



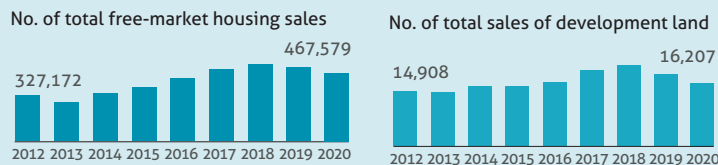
Homes and land: transactions shaped by the economic slowdown

Homes
€1,622/m²
 Average price at the end of 2020

- In 2020, home sale-purchases fell by 14.4% to 467,579 units (data from the Ministry of Transport, Mobility and Urban Agenda).
- The appraised value of free-market housing fell by 1.8% in 2020, to €1,622/m² (data from the Ministry of Transport, Mobility and Urban Agenda).

Land
€142.1/m²
 Average price at the end of 2020

Transactions for free-market housing and land (total sales)



Source: Ministry of Transport, Mobility and Urban Agenda



Changes in the model: the outlook for households

- The number of households is expected to grow by 1.1 million in the next 15 years.
- Single-person households are expected to grow the most, to account for 28.9% of homes in 2035, followed by households with two people, with a 32.3% share (National Institute of Statistics).



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

- Demand for office space will continue to shrink in the short term. Companies will seek offices with a larger proportion of collaborative or meeting spaces.
- The rise of home delivery services and e-commerce has an impact on retail businesses and their ability to meet rental costs.



Sale of loans: a highly competitive market

- The European Commission has published its strategy for tackling the likely increase in the volume of non-performing loans in the wake of Covid-19. The approach is early management to avoid an accumulation of problem exposures on banks' balance sheets.
- The strategy proposed is based on developing secondary markets, in collaboration with asset management companies, on reforming European insolvency and debt recovery frameworks and on applying European banking crisis management frameworks.



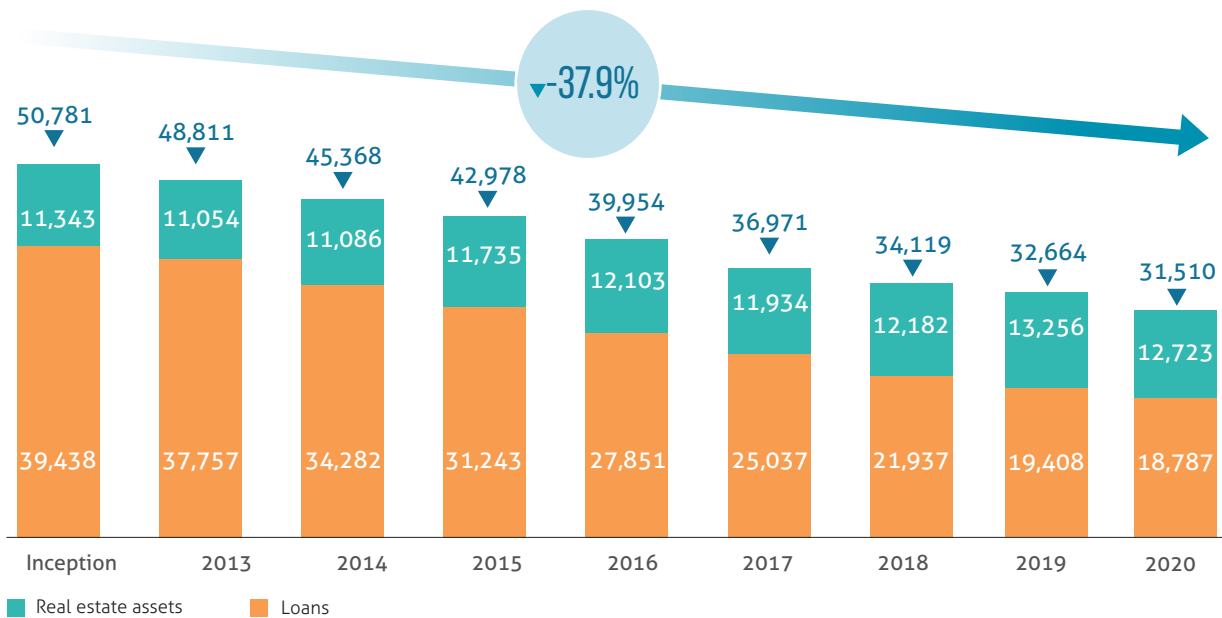
Sareb loans and real estate portfolio

Sareb's asset portfolio has decreased by 37.9% since its inception

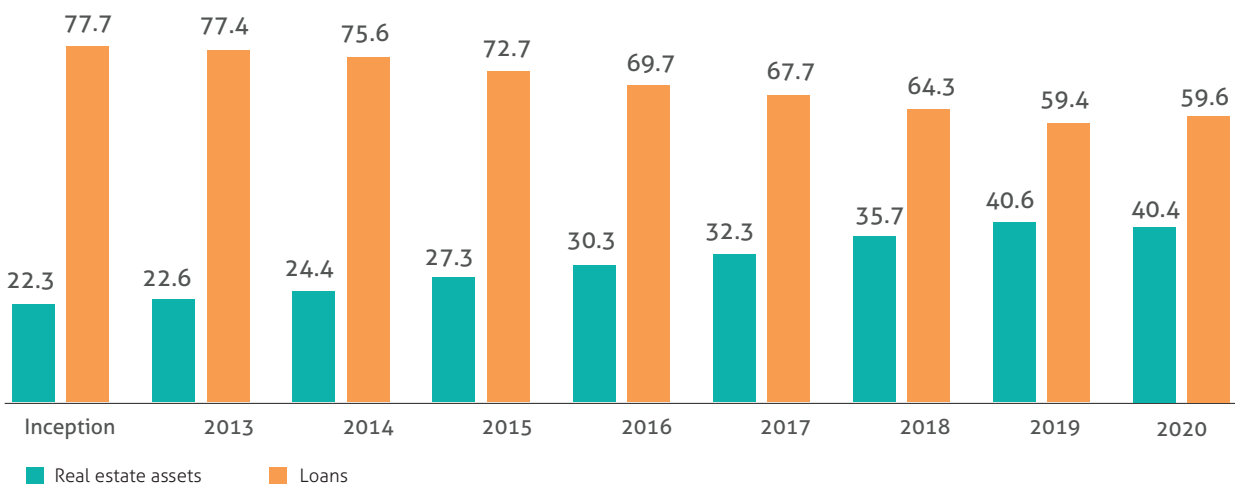
Sareb has continued advancing in the process of divesting its total portfolio of assets, which in 2020 went down by €1,154M now standing at €31,510M. Compared to the original starting portfolio of €50,781M, this figure represents a reduction of 37.9%.

As for the number of assets, the portfolio has increased to 201,423 units as a result of the conversion process.

8. Evolution of the portfolio (€M) ¹⁶

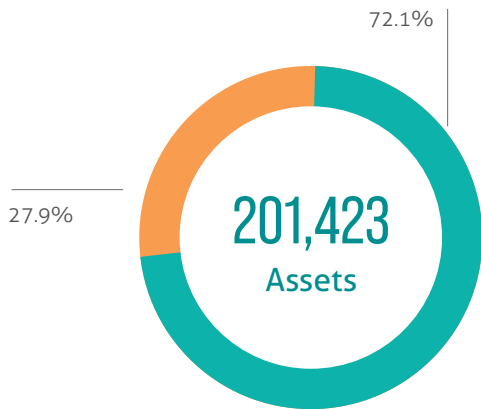


9. Composition of the portfolio (% of €M)



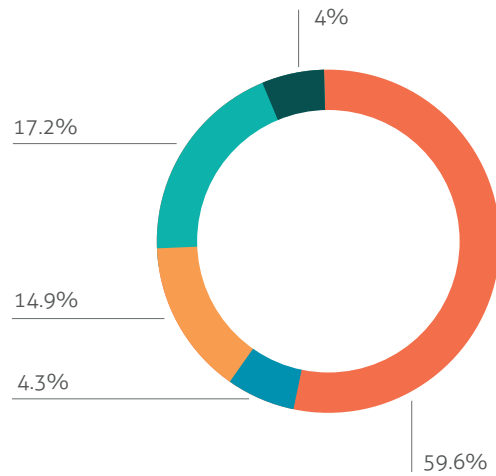
¹⁶ The portfolio figures are presented without impairment and with amortisation/depreciation.

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



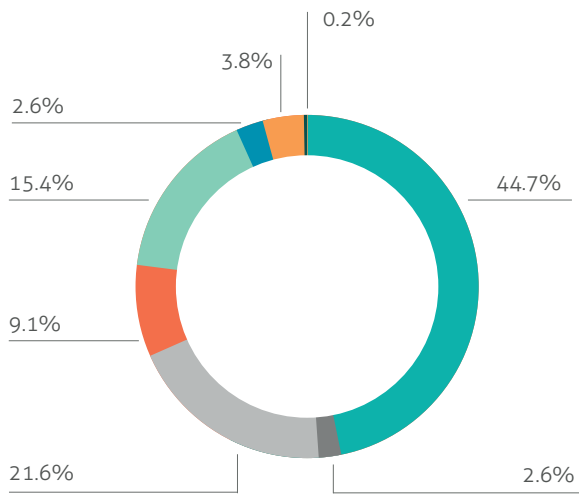
- Loans
- Real estate assets

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



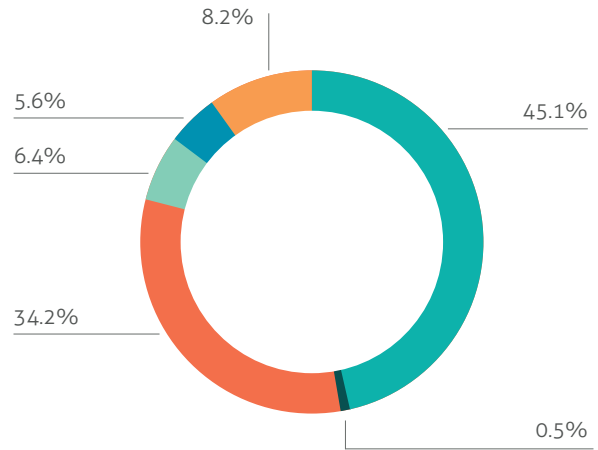
- Loans
- Residential
- Commercial real estate
- Land
- Others¹⁸

12. Breakdown of real estate assets per type
(% of €M¹⁷)



- Homes
- Ancillary
- Serviced development land
- Land under development
- Greenbelt land
- Commercial real estate
- Industrial
- Others

13. Breakdown of financial assets per type of guarantee
(% of €M¹⁷)



- Residential
- Land
- Works in progress
- Commercial
- Mixed guarantee
- Unsecured

¹⁷ Includes Arqura Homes and unclassified unfinished construction work of Sareb.

¹⁸ The portfolio figures are presented without impairment and with amortisation/depreciation.

14. Geographical breakdown of the portfolio of real estate assets¹⁹ (% of units²⁰ and of €M²¹)



¹⁹ Does not include works in progress.

²⁰ Not reported: 0.05%.

²¹ The portfolio figures are presented without impairment and with amortisation/depreciation.

15. Geographical breakdown of loan management²² (% of €M)



²² 0.08% of loans are not assigned to a specific autonomous region.

Repayment of senior debt

A total of €15,863M of debt repaid since its inception

Sareb's activity focuses on generating revenue through the management and sale of loans and properties to pay off the highest amount possible of debt issued when the company was set up. Since its creation, Sareb has reduced the amount of debt by €15,862.8M, 31.2% of the total.

In February 2020 the company repaid a total of €293.3M from the cash generated last year, charged against that year. Moreover, in the first half of the year Group 1 bonds were written-off²³ for a total of €6.6M.

In addition, between December 2020 and February and March 2021, the company has repaid €179.8M. Of this amount, €57M correspond to the escrow account of 2019; €118M to the cash redemption of Group 1 and 2 bonds²⁴ charged against 2020; and €4.8M to the write-off of Group 1 and 2 bonds charged against 2020.

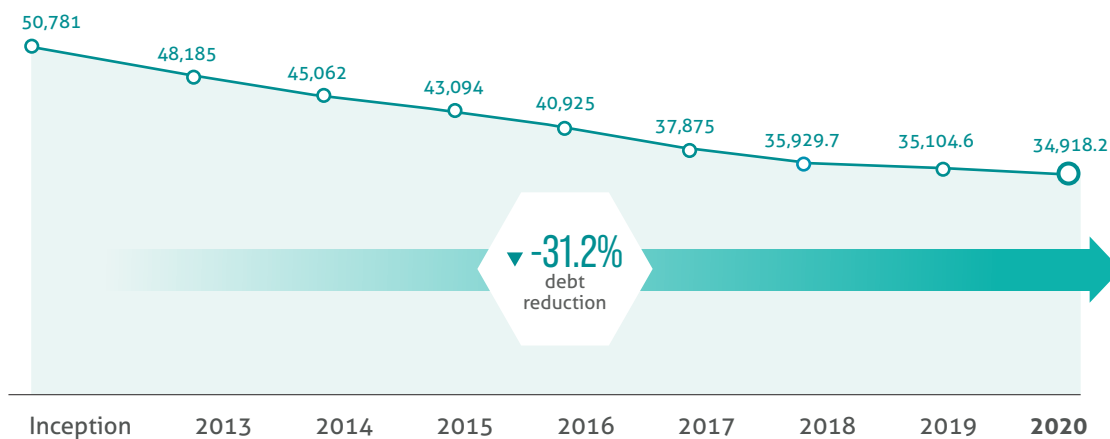
Interest paid, associated to Sareb's debt since its inception, stood at €5,899.4M, of which €2,784.9M went to the banks which received public aid and assigned their assets to Sareb.



Events subsequent to year end

After the end of 2020, Sareb became aware of the decision of the European Eurostat agency to add the company to the scope of the public accounts through the communication made by State public sources. While this decision will have an impact on both the volume of Government bonds and the public deficit, it does not affect the company's activity nor the structure of its bond issues guaranteed by the Government.

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



²³ Group 1: BFA-Bankia, Catalunya Banc, NCG Banco-Banco Gallego and Banco de Valencia.

²⁴ Group 2: BMN, Liberbank, Caja3 and CEISS.

Management and sale of real estate assets

With a sizeable retail component and the focus on end consumers, this business gained traction in 2020 as the company's main source of income and contributed almost 60% of the total

The management and sale of real estate assets continued to gain importance in 2020 and was again Sareb's main source of income, with a volume of €848M, i.e. 59.6% of the total.

This implies a 36% decrease on the previous year's figure, as a result of the more sluggish economic activity triggered by Covid-19 and due to the prudent sales strategy implemented by the company, which opted to postpone the sale of certain assets (mainly land and commercial properties) for which the market was asking for sizeable discounts.

The performance of the real estate market has been shaped by the decline in economic activity, which made completing transactions more difficult.

In terms of declared prices, sales of the various property types (residential, land and commercial) of Sareb-owned real estate amounted to €721.9M, i.e. 25.4% lower than in 2019. In terms of raw numbers, the company directly sold a total of 10,359 units, a 21.9% year-on-year decrease.

Furthermore, 1,752 assets were sold from developers' books in 2020.

Sareb opted to postpone the sale of certain assets for which the market was asking for sizeable discounts

i More information in the chapter **Management and sale of loans and on the Sareb website**



Picture: Arqura Homes apartment building in downtown A Coruña (Galicia).



Residential

The company made prudent price adjustments to some residential real estate assets to reverse the hiatus triggered by the lockdown and adapt to the demand emerging in the wake of Covid-19. However, the steady recovery in the residential market gained pace in the second half of the year (20%* annual growth in the volume of home sales in the retail market), with something of a return to normality and increasing interest for single-family homes in locations outside city centres.

Sales of Sareb's own residential real estate assets amounted to €557.5M in 2020, i.e. 24.5% less than in the previous year. In regional terms, the highest volume centred on the regions of Valencia (23%), Catalonia (12%), Madrid (11%) and Andalusia (10%).

*This figure does not include the sale of homes developed by Sareb or by means of Arqura Homes.

Almost all residential property sales were in the individual homebuyers' market. Not counting the institutional operations performed in 2020 and 2019, Sareb's residential sales decreased by only 8% year-on-year in 2020, compared with a decline of around 15% in the market.

In terms of units, the sale of Sareb-owned assets fell by 26% in 2020, to 8,912 units. At the same time, 1,358 residential real estate assets were sold through Sales Growth Plans (SGP), down 57% on the 2019 figure.

Profile of the buyer of an own residential property (2020)

Individuals



Foreign 8% Spanish 92%



Companies



Land

The economic slowdown and uncertainty had a much stronger impact on the market for land, an asset that constitutes a long-term investment. However, there was something of a recovery at the end of the year, when most transactions were concentrated. Note that in the second half of the year the volume of Sareb-owned land sales rose 19.5% compared with the same period of 2019.

In the year as a whole, Sareb-owned land sales amounted to €107.4M in declared price terms, 18.6% less than the previous year. By autonomous regions, Catalonia (26%) and the Region of Valencia (15%) accounted for the highest amounts.

The company directly sold a total of 910 units, up 33% in the year. Moreover, in 2020 Sareb sold a total of 229 land units from developers' books, a 37.6% year-on-year decrease.



Commercial real estate assets

The commercial assets segment was the hardest hit by the circumstances unleashed by Covid-19.

Restrictions on trade, leisure and tourism had a decisive impact on the sale of assets such as commercial premises, shopping centres or hotels, among others. Logistics-related assets were other side of the coin, performing strongly thanks to the boost in e-commerce.

The declared value of Sareb-owned logistics-related real estate sold by the company came to €56.9M in 2020, a

50.5% decrease on 2019. The highest volume was in the regions of Catalonia (15%), Valencia and the Canary Islands (both around 14%).

In units, during the year 537 of Sareb-owned assets of this kind were sold, a 2% year-on-year decrease. At the same time, sales of commercial assets from developers' books rose by 48.6% to 165 units.

2019

2020

17. Sales of Sareb-owned residential real estate (€M and units sold)



€738.4 M

12,046

Sareb-owned units

-24.5% (€)

-8% (excluding institutional operations)



€557.5 M

8,912

Sareb-owned units



18. Sales of Sareb-owned land (€M and units sold)



€132.2 M

681

Sareb-owned units

-18.6% (€)



€107.4 M

910

Sareb-owned units

19. Sales of Sareb-owned commercial properties (€M and units sold)



€114 M

548

Sareb-owned units

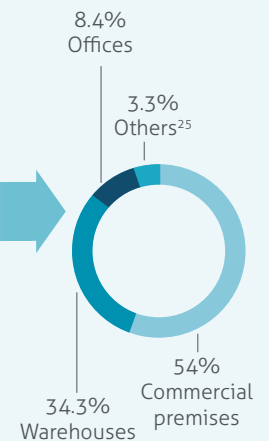
-50.5% (€)



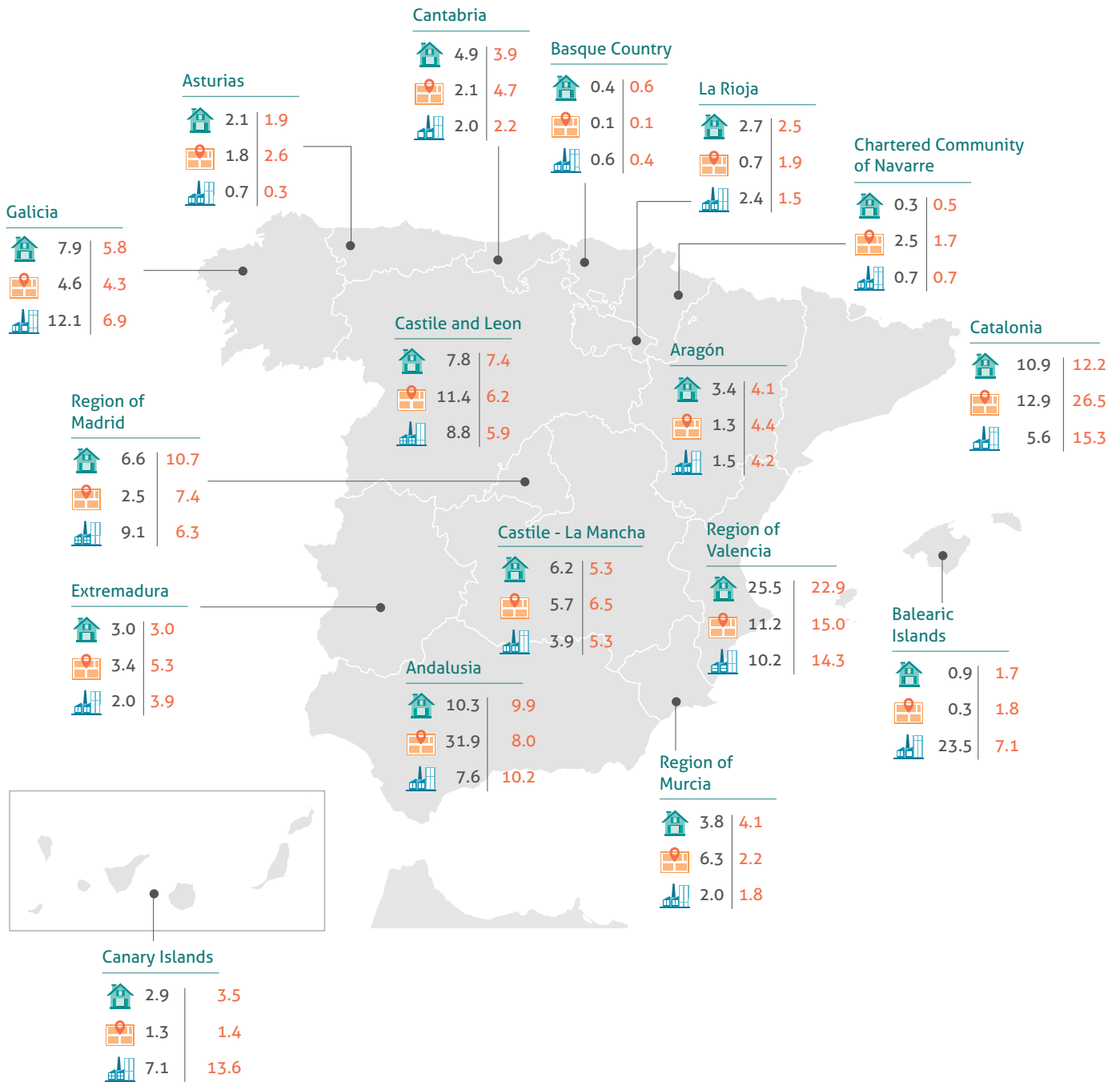
€56.9 M

537

Sareb-owned units

²⁵ In 2020 this category refers to the sale of car parks.

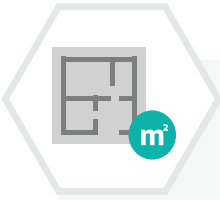
20. Geographical breakdown of sales of Sareb-owned real estate assets ²⁶



Residential
 Land
 Commercial real estate assets
 % of units sold
 % of volume of declared price

i More information under [Conversion of the balance sheet](#) and [Management and sale of loans](#)

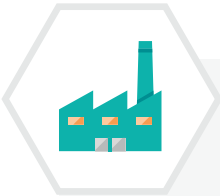
²⁶ Includes works in progress.



Sale of almost 54,500 m² of land to a well-known regional developer

One of the most notable land transactions in 2020 was the sale of almost 54,500 square metres of land for building to Llave de Oro, a developer that builds homes in Barcelona and Palma de Mallorca. The transaction amount was €15M.

The land comprises seven residential and commercial plots located between Cerdanyola and Sant Cugat del Vallès. Their development will signal a major transformation for this area north of Barcelona.



Sareb sells two industrial warehouses to the Town Council of Hospitalet de Llobregat

Sareb and the Town Council of Hospitalet de Llobregat (Barcelona) have been collaborating since 2017, when the company assigned 50 properties for social purposes to the local government.

The two parties recently reached a new agreement whereby Sareb sold two industrial warehouses to the Town Council of Hospitalet de Llobregat. The transaction amount was almost €5M.

The Town Council of Hospitalet de Llobregat plans to use these properties for cultural and recreational activities in order to boost a programme to create areas of economic and cultural activity in sectors classified as industrial developments.



Picture: Apartment building belonging to Arqura Homes in Barcelona (Catalonia).

Property development and urban land management

Real estate developments on land owned by Sareb and the completion of works in progress are two of the company's investment pillars to generate value in its asset portfolio by internalising the developer margin

The thorough and responsible management of Sareb's portfolio includes nurturing initiatives to increase the value of its assets. These include initiatives relating to property development on land owned by the company, with the completion of unfinished construction works and urban land management.

Through 2027, the company plans to invest around €3,200M in new developments and urban land management, enabling it, once the return on this investment has been obtained, to generate additional income of around €1,500M from the sale of these assets.

Arqura Homes property development

Since it was created in 2019, Arqura Homes has played a prominent role in the development and promotion of Sareb properties. This is a Bank Assets Fund (FAB) in which the company owns a 90% stake and through which it invests in most of its property development projects.

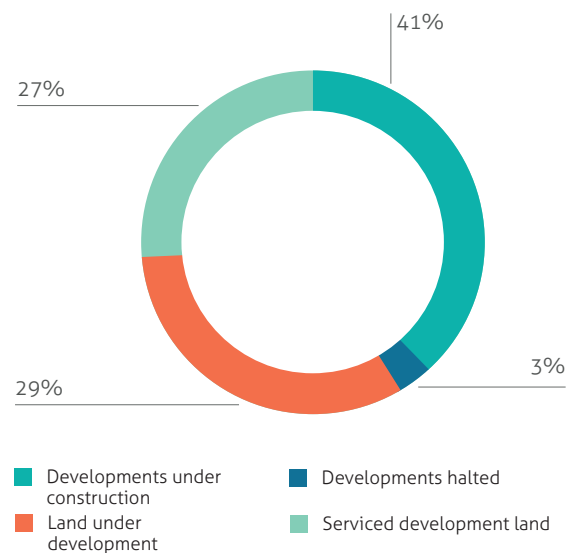
When Arqura was set up, Sareb transferred assets valued at €811M to the FAB, amongst which some were developments that had been halted and others under construction, and also land.

In 2020 the National Commission on Markets and Competition (CNMC) authorised Värde Partners to acquire joint control over Arqura Homes, becoming a non-controlling shareholder with a 10% stake in the shares issued by the FAB, with Sareb holding the other 90%.

Management and marketing of the assets of the FAB was entrusted to Aelca, one of the leading development companies in the sector, which makes it possible to have a first-hand knowledge on the local markets and adapt products to the demand in each area, while at the same time helping to optimise the costs associated with project development and increase margins coming from the marketing and sale of the properties.

At the end of 2020, Arqura Homes had invested €210M²⁷ in residential property developments. The vehicle plans to invest almost €2,600M by 2027 in developing 16,200

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

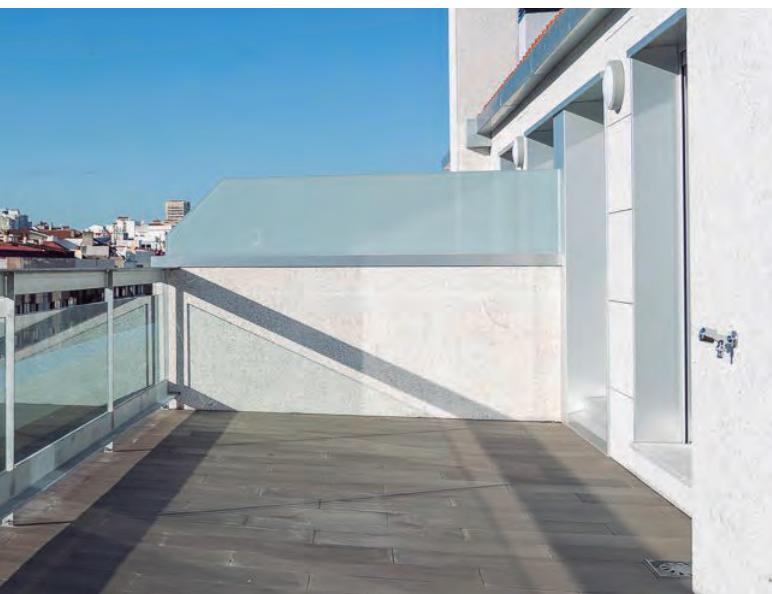
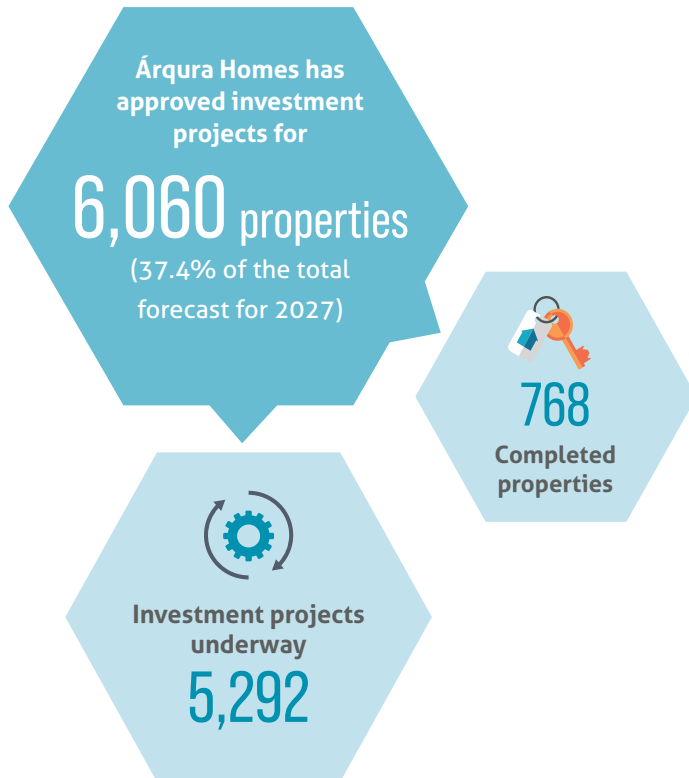


Picture: Views from the terrace of a home promoted by Arqura Homes in Vigo (Galicia).

properties distributed throughout Spain, mainly in the regions of Andalusia, Catalonia, Madrid and Valencia, which account for 60% of the assets.

Residential product launched in the market by the FAB is aimed at meeting demand comprising mainly mid-income buyers.

22. Activity of Arqura Homes at the end of 2020 (units)



The impact of Covid-19 on Arqura Homes' progress

The health crisis had only a limited impact on the FAB's activity

Covid-19 had a limited impact on the property development activities, although both Sareb and the FAB rolled out measures to tackle and mitigate the possible effects on the fulfilment of the Business Plan. The company has decided to opt for development projects (to be carried out in the medium term, envisaging delivery of homes between 2021 and 2024), with a moderation of the pace of investment particularly in sectors such as holiday homes for foreign buyers.

The sale of 3,106 new homes commenced in the period, and the number of properties whose market launch was postponed was 306.

In terms of income and EBITDA, the company met the budget goals established prior to the health crisis.

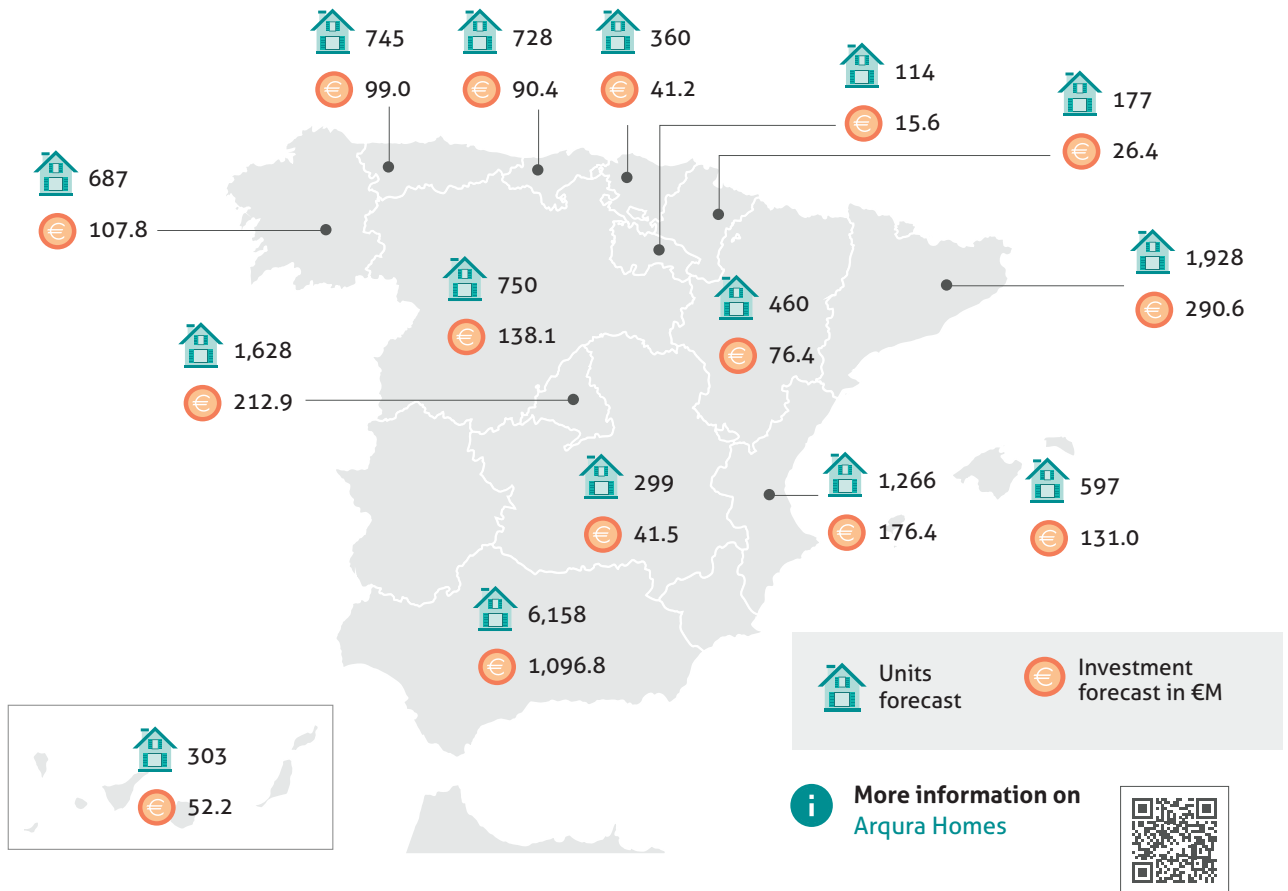
	No. of properties
Marketing started in 2020	3,106 (47 developments)
Marketing suspended or postponed in 2020	306 (5 developments)
Marketing to be started in the first half year of 2021	1,825 (30 developments)

i More information on Arqura Homes



²⁷ The volume of investment includes four developments transferred to Arqura Homes and credit rights.

23. Total properties and investment projected until 2027 by Arqura Homes (units and €M)²⁸



Sareb property development

Although Sareb carries out most of its property development business through Arqura Homes, it has maintained its own scope for building developments on its own land and completing unfinished construction work.

Specifically, the company plans to build a total of 4,082 properties. Of that number, 2,842 are already finished, while the rest is still under construction.

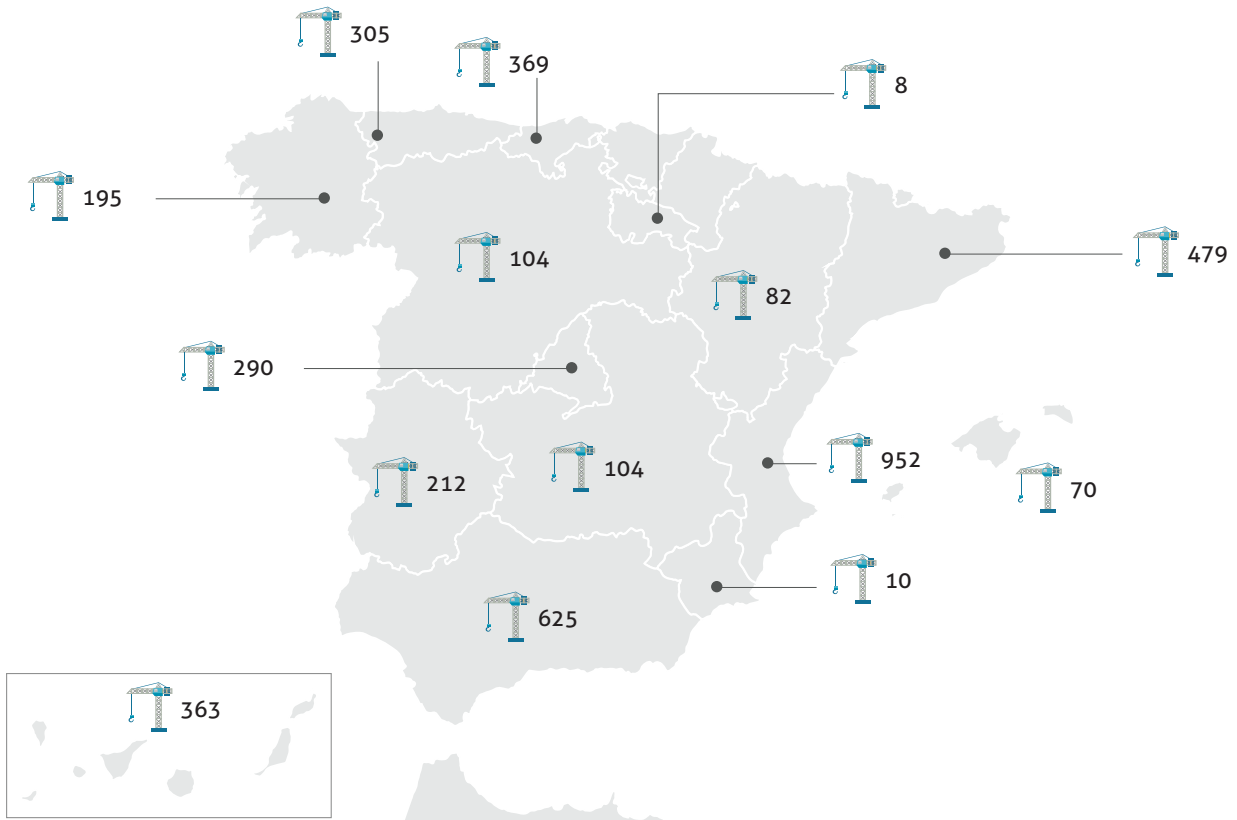
24. Sareb property development in figures²⁹ (units)



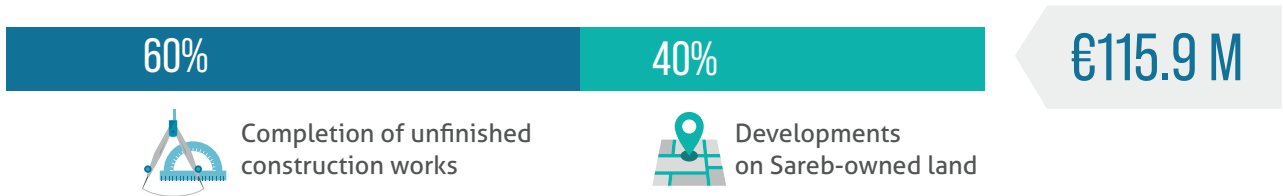
²⁸ The volume of investment includes OPEX and CAPEX.

²⁹ Not including the promotion and development projects transferred from Sareb to Arqura Homes.

25. Total number of properties to be built directly by Sareb by 2027 (units)



26. Investment by Sareb in residential property development from its launch until the end of 2020 (% over €M)



Picture: View of a Sareb building in Astillero (Cantabria).



Sareb and Arqura Homes contribute to the preservation of heritage

Refurbishment of an industrial building of cultural interest in Seville

2020 saw completion of the first part of the refurbishment of the Glass Factory in Seville, a building of Andalusian-style architecture. This building, which has been designated an Object of Cultural Interest (BIC), is part-owned by Arqura Homes.

Over the course of the year, the Compensation Board, chaired by Arqura Homes, has invested €430,000 in cleaning and repairing the factory's infrastructure.

Refurbishment of a historical building in Avilés

In 2020, Sareb completed the refurbishment of an emblematic building known as 'El viejo geriátrico El Parque' (the former old people's home). This is a historical building located in the centre of Avilés where the Way of Saint James crosses the town.

Although the building is especially protected as it is part of the Cultural Heritage of Asturias, the construction of homes inside it is allowed provided the façade is maintained.



Picture: Exterior view of the Glass Factory in Seville (Andalusia).

In early 2020, Sareb also completed the refurbishment of a building of eight apartments located in downtown Granada covered by the heritage protection and preservation framework, necessitating the intervention of archaeologists.

Sareb's contribution to the United Nations 2030 Agenda

Through their activity of property promotion and development, Sareb and Arqura Homes stimulate the growth of regions where they operate, resuming building works that were halted and reaching agreements at local level for improving the situation of certain areas, which is considered an advance toward the fulfilment of target 11.1 of the United Nations 2030 Agenda: "**ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums**".



Management of the land portfolio and urban development processes

As a result of the acceleration in the conversion of the balance sheet and the resulting transfer of land, the composition of the land portfolio changes continuously

Sareb's land portfolio includes land under development, serviced development land and greenbelt land. At the end of 2020, a total of 72 million square metres corresponded to land under development and serviced development land, and 98 million square metres to greenbelt land.

Sareb carries out a number of initiatives to maximise the value of this type of assets before they are sold, notably including the development of urban planning management processes for certain land. In addition, the company devises individualised strategies for sale or lease, adapted to the circumstances of each asset and its potential demand.

With regard to the activity in this segment in 2020, note the approval of six urban planning instruments, the launch of six infrastructure projects and the completion of another two such projects.

27. Breakdown of the Sareb land portfolio

	Total area
Under development ³⁰	60.8 M m ²
Serviced development land	11.2 M m ²
Greenbelt land	98.0 M m ²



Safeguarding biodiversity

Sareb holds a small volume of land located in areas covered by some kind of environmental protection and it designs specifically tailored plans to ensure the utmost respect for these environments

The level of protection in each of these areas is defined by the general and specific provisions of applicable regulations. The highest level of protection implies the total preservation of the development process since the land is subject to a specific protection framework that is incompatible with its transformation into land for development.

The various environmental protection levels are aimed at preventing proven natural or technological risks, and are established based on the landscape, historic, archaeological, scientific, environmental and cultural value (among others) of the various areas. Land being subject to a particular kind of environmental protection implies a series of information and maintenance obligations for the owner.

Sareb has internal procedures aimed at identifying, maintaining and managing this land in accordance with the obligations established by the many and varied regulations governing it.

In this regard, we highlight the company's work in Malaga, where in 2019 it conducted soil decontamination on land affected by fuel leaks from a multinational oil company.

In 2020, in collaboration with the Malaga Town Council, the company continued to progress in its project to develop that land through Arqura Homes. The total surface area of this project is 177,548 m².

³⁰ The area of Sareb land under development does not include land transferred to Arqura Homes.

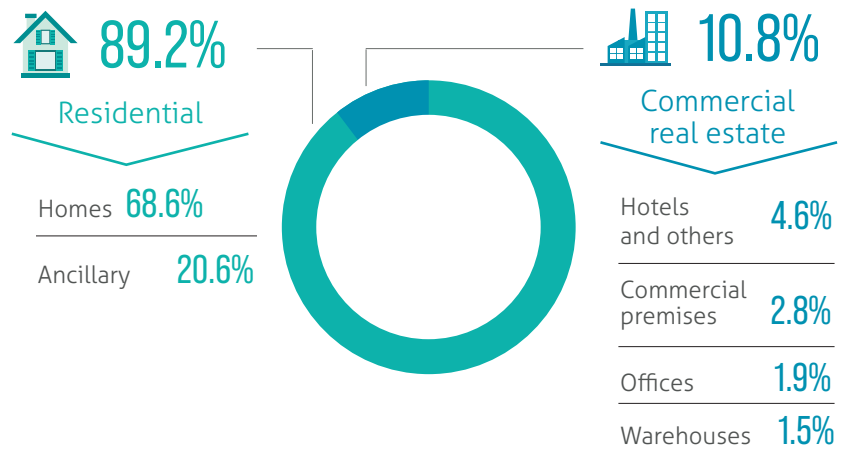
Rentals

Sareb's mandate is to sell all its assets, requiring a steady reduction in the volume of real estate for rental in the next few years

At the end of 2020, Sareb's rental portfolio amounted to 9,406 properties³¹ (26.2% less than in the previous year), of which 89.2% were residential real estate assets and the rest were commercial properties.

The company expects this pool to continue to shrink considerably in the next few years, since the assets currently rented must be available for their future sale in compliance with the sale mandate of all assets received by Sareb.

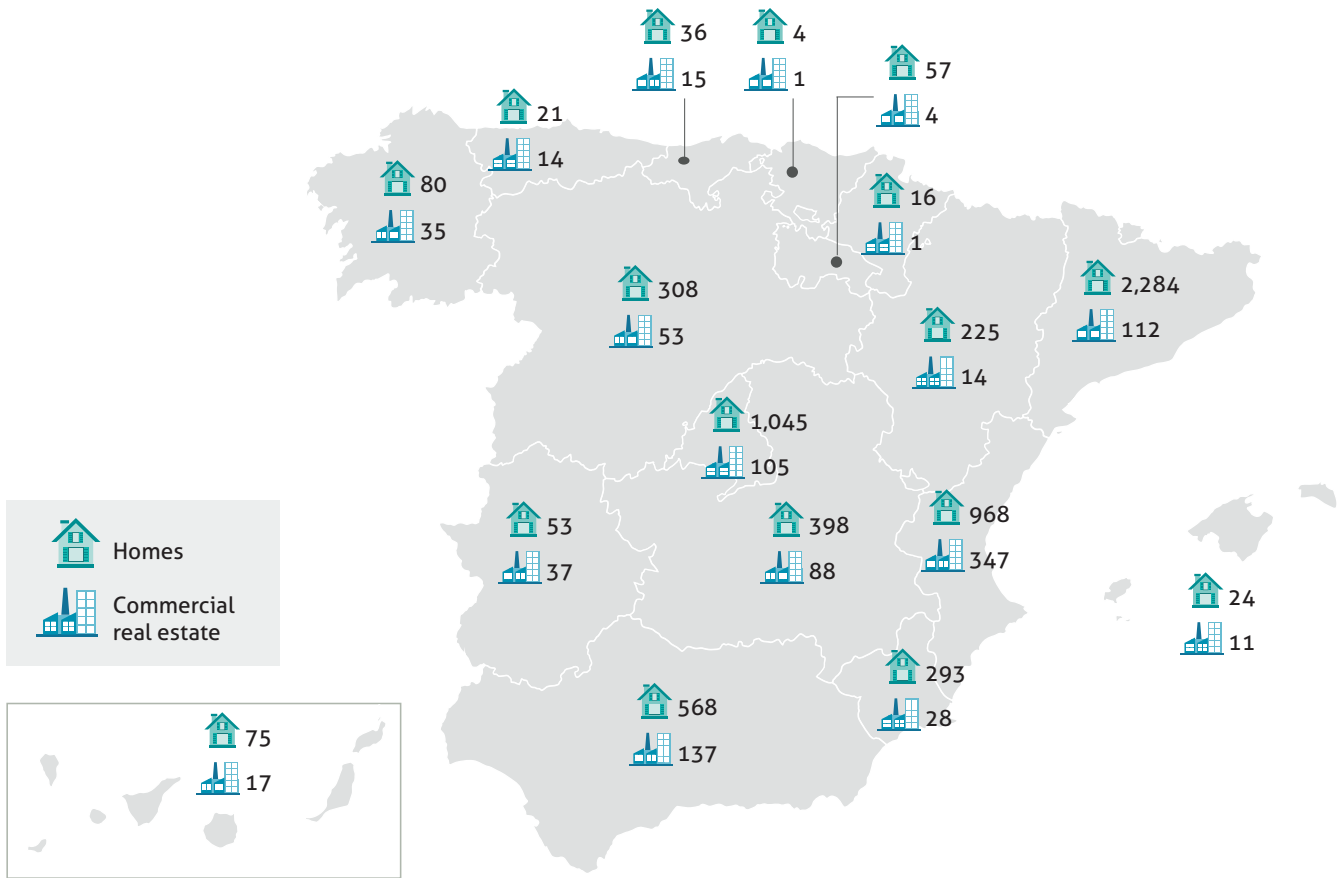
28. Portfolio of real estate for rental per type of asset (% of the total of units)



Picture: Terrace of a property developed by Arqura Homes in the municipality of Casares (Seville, Andalusia).

³¹ The figure does not include the assets transferred by Sareb to the REIT T mpore Properties or the properties assigned through agreements with Autonomous Regions and Town Councils.

29. Geographical breakdown of the number of residential and commercial properties for rental (units)



Impact of Covid-19 on rental activity

As a result of Covid-19 and in line with the measures approved for protecting tenants, Sareb has granted moratoriums on rent payment in residential properties and commercial properties throughout Spain

The health crisis and the lack of business during the first half-year of 2020 has led to a reduction of new rental contracts for residential and commercial properties, and has shown the importance of being flexible with rent payments for tenants in need. In that context, Sareb granted moratoriums for rent payments from some of its tenants, in line with the guidelines approved by the Spanish Government, which also promoted financial aid to tenants and subsidies for social rentals.

Commercial activity and the relationship with customers

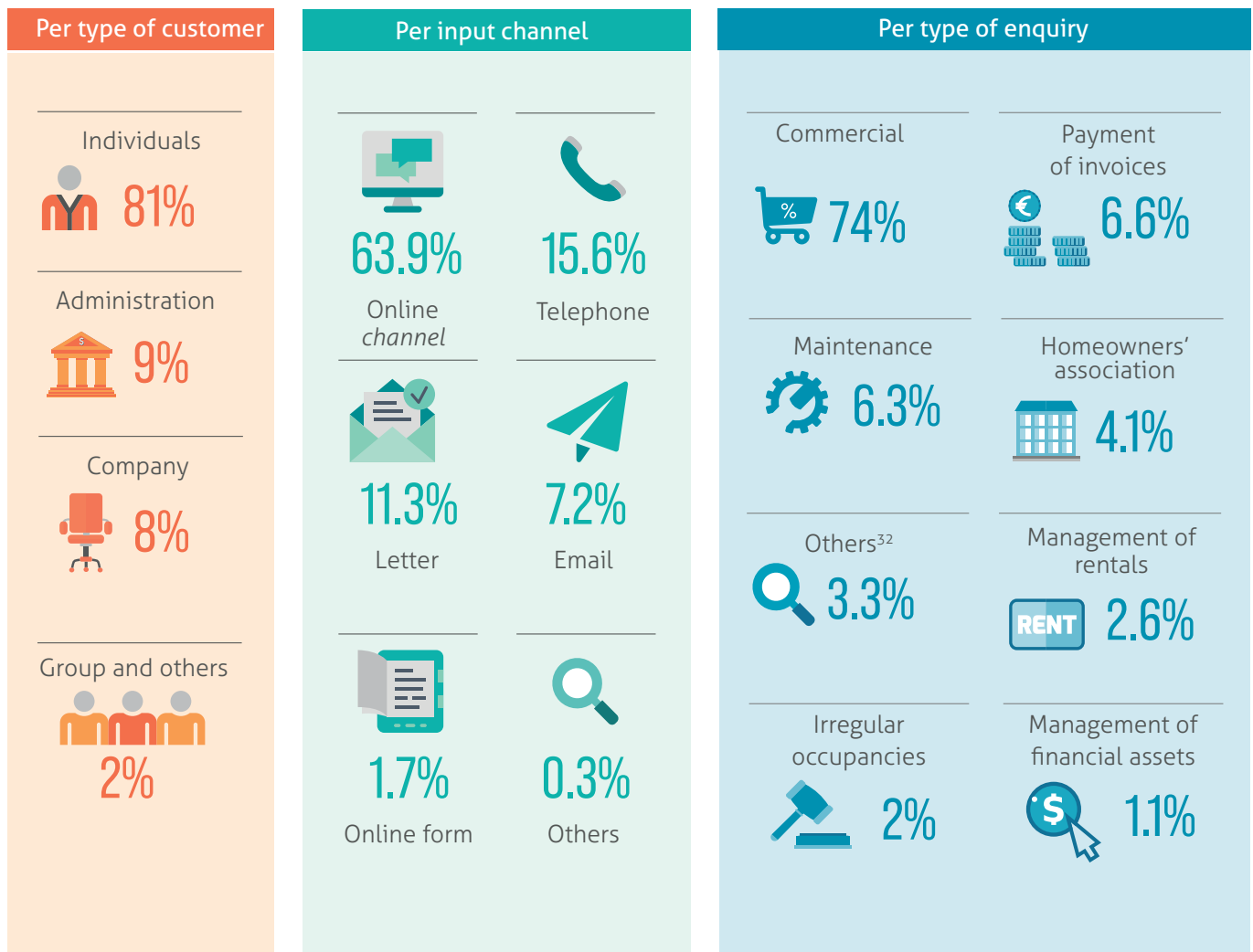
Although Sareb delegates commercial duties primarily to its four servicers (Altamira Asset Management, Haya Real Estate, Servihabitat and Solvia), the company makes available to its customers the communication channel 'Sareb Responde' with a view to establishing close and expedient relations with them. This service was set up to field sales queries, clarify doubts and manage complaints.

'Sareb Responde' is the company's customer services arm, affording it an open and direct line of communication with all its stakeholders.

Last year this service received a total of 157,426 communications, 56% fewer than in 2019. Of these, 143,870 were queries or requests, while 13,556 were one or other type of complaint.

Furthermore, the company has analysed the degree of general satisfaction with the sales process, with a result of 85% in the assessments performed in 2020.

30. Type of enquiries and complaints received by Sareb Responde in 2020 (% of the total)



³² The 'Others' category includes queries or complaints of another kind. Among these were 60 enquiries and two complaints received in 2020 in connection with the exercise of data protection rights (access, rectification, erasure and objection).

Management and maintenance of real estate assets

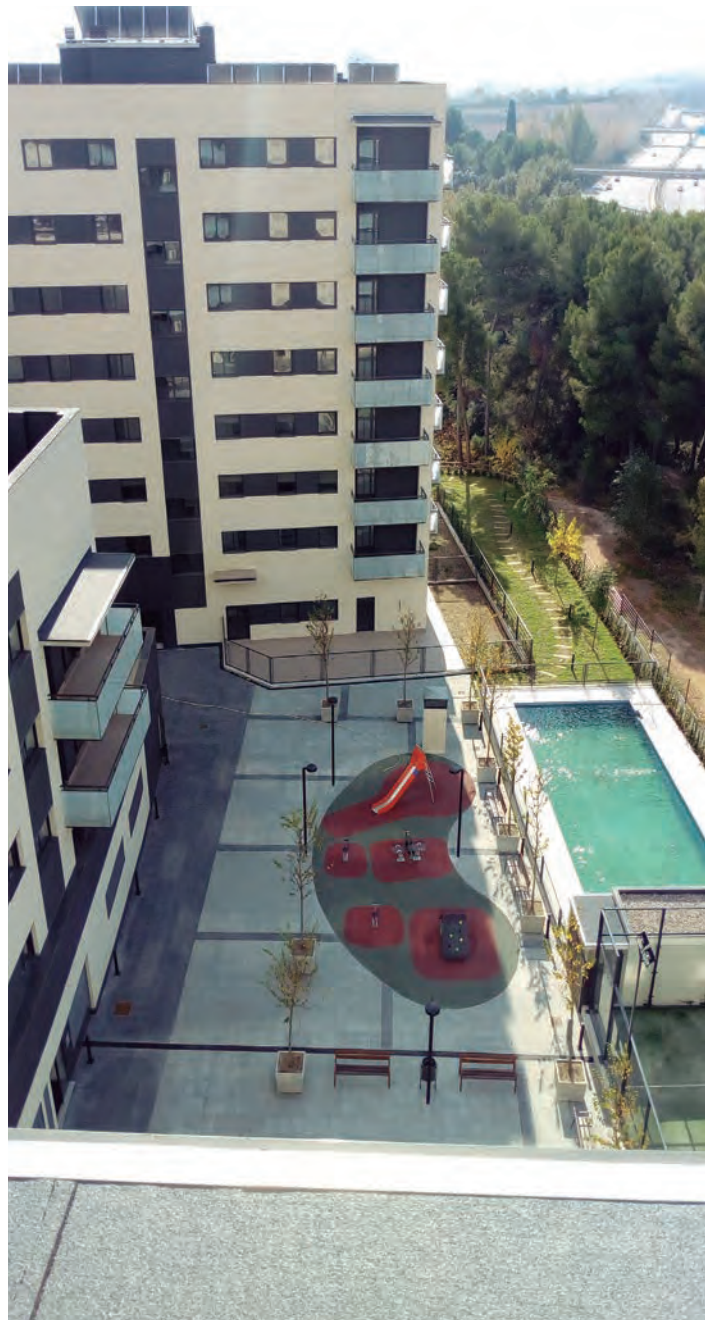
Sareb bears the management and maintenance costs of its real estate assets and carries out the necessary conservation work on them until they are sold.

The company earmarks funds for identifying and keeping up to date with the payments for all of the real estate assets it owns. It also has a comprehensive maintenance model (certified as compliant with ISO 9001 standard since 2018) which enables it to better manage the properties and the various processes, as well as those linked to conditioning the assets.

In addition, the company has also developed and implemented a computer assisted management system, which allows status reports to be made in real time. During the year, the modules for technical renovation and monitoring of the conditioning works have been included in this platform.

The main functionalities of the computer assisted management system

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




Picture: Patio of an Arqura Homes apartment building in Sabadell (Catalonia).

The territorial operating structure has brought about improvements in management and maintenance of real estate, as a result of being more familiar with the portfolio due to closer contact. For example, Sareb can supervise closely the evolution of the conditioning work with the support of the geographical branch offices, which contributes to saving costs, optimising time scales and avoiding possible deviations.

Because of Covid-19, during the periods in which all non-essential activities were halted, the conditioning work was also interrupted and non-urgent maintenance was rescheduled. In cases in which the maintenance work could not be postponed, Sareb issued statements of responsibility for its principal maintenance providers so they could carry out the maintenance work and repair of urgent breakdowns—authorised under sub-section 18 of the Annex of Royal Decree-Law 10/2020³³—in order to avoid irreparable damage to third parties.

In 2020, the expenses associated to management and maintenance of real estate amounted to €195.5M, of which the main items related to payment of taxes, maintenance, conditioning and expenses of homeowners' associations (83.5%).

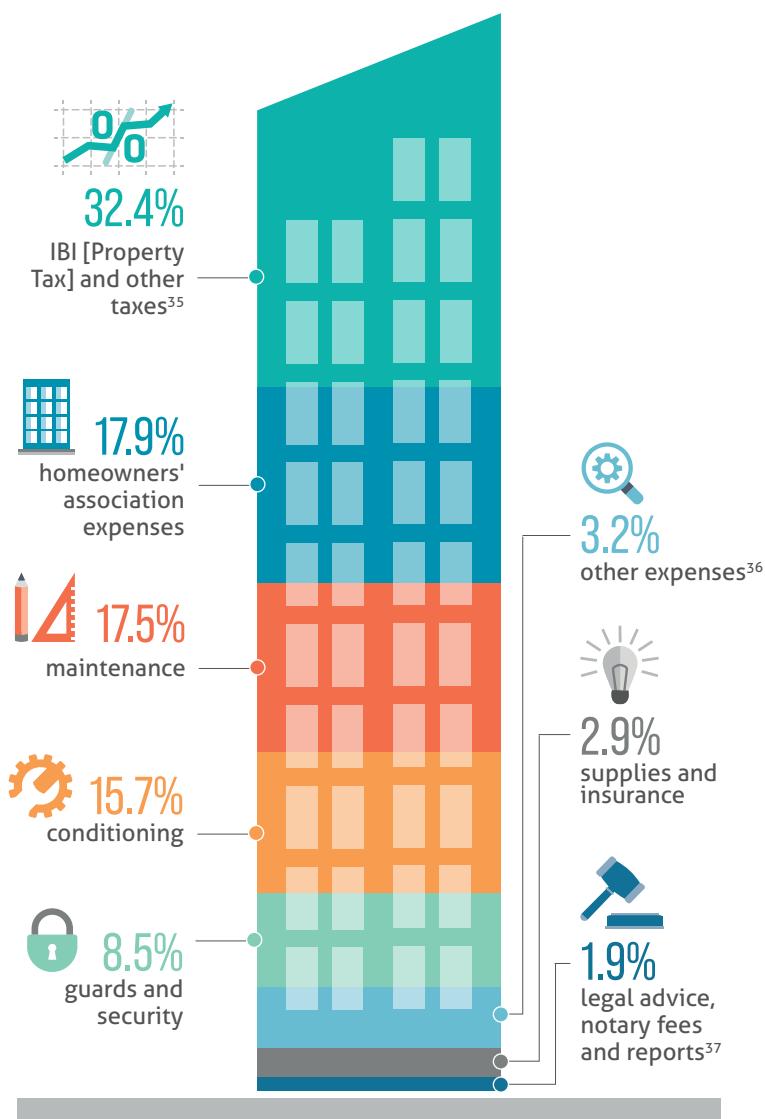
In this connection, the ratio of portfolio expenses over total assets under management fell from 1% in 2019 to 0.85% in 2020.



Boosting efficiency and best practices for savings in homeowners' association expenses

One of the pillars of the Efficiency Plan implemented by the company in 2020 is to streamline the costs associated with managing the assets, including homeowners' association expenses for all the residential properties on the portfolio. In this regard, Sareb has launched a study into the general budgets of homeowners' associations to identify best practices and propose savings options.

31. Expenses for management and maintenance of real estate assets (% of €M)³⁴



0.85% portfolio management ratio
(expenses/assets under management)

³³ Royal Decree-Law 10/2020, of 29 March, which regulates a recoverable period of paid leave for employed workers who do not provide essential services, in order to reduce people's mobility in the context of the fight against Covid-19.

³⁴ According to the company's management account at the end of 2020.

³⁵ IBI [Property Tax] and other taxes also includes licence/permit costs.

³⁶ "Other expenses" includes marketing costs, infrastructure costs, demolition of works in progress and other maintenance expenses.

³⁷ Legal advice and technical reports comprises expenses for lawyers, court representatives and the fees for preparing technical reports.

Real estate assets conditioning

The conditioning work includes repairs which are necessary for marketing the properties—whether through sale or rental—or for assignment of social housing.

In 2020, conditioning work was completed on 6,336 properties for sale or rental (44% more than in 2019), for which an amount of €14.8M was invested.

Furthermore, during the year Sareb invested €21,861 to condition social housing.

The significant deterioration in certain foreclosed assets from developers and the vandalism in other properties led to an increase in the amounts used under this item.

Annual review of risk coverage

Sareb annually analyses the coverage against risk to which it is exposed and arranges the appropriate policies to insure itself against them

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

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

Following the company's risk coverage policy, in 2020 Sareb renewed the framework agreements for 'comprehensive construction cover and ten year building insurance'. To meet new business needs, two new policies were arranged: 'a professional civil liability insurance policy' and a 'cyber-risk policy'.

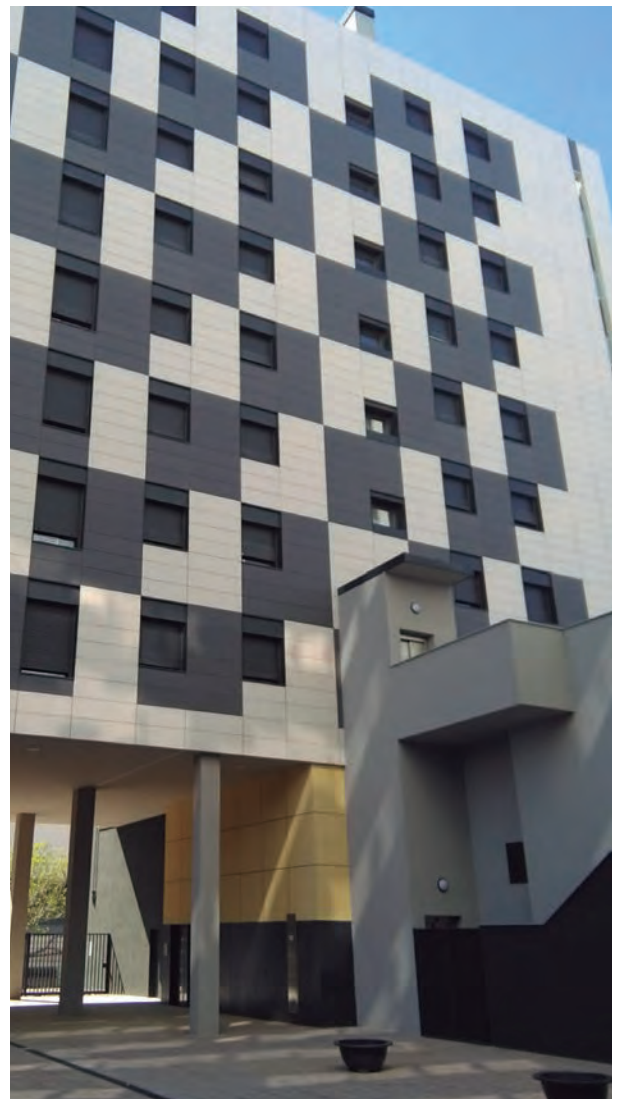
It also renewed the 'comprehensive damage cover' and 'civil liability cover', and updated the 'claims circular' in accordance with the latest insurance renewals.

i More information on risk management in the chapter [Good Governance](#)



Almost 9,600 tonnes of waste removed thanks to brush clearing and land maintenance work

The company carries out the necessary brush clearing to properly maintain its land. In 2020 alone, these activities enabled almost 9,600 tonnes of waste to be cleared from a surface area of around 800 hectares.



Picture: Façade of a residential property promoted by Arqura Homes in Badalona (Catalonia).

A changing balance sheet



In 2020 the company added to its balance sheet a total of 22,853 new properties worth €2,116.8 M, an increase of 13.4% compared to the figure in 2019

In 2013 the transfer of assets by the assigning banks to Sareb was completed. However, the company's balance sheet is undergoing constant evolution.

Conversion consists of converting loans—which are less liquid for selling—into real estate, using foreclosure or dation in payment procedures which, once concluded, enable properties which were previously collateral for financial assets to be added to the Sareb portfolio.

Although this process means having to assume lengthier time periods, it is essential for preserving the value of the Sareb's assets and avoids having to sell loans in the wholesale market at significant discounts. At the same time it makes it possible to increase and diversify the company's real estate offer.

The conversion process is adapted to the specific situation of each loan on Sareb's portfolio—depending on the willingness of the debtor³⁸ to collaborate or the legal process involved—and it is carried out by means of three instruments: dation in payment, insolvency and foreclosure proceedings.

The inactivity sparked by the declaration of the state of emergency and the halting of legal proceedings as a result of the health crisis had an impact on the

strategy for converting Sareb's balance sheet. In this context, the company has intensified its efforts to achieve out-of-court agreements for both loans in insolvency proceedings and those for which mortgage foreclosures have already been filed. With respect to insolvency, Royal Decree-Law 16/2020³⁹ introduces a series of new measures aimed at speeding up insolvency proceedings.

Implementing this strategy has enabled Sareb to pick up the pace of conversion with respect to 2019 despite the prevailing inactivity in much of the year. The conversion process is also expected to continue accelerating based on the trend in previous years.

In 2020, the company added a total of 22,853 new properties to its books, worth €2,116.8M, a 13.4% increase on 2019.

In addition, in 2020 Sareb reviewed the entire process for conversion of the balance sheet and defined a set of measures that will result in greater efficiency and shorter times between the different milestones in each of the three instruments.

Dation in payment

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

Insolvency proceedings

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

Foreclosure proceedings

Claiming the debt through legal proceedings when it is not possible to reach an agreement for collaboration.

Conversion by method in 2020

€880.7 M / 41.6% of the total
10,293 properties

€402.4 M / 19% of the total
2,856 properties

€833.7 M / 39.4% of the total
9,704 properties



Degree of collaboration

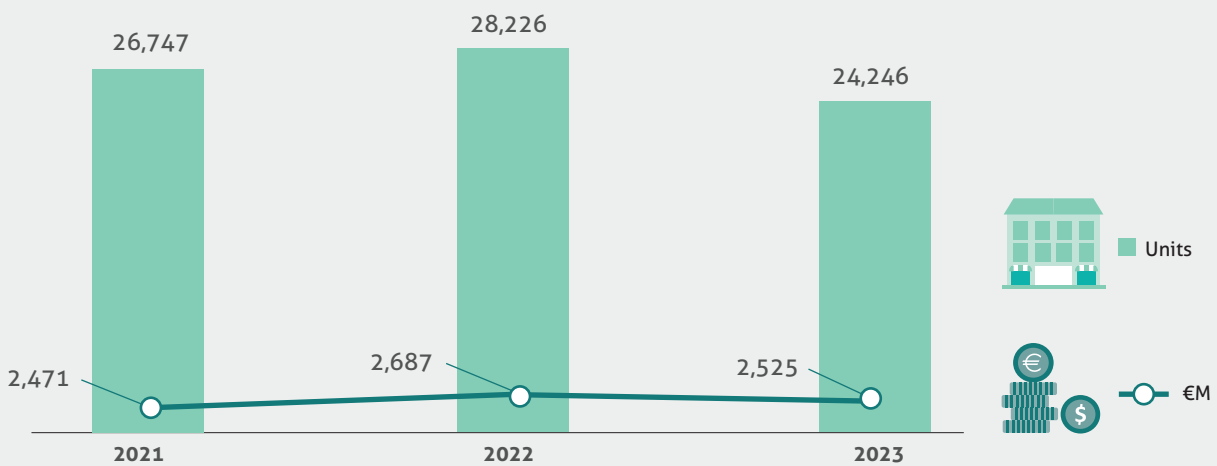


³⁸ Debtors of assets assigned to Sareb are real estate development companies and not private individuals.

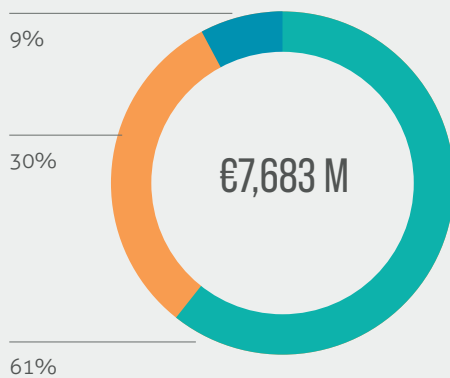
³⁹ Royal Decree-Law 16/2020, of 28 April, on procedural and organisational measures for dealing with Covid-19 in the field of the Administration of Justice.

Between 2021 and 2023 the company estimates that the conversion processes will enable it to add 79,219 new properties⁴⁰ to its portfolio, of which 78,5% will be residential real estate assets, 15.1% will be land and the remaining 6.4% commercial properties.

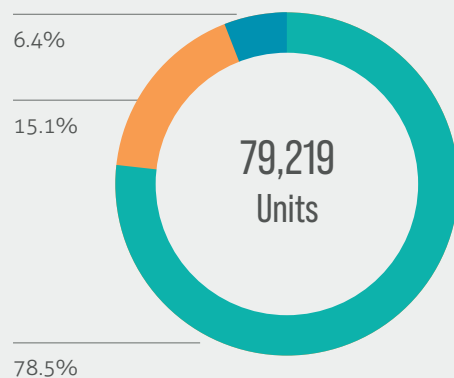
32. Forecasts on properties to be converted in 2021-2023 (No. of properties and net book value (NBV), in millions of euros)



Distribution of net book value expected to be converted in 2021-2023 (% of total)



Distribution of total properties expected to be converted in 2021-2023 (% of total)



⁴⁰ The company has updated the forecasts published in the Annual Activity Report for 2019.

Management and sale of loans

Sareb has reduced its financial asset portfolio by 52.4% since its inception

The company's loan portfolio went down by 3.2% in 2020 compared to the end of 2019, to €18,787M, which represents 59.6% of the total value of its assets.

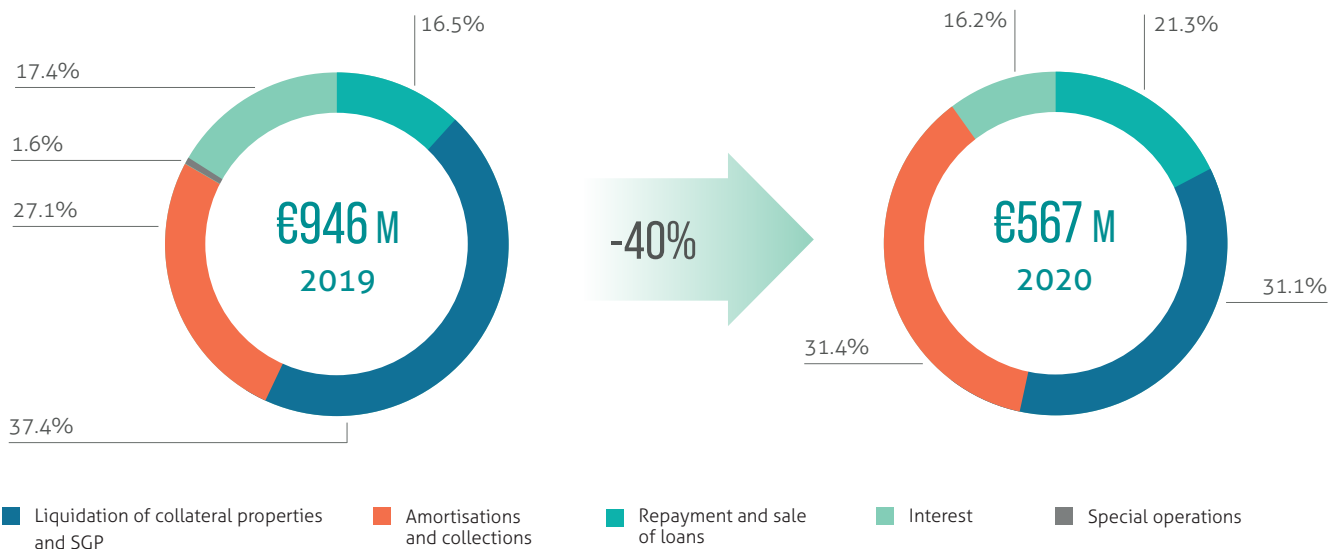
Since Sareb's inception in 2012, the financial assets portfolio has decreased by 52.4%.

The income from the management and sale of loans stood at €567M at the end of 2020, 40% less than in the previous year⁴¹. This performance was shaped by considerable impact of the economic slowdown on this segment of assets and by Sareb's decision to reduce sales activity in the market of non-performing loans. However, in recent years there had been a steady reduction in the weight of loan-based income due to Sareb's strategy aimed at promoting the conversion of financial assets into real estate in order to avoid the sizeable discounts which institutional investors demand.



Picture: Arqura Homes residential property development in Burgos (Castile and Leon).

33. Breakdown of income from managing and selling loans per business line (% of €M)



⁴¹ In 2020, Sareb made some adjustments and the income on the sale of loans differs slightly from that reported in the Annual Activity Report for 2019.

34. Strategies for the management and sale of loans



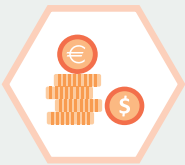
Debt recovery

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



Loan repayment

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



Liquidation of collateral and Sales Growth Plans (SGP)

Sale of real estate collateral associated to loans from the developers' books for cancellation of debt. The intention is to make the loans liquid and to reduce or cancel the entire debt with Sareb.



Dation in payment

Paying off debt by handing over the real estate collateral.



Sale of debt

Sale of debt positions to third parties.

Amortisations and collections increased in 2020, accounting for 31.4% of Sareb's total income in this segment

The company's loan-based income was lower across all lines in terms of both volume (€567M in 2020, compared with €946M a year earlier) and net margin (€101M in 2020, vs. €239M in 2019).

Amortisations and collections accounted for the most income in 2020, amounting to €178M. They also contributed €48M in margin. Next in line was the liquidation of single items of collateral, SGPs and the liquidation of residential collateral properties, which generated €176M of income, with a negative margin of €11M.

The cancellation and sale of loans contributed €121M, with a negative margin of €4M, while interest accrued and collected amounted to €91M, all also accounted for as margin.

Moreover, special operations did not contribute income and accounted for a negative margin of €23M.



Picture: Construction work underway at an Arqura Homes development in Almería (Andalusia).

Sales Growth Plans and liquidation of property given as collateral

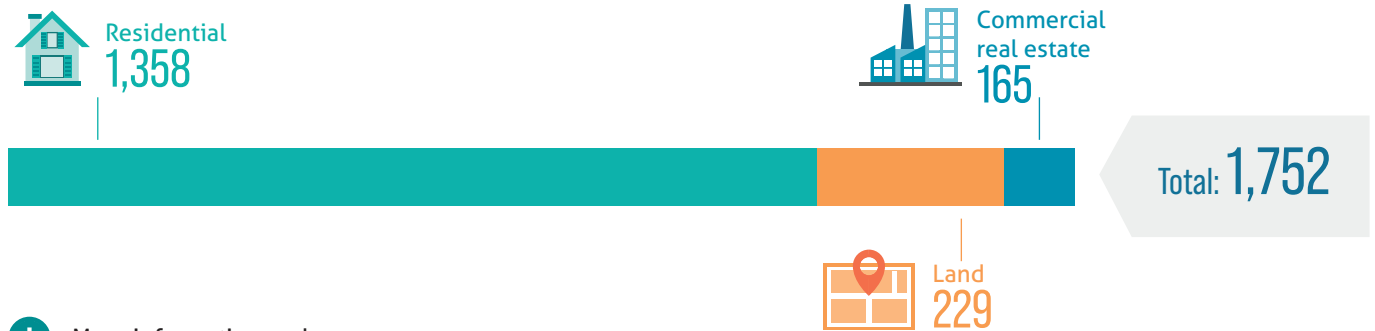
Following an agreement with the developers, the Sales Growth Plans (SGP) facilitate the sale of real estate assets—residential property developments or single buildings—which appear as collateral for the loans directly on the debtor balance sheets, thus enabling them to reduce their debts with Sareb.

Although this strategy was pivotal in the first few years of the company's activity, it has gradually become less important, for two main reasons: the reduction in the scope of assets that meet the criteria for signing an

agreement of this type (in terms of cooperation from the debtor, the type and state of the property appearing as collateral and the lack of encumbrances, amongst others) and the company's progress using legal channels for the conversion of its non-performing financial asset portfolio in order to include the associated properties in the balance sheet and then sell them.

In 2020, 1,752 properties were sold through this channel, compared with 3,673 units in 2019.

35. Properties sold from the developers' books by type (units)



i More information under Management and sale of properties.



Picture: Arqura Homes residential property development in Baiona (Pontevedra).

Financial information

Sareb obtained €1,422M of revenue in 2020 from the management and sale of its assets



Accounting legislation and implicit losses

The accounting framework for the valuation of assets established by the Bank of Spain in its Circular 5/2015 of 30 September (CBE 5/2015), subsequently complemented by Royal Decree-Law 4/2016.

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

In 2020, the valuation of the entire portfolio using the appraisal method implemented by Bank of Spain Circular 5/2015 revealed the need for an impairment fund to be created by the end of the year for the amount of €9,119M, of which €7,872M correspond to financial assets (including real estate assets from financial assets awarded) and €1,247M to real estate assets.

Capital losses in the financial assets unit

Impairment related to financial assets is €7,872M (€6,323M in the previous year), representing around 32% of their carrying amount and 12% of the contractual debt.

Type	Debt	Guarantee	VACBE	NBV	Profit/ (Loss)	2019
With collateral	44,264	16,073	10,610	14,694	-4,084	-3,459
Without first charges and participating	22,725	401	224	2,129	-1,905	-2,118
Awards/Dations			6,353	8,289	-1,936	-731
Total	66,989	16,474	17,187	25,112	-7,925	-6,308
Other adjustments					53	-15
IMPAIRMENT OF FINANCIAL ASSETS					-7,872	-6,323

VACBE: Value updated according to the Bank of Spain Circular
NBV: Net book value

Note that at the financial assets unit the properties initially listed as loan guarantees and already awarded to Sareb through foreclosure or dation proceedings are also taken into consideration. These real estate assets present a cumulative impairment of €1,936M.

Generally, the increase in capital losses at the loans business was caused by the impact of Covid-19, which began in 2020 and continues in 2021. The biggest impact of this crisis has been the drastic reduction in the parameters for estimating future value of properties in the medium term. However, at present there has already been a reduction in prices, which has been sharper for land than for residential real estate assets.

Continued

Capital losses in the real estate assets unit

Type	Assets (no.)	VACBE	NBV	Profit/(Loss)	2019
Other than WORKS IN PROGRESS	55,535	3,851	4,983	-1,132	-469
WORKS IN PROGRESS (developments)	15,970	1,314	1,429	-115	-28
Total	71,505	5,164	6,411	-1,247	-497

The company's real estate assets unit, which includes assets originally transferred as such, presents a capital loss of €1,247M, compared with €497M in the previous year, which represents 19% of its carrying amount.

The health crisis has also been a key driver of the increase in the impairment of these assets, having a significant impact on the current valuation of the properties. Furthermore, this kind of asset presents the lowest liquidity, having been on the company's balance sheet since its launch.

Evolution of capital losses in Sareb's global asset portfolio

Type	2012	2013	2014	2015	2016	2017	2018	2019	2020
Allocations in the year for which accounts are prepared	0	259	719	337	377	840	863		
Allocation restatement CBE 5/2015 ⁴⁴		1,348	349	0	0	0	0		
Impairment according to Bank of Spain Circular 5/2015	0	1,607	1,068	337	377	840	863	1,727	2,300
Cumulative impairment according to Bank of Spain Circular 5/2015	0	1,607	2,675	3,012	3,389	4,229	5,092	6,819	9,119
Net of tax				-682	-100				
Against profits and losses				2,330					
Against value change adjustments in equity					3,289	4,229	5,092	6,819	9,119

The global impairment in the value of Sareb's asset portfolio grows each year due to the business dynamics resulting from the accounting framework to which the company is subject, having received the assets en bloc for average prices, without adjusting to reflect the real underlying value of each one.

Against this backdrop, in previous years priority was given to the sale of assets that were transferred with capital gains so as to generate a positive accounting margin and seek to protect the limited shareholders' equity with which the company was created.

It should also be pointed out that in the last years the parameters for future revaluation of assets according to the Business Plan—and in line with the CBE 5/2015—have been adapted to both the future of the market and to the special nature of the assets that were transferred to Sareb. In 2020, the adverse effects resulting from Covid-19 were made manifest.

Evolution of turnover

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

Income statement (€M)

	2020	2019
Turnover	942	1,430
Real estate assets	842	1,190
Sales of real estate assets	794	1,046
Income from leases	45	41
Bank Assets Funds (FAB) and others	2	104
Financial assets	100	239
Sales of financial assets	-69	-90
Financial income from loans (margin)	169	330
Sales costs	-753	-1,020
of financial assets	0	0
of real estate assets	-753	-1,020
Gross accounting margin	189	410
Other operating income	15	46
Management, marketing and maintenance expenses	-603	-670
Amortisations and others	-81	-65
Impairment due to derecognitions	-44	0
Operating income/(loss)	-524	-279
Net financial income/(expense)	-548	-586
Profit/(Loss) before taxes	-1,072	-864
Corporate Income Tax	-1	-83
Net profit/(loss)	-1,073	-947

If all collections and accruals are taken into consideration, the total figure for income from Sareb transactions with financial and real estate assets stood in 2020 at €1,422M, itemised as shown below.



Breakdown of income in the year

For the second consecutive year, properties (both originally acquired and awarded) represented the main source of income for Sareb, as a result of the business strategy implemented by the company.

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

Income from the management and sale of properties

Specifically, income from the management and sale of properties amounted to €848M in 2020, implying an annual reduction of 36%, in a year shaped by the slowdown in economic activity triggered by the pandemic and by the development of a prudent sales strategy to avoid the sizeable discounts being required in the market. In any event, income in 2020 was notably higher than the target established after readjusting estimates as a result of the health emergency in the first half of the year, mainly because of the sound commercial results in the final quarter.

Segments of real estate assets	Income	CA Sc	Gross margin
Residential	640.5	-590.8	49.7
Single and Comm. property	159.7	-170.5	-10.7
Rents	47.7	0.0	47.7
Total	847.9	-761.3	86.6

CA Sc: Carrying Amount over Sales Costs

By type, note the greater activity in the residential segment, both in assets originally received and in Sareb developments. Not counting the institutional operations performed in 2020 and 2019, **residential sales fell by 8% year-on-year**. Conversely, the land business had a much diminished presence, despite the slight improvement at the end of the year.

With regard to margins, they shrank notably in the year and derive mostly from property development transactions and the collection of rent. Proceeds from the sale of finished assets and of land were generally nil or slightly negative.

Sareb's activity in the real estate segment (which is highly competitive in terms of participants and price strategies) showed positive signs due to the value creation strategy by means of property development and marketing and the improvement in the liquidity of assets thanks to the conversion.

Continued

Income from the management and sale of loans

In the case of loans, turnover in 2020 amounted to €567M, i.e. down 40% with respect to 2019.

Financial assets segments	Income	CA Sc	Gross margin
Repayment and sale of loans	121.2	-121.2	0.0
Amortisations and collections	178.2	-125.0	53.2
Interest	92.4	0.0	92.4
SGP and liquidation of collateral properties	175.7	-180.4	-4.7
Adjustments for special operations	0.0	-23.1	-23.1
Total	567.4	-449.7	117.8

CA Sc: Carrying Amount over Sales Costs

Despite the reduction in income, financial assets still account for the majority of Sareb's gross margins from regular amortisations and collections on the low number of loans in normal conditions (up-to-date on payments), and from the specific application of interest accrued at Sareb (based on the future recoverability from the sale of collateral properties). These margin generating lines show a downward trend which will continue in the coming years.

Moreover, the sale of loans and the marketing of Sales Growth Plans (SGP) or single items of collateral will not only cease to contribute profit in the future, but will actually be negative as these are assets received at a loss.

Operating expenses were significantly reduced compared with the previous year, due, on the one hand, to the decrease in activity and, accordingly, the fees payable to servicers for items directly linked to the level of activity, and, on the other hand, to the major efforts made to contain costs and boost efficiency in all expenses manageable by Sareb. All this despite rising costs from the increase in conversion activity.

All of this leads to an operating loss of €574M as compared to the €279M of loss for 2019.

Finance costs on senior debt fell by 6% in the year, to €548M. Almost all these costs are associated with swap costs linked to the debt.

Losses before taxes was -€1,072M, vs. -€864M in the previous year.

After tax, the loss in the year amounted to -€1,073M, (-€947M in 2019). As a result, the company's shareholders' equity stands at -€843M which, if the entire €1,430M in subordinated debt is considered as equity, would result in a final amount of equity of €587M.



Operating expenses in 2020

In 2020, Sareb's non-financial expenses fell by 9% to €603M. Without taking into account a release of provisions totalling €59M in 2019, the actual expense in that year fell by €119M or 17%

This decrease was driven by the lower activity and, accordingly, lower fees and expenses on assets and the reduction in structural costs as part of the efficiency boost. It also occurred despite the increase in conversion costs.

Fees pursuant to contracts with servicers for the management, administration and marketing of assets had a lower weighting due to both the decrease in activity and Sareb's direct administrative management of part of its portfolio, within the framework of the Esparta model.

Expenses arising from owning real estate assets (conservation and maintenance, expenses relating to homeowners' associations, security, IBI Property Tax) have an increasing impact due to the growth in Sareb's pool of real estate, and also its commitment to reconditioning homes with the aim of maintaining a larger and better range of properties for sale so as to maximise the sale price.

On the tax side, in 2020 non-deductible value added tax (VAT) expenses were once again significant. In this regard, in addition to the impact of a lower deductible percentage on an apportionment basis, there were increased costs of the foreclosures and dations—considered as first transfer—which continue to be strategic.

At the same time, local taxes continued to rise slightly due to the increase in the inventory of Sareb-owned assets generated by this activity. As a result of the foregoing, expenses with a fiscal component recognised in 2020 amounted to €194.5M.

	2020
IBI (property tax) and other taxes	€81.9M
Non-deductible VAT	€112.6M

Lastly, structure expenses fell by 25% to €116M as a result of the implementation of the first measures set forth in the Efficiency Plan.

Under this heading of expenses it is also worth noting the sizeable containment in the contracting of third-party companies, in a year in which Sareb has boosted the efficiency of its own capacities and has promoted scale economies: reducing activities and remuneration. In any event, the quality of the services received has not been compromised, and there have been improvements in transaction prices and the control of the company's inventory was guaranteed.

Breakdown of operating expenses in 2020

	2020	2019
Fees for management and marketing	124	219
Management	77	91
Marketing and sales costs	47	128
Taxes (IBI, VAT, capital gains and others)	215	226
IBI, capital gains and others	109	88
VAT (expenses and foreclosures)	106	138
Expenses arising from foreclosure and dation procedures	51	34
Technical reports - Registration expenses and others	4	7
Homeowners' associations and maintenance	129	131
Homeowners' associations and security	52	55
Maintenance and conditioning	71	63
Other operating expenses	6	13
Expense for Sareb structure	80	106
General expenses	44	66
Staff expense	36	40
Provision adjustment		-59
Total expenses	603	663⁴²

⁴² Without taking into account a release of provisions totalling €59M in 2019, the actual expense in that year amounted to €722M.

Evolution of own resources and equity

At the end of 2020, Sareb's figure for capital and subordinated debt amounted to €587M, less than the €4,800M with which it was incorporated. This reduction is due to the accounting losses recorded by the company since it was incorporated.

With regard to its equity, the aforementioned figures were reduced by €9,686M due to value change adjustments, most notably capital losses at the financial and real estate units, which amounted to €9,119M.

	2019		2020	
	Change/PL	Balances	Change/PL	Balances
Equity	-1,879	-7,511	-2,267	-10,529
Value change adjustments	-932	-7,741	-1,194	-9,686
Hedging operations	299	-922	335	-567
Impairment FA Unit	-1,231	-6,323	-1,549	-7,872
Impairment REA Unit	-496	-496	-751	-1,247
Shareholders' equity for the purposes of the Capital Companies Act⁴³	-947	230	-1,073	-843
Capital		304		304
Issue premium		0		0
Reserves/Losses from previous years	-878	873	-947	-74
Profit/(Loss) for the year	-947	-947	-1,073	-1,073
Subordinated debt	0	1,430	0	1,430
Shareholders' equity + Subordinated debt	-947	1,660	-1,073	587

⁴³ Capital Companies Act: LSC or *Ley de sociedades de capital*.



Royal Decree-Law 6/2020, of 10 March

This RD implies the adoption of certain urgent financial measures, establishes that the company will not be subject to winding-up if its equity is reduced to an amount less than half of its share capital.

In March 2020, the Council of Ministers passed a Royal Decree-Law which amended the seventh additional provision of the Law on the restructuring and winding-up of credit institutions to adapt the grounds for the dissolution of Sareb to its singular nature, which is the orderly liquidation of its assets. In accordance with current legislation governing the Capital Companies Act, a reduction in equity is a cause for winding up a company; this cause would not be applied to Sareb

on account of its own mission and, according to the RD, of the need for a special legal system to be in place for certain aspects that are essential for Sareb to be able to fulfil its purpose. The company will be able to continue carrying out its activity as normal, allowing it to generate cash for covering its operating expenses and repaying the senior debt arranged when it was incorporated.



4

Our way of working

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Sareb human capital

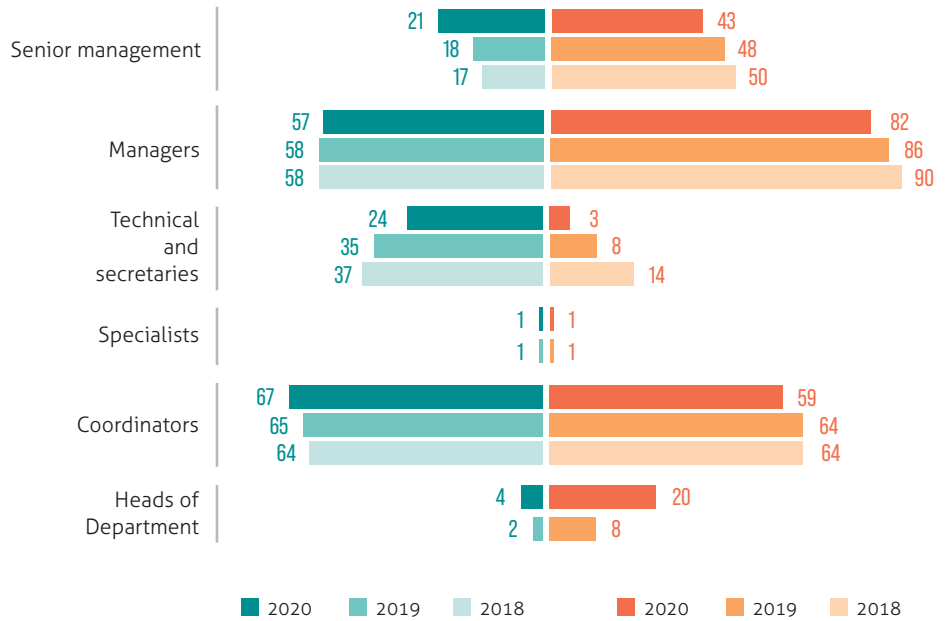
The conversion of the company balance sheet is accompanied by more specialised professionals in the real estate sector

36. Profile of Sareb workers (number per category and % of the total)⁴⁴

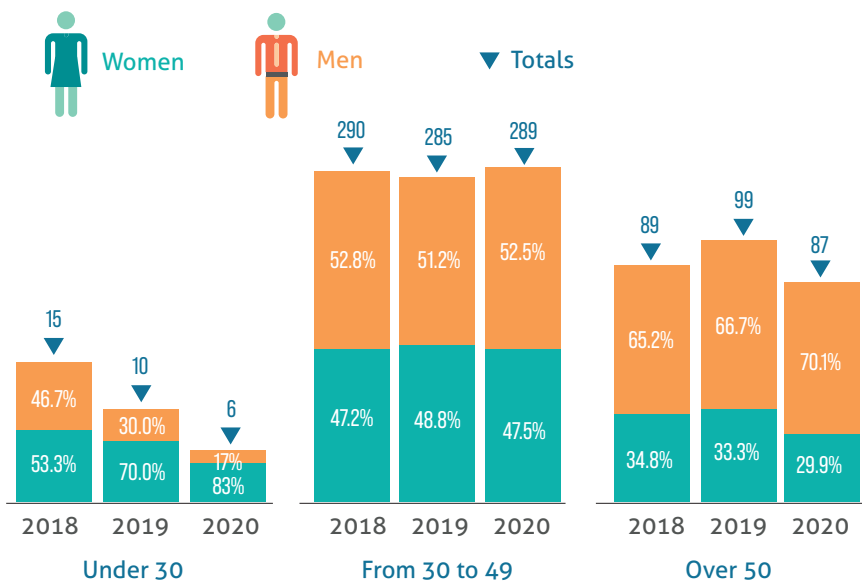


At the end of 2020, the number of Sareb employees totalled 382, a decrease of 3.2% over the same period in 2019.

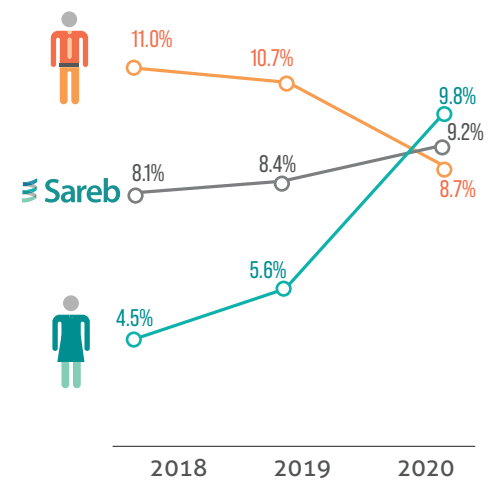
Sareb's progress towards fulfilling its mandate would not be possible if not for the commitment and dedication of its employees. Sareb strives to ensure that each of them develop and it nurtures their well-being within the company.



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



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



⁴⁴ The categories of "Head of Department" and "Specialist" were created in 2019 and, therefore, there are no figures from previous years.

A seal of professional guarantee for the future

Sareb's mission and its singular nature require the best talent and the application of differentiated working methodologies. Aware that the project has a limited span of time, the company invests in developing its employees with an approach that goes beyond the useful life of the project itself.

Based on the premise that a period spent at Sareb must imply personal and professional growth for its employees,

all the actions and programmes are aimed at fostering talent in an enriching environment that facilitates their future employability.

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

People management plan of Sareb



Attraction, selection and introduction of employees

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



Leadership and autonomy

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



Development and training for future challenges

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



Satisfied, motivated employees

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

Since 2019, Sareb has been implementing the 'Kairós Project'. This programme establishes an organisational philosophy based on speed and efficiency on the assumption that time is a valuable resource for an organisation like Sareb, with an established end-of-mandate date.



New headquarters: a more economical and collaborative space

The building will be conducive to the generation of ideas and innovation, allowing greater interaction between employees

By relocating to a building it owns, as well as generating savings and fostering sustainability, Sareb has committed to an open space model in which shared work areas predominate, without designated offices or desks. This new format fosters interaction between colleagues and helps create an environment conducive to the generation of ideas and nurturing of innovation.

Other areas are set up to ensure privacy, facilitate concentration and allow meetings to be held. The company has also set up compartmentalised individual and group spaces known as phone booths.

Designing the offices in line with the open and integrated work concept will help a swift adaptation to the new organisational structure recently implemented by Sareb.



Picture: Interior of the new Sareb headquarters (Madrid).



Sareb's contribution to the United Nations 2030 Agenda

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

Equality, diversity and conciliation: 'Sareb Contigo'

Sareb has an Equality, Diversity and Conciliation Plan for promoting an inclusive environment and also to guarantee equal treatment and opportunities and non-discrimination among its staff. The Plan, implemented in 2018 and known as 'Sareb Contigo', has allowed the company to diagnose the company's situation in these matters.

Moreover, within the framework of this Plan, Sareb has rolled out measures enabling work-life balance for its employees.



Employee training in corporate tools for remote working



The introduction of flexible work schedules



The option of teleworking on certain days



THE provision of portable work devices and mobile phones to the whole workforce to facilitate teleworking

Sareb Harassment Protocol

Respect and dignity of people are the basic values of the Sareb culture. In the employment sphere, the company has mechanisms to prevent and take action against unethical practices. Specifically, Sareb has a Harassment Protocol that provides guidance to help employees identify a situation of harassment. Thus, Sareb evidences its zero-tolerance policy for any kind of harassment or discrimination, banning all conduct that might generate an intimidating, offensive or hostile working environment.

Sareb has a Complaints Mailbox to facilitate the communication of irregularities and other ethically questionable behaviour. That Mailbox is available both to its own employees and third parties related to the company, specifically servicers and suppliers.

Sareb's contribution to the United Nations 2030 Agenda

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



Picture: Construction work on a development by Arqura Homes in the Region of Valencia.

Wager for quality training

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

2020 posed new challenges in the sphere of training due to the need for teleworking and other preventive measures to ensure employees' safety, which have forced Sareb to adapt its training plan completely, from one that was predominately in-person to a remote model. Aware of the importance of providing resources for the development of its professionals, Sareb has made great efforts to adapt to the digital format.

11,517 training hours were provided in 2020, down 46.6% on the previous year. Among the reasons contributing to this decline are the postponement due to the health crisis of various large-scale programmes, including an edition of the 'Real Estate Expert' scheme, comprising a total of 2,500 hours, and transversal team-building initiatives, comprising a total of around 3,600 hours. Despite the decrease in the number of training hours offered, the score in satisfaction surveys remained at 9 out of 10 in 2020.



Sareb prepares its employees to adapt to the current situation

The company has had to adapt its training to ensure that its employees learn the necessary skills and continue to drive the project forward

During the months of lockdown, employees received 1,224 training hours in connection with collaborative tools included in the Office 365 package. This has ensured that these professionals were able to continue working entirely normally without experiencing operational or communications issues.

Furthermore, the company provided a total of 720 hours of information courses on the prevention of Covid-19. Another 708 hours were devoted to training employees in best practices for teleworking, focusing on efficiency, work-life balance and security.

39. Sareb employee training in figures



In developing electronic training, the company promoted the use of gamified tools with which to hone skills and professional and technical competencies such as cybersecurity. These tools were used to develop skills such as leadership, negotiation, customer focus, productivity, time management and the initiation to team coaching.

In September, 'Programa Avanza' was launched, in which more than 100 employees develop their leadership, communication and empathy skills.

Moreover, during the year the 'Training for Trainers' initiative continued. Through it, any employees with specific technical knowledge can share it with the rest of the company—as in-house trainers—, which in turn strengthens leadership and recognition among colleagues.

Volunteers with values

Sareb professionals exemplify the values of the company and its social commitment. That reality is materialised through the initiatives 'Sareb Ambassadors' and 'Building future: jobs with social value', in which certain volunteer employees share and disseminate the company's values and activities with the educational community and help groups at risk of social exclusion to improve their capacity to enter the employment market.



More information under the caption [Social footprint](#) and in [Sareb's website](#)



Picture: Interior of a property developed by Arqura Homes in Vigo (Galicia).

Innovation applied to business

At Sareb, innovation is aimed at developing disruptive projects that contribute not only to the fulfilment of our mandate, but also help invigorate, transform and modernise the sector

Platform of ideas

The company has a 'Platform of ideas', launched in 2019, aimed at promoting and fostering the culture of innovation among its professionals from a collaborative standpoint. Through this initiative, Sareb challenges its employees to offer solutions that respond to the current and future business needs.

In 2020, 20% of the workforce was directly involved in innovation projects and one of the challenges entailed compiling proposals to tackle the impacts of the pandemic.

Open innovation

As an active participant in the value chain of the real estate market, Sareb is a significant player in the innovation ecosystem in the sector.

Despite the circumstances, Sareb has worked to launch the 'Open innovation' initiative, through collaboration with strategic partners to share know-how concerning innovation and digital transformation within the sector.

In parallel, Sareb has continued to explore new avenues for collaboration with as many as thirty start-ups. A quarter of these interactions materialised in agreements to develop joint projects and eight of the start-ups have worked directly with various Sareb departments in 2020.



Inviertis: innovation in the real estate market

Sareb has launched the challenge called 'Proptech for Sale: Creative reinvention in the process of selling homes' in collaboration with Alicante Open Future. From among the 21 proposals received, the solution from Inviertis was the winner

The decision took into special consideration proposals that used geomarketing and predictive models based on big data, artificial intelligence, blockchain, virtual reality or machine learning. Moreover, the solutions had to be able to identify the customer profile, increase customer knowledge, interact with customers and achieve commercial results.

Inviertis is a sale-purchase platform that simplifies real estate investment, since investors have online access to all the necessary information for swift and well-informed decision-making, so that they need only choose the product they consider best suited to their investment expectations.

As the winner, Inviertis has a chance to opt for a contract to market 10 Sareb rental properties.

Responsible management with suppliers

Sareb gauges its suppliers' progress in connection with corporate social responsibility and their willingness to collaborate in this sphere

Sareb's procurements policy establishes the main principles that must guide contracting and purchasing processes, so as to ensure they are conducted in line with the company's values and objectives.

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

Among the criteria for choosing its suppliers, the company evaluates the degree to which these suppliers have progressed in terms of corporate social responsibility and their willingness to collaborate with Sareb in that field. This initiative covers those contracts that imply the launch of a competitive tender process and, in any case, whose invoicing is over €75,000, although it is also used in other kinds of project the nature of which so advises. Specifically, the following requirements will be taken into account, and may imply up to 5% of the total score awarded:

Corporate Social Responsibility (CSR) in selecting suppliers

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

In 2020, Sareb worked with a total of 504⁴⁵ suppliers, of which 93% were local companies whose practices are regulated by the Spanish regulatory framework. The remaining 7% are suppliers headquartered abroad.

Furthermore, the expense committed in the year amounted to €87.6M⁴⁶, of which 98% went to local suppliers.



Picture: Interior patio of a building promoted by Arqura Homes in Torrent (Region of Valencia).

⁴⁵ The figure provided corresponds to suppliers contracted from Sareb's Purchasing Department. Suppliers contracted by the servicers on behalf and in representation of Sareb, using the powers delegated to them, are excluded.

⁴⁶ Committed expenses correspond to suppliers contracted by Sareb's Purchasing Department. Suppliers contracted by the servicers on behalf and in representation of Sareb, using the powers delegated to them, are excluded.

Main figures for the Sareb supply chain in 2020



Sareb's contribution to the United Nations 2030 Agenda

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

i More information on the [process for the contracting and standardisation of suppliers on corporate social responsibility issues on the website](#)



Picture: Arqura Homes properties in the Sevillian municipality of Dos Hermanas (Andalusia).

Impact on the environment

Teleworking, the move to a more sustainable, Sareb-owned building, and the efforts to implement efficiency measures led to a 3.8% reduction in energy consumption

Sareb maintains the commitment to make its business activities compatible with the respect for the environment. Sareb Environmental Management, Quality and Occupational Hazard Prevention Policy brings together the principles and key aspects to be implemented by the company focussed on the respect and protection of the environment.

The company has continued working to develop new initiatives that will enable it to continue advancing in this respect. In this regard, Sareb has replaced conventional paper with ecologically-sourced or recycled paper, it has installed LED lighting systems in the new offices and has improved the control and monitoring of the most significant waste generated by its activity.

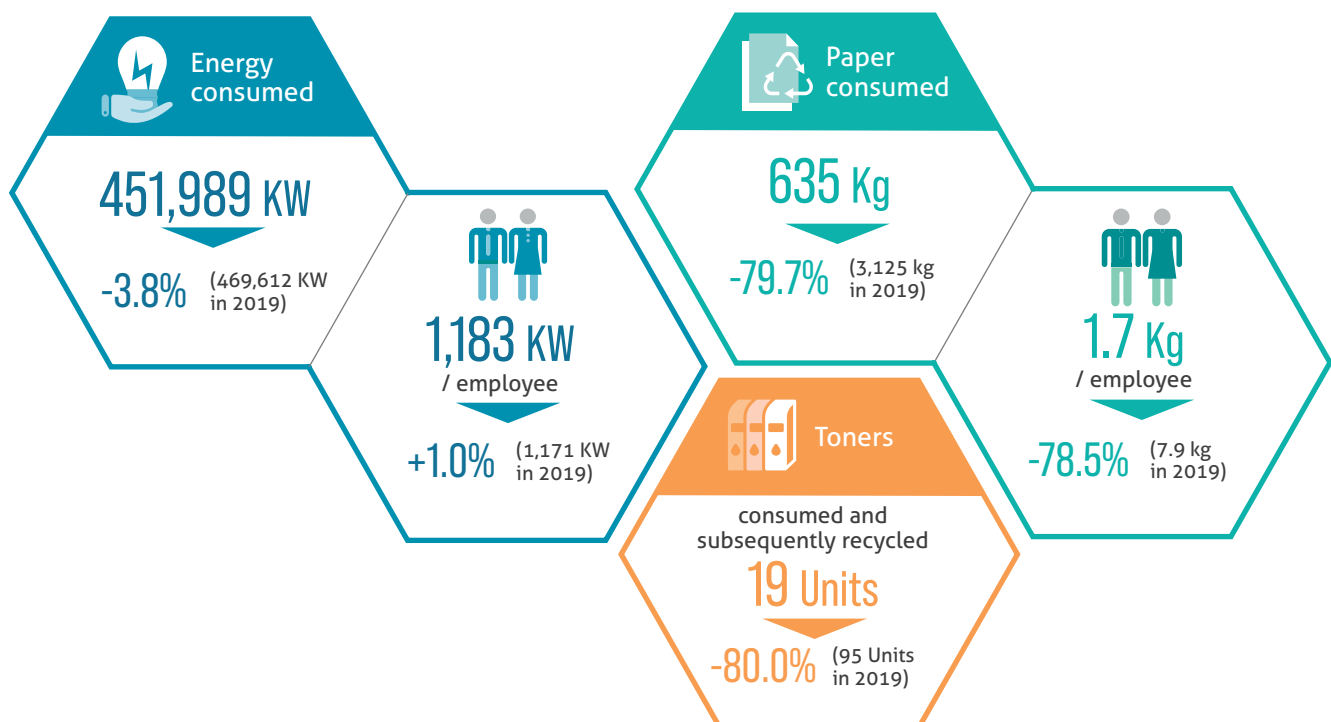
The low physical presence of Sareb's professionals at the office as a result of teleworking helped significantly reduce the organisation's consumption of materials and generation of waste.

Sareb's contribution to the United Nations 2030 Agenda

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



40. Main figures on the environmental impact of Sareb's activity and comparison with 2019⁴⁷



⁴⁷ The impact figures are confined to the company's offices.



The new headquarters, a milestone in environmental sustainability for Sareb

The move to the new offices presented as an opportunity to design and adapt the facilities in accordance with sustainability criteria, thereby reducing Sareb's environmental impact

The measures implemented include:

- Removal of individual waste paper baskets and placement of waste segregation containers in different locations to foster recycling
- Reduction of the number of printing areas and removal of personal printers from some employees
- Installation of water taps with motion sensors that activate water flow
- Use of solar thermal panels as supplementary energy sources
- Installation of LED lighting throughout the headquarters and placement of DALI (Digital Addressable Lighting Interface), which harnesses sunlight and reduces energy consumption
- Deployment of an electric vehicle charging system and bicycle parking



More information on [Environmental Management, Quality and Occupational Hazard Prevention Policy](#)



Picture: Exterior view of the new Sareb headquarters, in Madrid.



5

Good governance

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Management of the risks to which the Company is exposed	97

Composition and functioning of the Board of Directors

In 2020, Sareb has made adjustments to its governance model to adapt it to the new strategic objectives

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



Picture: Exterior view of the new Sareb headquarters (Madrid).

Main features of the Board of Directors and milestones

At the end of January 2020 the Board of Directors decided to suppress the Executive Committee, as the company's new business strategy gives priority to retail transactions over large-scale transactions; approving it was one of the responsibilities of that committee.

In February, the Board of Directors of Sareb approved the appointment of Javier García del Río, who had extensive experience in the real estate sector, as CEO and deputy to the chairman of the company. In the second half of the year, Javier García del Río was appointed executive director by agreement of the Shareholders General Meeting, and managing director by agreement of the Board of Directors.

In addition, in 2020 the maximum five-year term of Pedro Antonio Merino as an independent director ended, while Francisca Ortega and Joaquín Vilar resigned their positions as proprietary directors. To fill these vacancies, the Shareholders General Meeting approved the Board of Directors' proposal to appoint Javier Torres as a proprietary director at the behest of the FROB and of Alberto Valdivielso as an independent director.

Moreover, the Shareholders General Meeting approved the re-appointment of the FROB as a proprietary director represented by Paula Conthe, and of Enric Rovira as a proprietary director representing Banco Sabadell.



More information under the caption [New organisation for boosting business and in the sub-section on the Sareb website on corporate governance](#)



Governance model

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

A clear and specific legislative framework

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

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

Sareb's contribution to the United Nations 2030 Agenda

Sareb's good corporate governance practices, the internal control mechanisms and systems and transparency in the management and rendering of accounts are consistent with the fulfilment of targets 16.6 and 17.13 of the United Nations 2030 Agenda, which, respectively, aim to: **"Develop effective, accountable and transparent institutions at all levels"** and **"enhance global macroeconomic stability, including through policy coordination and policy coherence"**



Supervision

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



Governance

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



Composition of capital

54.1%

Private Capital

45.9%

Public capital through the FROB
[Fund for Orderly Bank Restructuring]

Compliance and regulation

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



Supervisory bodies for ensuring compliance with the corporate targets



Bank of Spain

The Bank of Spain Executive Committee issues its yearly report on Sareb based on the work carried out throughout the year by the monitoring team. It occasionally includes requests or recommendations on the activity and management of the company. The company follows these indications and informs the supervisory authority of the measures it implements to fulfil them.

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



Spanish National Securities Market Commission (CNMV)

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



Monitoring Committee

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

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

Board of Directors

100% attendance of directors at all meetings



19 Meetings in 2020

Audit Committee



Remuneration and Appointments Committee



Management Committee > 86 Meetings in 2020

In the last few months Sareb has implemented a new structure for committees and working groups to help the Management Committee, the most senior internal decision-making body, in its work.

Independent Director Executive Director Proprietary Director

For more information see page 72

Internal control systems and mechanisms for risk management

Internal control system on governance and strategic processes (SCEG)

Governance and strategic processes:

- Strategy and reputation

Internal Control System on Ethical Standards (SCISNE)

Ethical standards:

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

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

Risk management:

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

Internal Control over Financial Reporting (ICFR)

Financial Information:

- Risk of reliability of financial information

Internal Control System on Non-Financial Reporting (SCIINF):

Non-financial information:

- Risk of reliability of non-financial information

Profile of Sareb directors

<p>Jaime Echegoyen Enriquez de la Orden⁴⁸ 05/03/14 30/04/2019</p> <p>Executive</p> <p>€ House Bar Scales Bank Globe</p>	<p>FROB⁴⁹ (represented by Paula Conthe) 28/10/20</p> <p>(D) FROB</p> <p>€ House Bar Scales Bank Globe</p>	<p>Enric Rovira Masachs⁵⁰ 25/11/15 28/10/2020</p> <p>(D) Banco Sabadell</p> <p>€ House Bar Scales Bank Globe</p>
<p>Javier García-Carranza Benjumea 05/05/16</p> <p>(D) Banco Santander</p> <p>€ House Bar Scales Bank Globe</p>	<p>Javier Bartolomé Delicado 28/11/16</p> <p>Independent</p> <p>€ House Bar Scales Bank Globe</p>	<p>Iñaki Goikoetxea González 28/11/16</p> <p>Independent</p> <p>€ House Bar Scales Bank Globe</p>
<p>Eduardo Aguilar Fernández-Hontoria 13/12/17</p> <p>(D) FROB</p> <p>€ House Bar Scales Bank Globe</p>	<p>Jordi Mondéjar López 13/12/17</p> <p>(D) CaixaBank</p> <p>€ House Bar Scales Bank Globe</p>	<p>Jaime Rodríguez Andrade 13/12/17</p> <p>(D) Banco Santander</p> <p>€ House Bar Scales Bank Globe</p>
<p>Juan Ignacio Ruiz de Alda 14/12/17</p> <p>(D) FROB</p> <p>€ House Bar Scales Bank Globe</p>	<p>Idoya Arteagabeitia González 30/04/19</p> <p>Independent</p> <p>€ House Bar Scales Bank Globe</p>	<p>Carmen Motellón García 30/04/19</p> <p>Independent</p> <p>€ House Bar Scales Bank Globe</p>
<p>Alberto Valdivielso Cañas 28/10/20</p> <p>Independent</p> <p>€ House Bar Scales Bank Globe</p>	<p>Javier Torres Riesco 28/10/20</p> <p>(D) FROB</p> <p>€ House Bar Scales Bank Globe</p>	<p>Javier García del Río 28/10/20</p> <p>Executive</p> <p>€ House Bar Scales Bank Globe</p>

Date of first
appointment
XX/XX/XX

Date of
re-election
XX/XX/XX

Committees to which they belong

A Audit Committee **R** Remuneration and Appointments Committee

O Chairman of the Committee

Nature

(D) Proprietary
Independent
Executive

Profile and competences

€ Finance House Real estate sector Bar Business management
Scales Legal Bank Public Administrations Globe International

⁴⁸ Jaime Echegoyen Enriquez de la Orden was re-elected by the Shareholders General Meeting in April 2019.

⁴⁹ The FROB was re-elected as a legal person by the Ordinary Shareholders General Meeting on 28 October 2020.

⁵⁰ Enric Rovira Masachs was re-elected by the Ordinary Shareholders General Meeting on 28 October 2020.

Governing bodies and responsibilities

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

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

Board of Directors



Remuneration and Appointments Committee and Auditing Committee



Picture: Interior of the new Sareb headquarters (Madrid).

Responsibilities and functions of the governing bodies and their committees

Shareholders General Meeting

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

Board of Directors

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

Audit Committee



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

Remuneration and Appointments Committee



- Responsibility for the general policy on remunerations and incentives for the members of the Board of Directors and for the policy on remunerations for Sareb management.

Management Committee



- The Management Committee's activity focuses on support and assistance to the Board of Directors and other powers delegated by it.
- In 2020, a new structure was set up for committees and working groups, defining their members, functions and responsibilities and the frequency with which they must meet.

i For more information see page 72

Structure of the internal governing bodies

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



New committees structure

In 2020, Sareb adapted its support structure for the Management Committee

Over the course of the year, Sareb has implemented a new structure for committees and working groups to help the Management Committee, the most senior internal decision-making body, in its work. The committees and groups were structured around four major activity blocs: decisions about the portfolio, internal monitoring of activity, governance of the company and monitoring of the activity of servicers.

This committees structure is well matched to the new business strategy, which affords greater importance to the conversion of loans into properties. Those of the highest hierarchical level are shown here:



Sareb has an internal governing structure that facilitates decision-making in multifunctional operating environments

PORTFOLIO DECISIONS	Asset Transactions Committee	Reviews and approves all proposals for the investment, divestment and holding of assets within the limits established at the company's competency matrix.
	Sareb Asset Investments Committee	Approves all proposals for the investment, holding, conditioning and rental of assets within the scope of action of Property Developments and Asset Management, within the limits established in the company's competency matrix.
MONITORING OF ACTIVITY	Business Committee	Monitors activity, coordination of commercial actions and portfolio management.
	Portfolio Strategy Group	This group is responsible for the monitoring and updating of the product strategy defined for each group of assets and its execution by the various areas.
	Property Development and Asset Management Committee	Its responsibility is to supervise the land development and new construction projects and the residential and commercial asset management business.
CORPORATE GOVERNANCE	People Committee	This Committee deals with issues linked to Sareb's people to bring forward proposals and decisions which, due to their strictly confidential nature, must be discussed in this Committee.
	Purchasing Committee	This Committee makes decisions concerning procurements, budget increases, movements between budget orders and contracts among various parameters. Above certain pre-established thresholds, these must be submitted to the Management Committee for approval.
MONITORING OF ACTIVITY OF SERVICERS	Executive Committee (Servicers)	This centralises all aspects linked to the monitoring of the business activities of the servicers.
	Contractual Monitoring Committee	It is in charge of all aspects not directly linked to the business.

The effectiveness of the Board of Directors

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

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

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

With this, not only are the affected directors encouraged to not participate in the debate and refrained from voting on resolutions and decisions relating to transactions in which there is a potential conflict, but they are also denied information on these matters, and must be absent from the Board while the matter is being discussed. This policy was applied on 14 occasions during 2020.

i **More information on the conflicts of interests and related operations policy.**



Picture: Exterior view of the new Sareb headquarters (Madrid).

Evaluation of the performance of the Board of Directors

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

The conclusions of the assessment performed in 2020 are favourable in terms of both their composition and their internal organisation and discharge of functions. This time, it highlighted the Board of Directors' efforts to adapt to the situation sparked by Covid-19.

Remuneration for members of the Board of Directors

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

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

Within the framework of the health and economic crisis unleashed by the Covid-19 pandemic, the company's senior management waived receiving variable remuneration for 2019 and any to be received in 2020, and decided to freeze the salary of the rest of Sareb's professionals.

Along these lines, Sareb's Shareholders General Meeting on 28 October 2020 approved a reduction of €11,250, that is, of 15%, on the basic remuneration of all the external directors.

i **More information on the Remunerations Policy Report**



Internal control systems and mechanisms for risk management

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

The company has an Internal Control System on Ethical Standards (SCISNE) that includes all policies, manuals and procedures which contribute to making it possible for its activities to be carried out not only in compliance with current legislation but also in an ethical and upright manner.

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

Central to this system is the Code of Conduct, which is complemented by a broad set of policies that cover areas that include, among others, criminal liability, the prevention of money laundering and financing of terrorism, data protection and relations with third parties. These also apply to servicers and the main suppliers.

In parallel to this, the company also has an Internal control system on governance and strategic processes (SCEG), an Internal control system on processes for managing business risks (SCIR), an Internal control over financial reporting (ICFR) and an Internal control system on non-financial reporting (SCIINF).



Picture: Interior view of a property developed by Arqura Homes in Casares (Malaga, Andalusia).

The Code of Conduct

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

The Code—approved by the Board of Directors in 2013 and last updated on 30 April 2019—expressly includes the commitments and behaviour guidelines that must be observed and followed by the people included in its scope of application.

The behaviour of its employees must be governed by this framework from the moment they join Sareb. For this reason, new employees receive a copy of the Code of Conduct along with their employment contract, and express and signed acceptance of the Code of Conduct is requested as a contractual obligation.

In addition, compliance with the Code also extends to the servicers—all of whom must adhere to the Sareb Code of Conduct or their own ethical code approved by the company—and the main suppliers, through the inclusion of a specific clause in contracts that requires express acceptance prior to the provision of services.

Training on ethical regulations and compliance is compulsory for Sareb employees, who must repeat training every two years. In 2020, the group required to take the courses this year has been invited to participate, and the delivery of the courses has been monitored.

The Sareb Complaints Mailbox

Sareb has a Complaints Mailbox, run by the Compliance Department, to facilitate the communication of irregularities and other ethically questionable behaviour. That Mailbox is available both to its own employees and third parties related to the company, specifically servicers and suppliers.

The Complaints Mailbox is managed by an independent third party with expertise in this field. Complaints can be submitted confidentially—known only to the external company—or, since 2019, anonymously, so that neither the third party will know the identity of the complainant. This mechanism also makes it possible to receive and respond to queries on specific aspects and doubts related to the company's Code of Conduct.

Sareb implements different initiatives for making the existence of the Mailbox known to its employees and the servicers. These include on-site and online information sessions, informative posters in areas where Sareb's asset management is performed, and the publication of news on the intranet.

During the year, one complaint was received through the Mailbox, while four were received via other channels. No complaints were received in connection with human rights. At the end of 2020, four of them had been resolved and the remaining one was resolved in early 2021.

Along with the Mailbox, Sareb has a Procedure for Management and Investigation of Complaints, which is the result of the company's commitment to dealing with and analysing any situations which might be considered a breach of the Code of Conduct.



Picture: Construction work at an Arqura Homes development in Seville (Andalusia).

Management of the risks to which the company is exposed

The company has carried out a risk assessment throughout the entire organisation, incorporating a tolerance framework, which includes specific metrics for each type of identified risk and minimum thresholds that trigger the action plans

Sareb has a risk management and control model whose objective is to further improve the identification of situations that could lead to the materialisation of risks, as well as the associated procedures that must be carried out to mitigate them. Its definition is based on the recommendations given by an independent expert.

The health crisis unleashed by Covid-19, with the ensuing impact on the economy and the real estate sector, constitutes one of the main risks to which the company is exposed in the short and medium term.

The keys to risk management at Sareb



Coordination with the Risk Champions

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



Operational risk assessment

Each item of the operational risk repertoire identified and assessed by Sareb is allocated a scale from very low to very high. For the most critical, key risk indicators have been defined. Monitoring them will allow the associated control environment to be improved.



Backup for the reporting system

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

Scoreboard for risk tolerance

Quarterly follow-up of the metrics relevant to each type of risk. The information is submitted to the Audit Committee and corrective actions are proposed where considered appropriate. Sareb has a series of tolerance metrics approved by the Audit Committee.



Updating key risk scenarios

For any situations of major impact on Sareb's business and little likelihood of occurring, the company regularly updates the risk scenarios. The risk of illegal occupation and its control environment are also evaluated.

Non-financial risks


In 2020, Sareb made further progress in the conceptualisation of the non-financial risks map and the Internal control system on non-financial reporting (SCIINF).



The Sareb risk map




The company undertook a review of risk taxonomy and evolution since the creation of Sareb in 2012 to the current state, approved in 2017. The information provided below takes into account, among others, the risks associated with the health crisis unleashed by Covid-19.

 ■ Definition of risk




 ■ How is it managed?

 ■ Covid-19




Integrity

-  ■ Non-compliance with ethical standards or generally accepted principles that result from deficiencies in the standards of conduct established by the Company or the procedures associated with them or improper personal behaviour. This includes risks deriving from legal, criminal and fiscal issues when due to wilful intent.
-  ■ The Code of Conduct and its developments ensure the safekeeping of the company's integrity and its proper management.
-  ■ When the health crisis first began and within the sphere of the prevention of money-laundering (PML), some transactions could not be signed on the scheduled dates, leading the company to regulate new periods of validity for information and documentation with a view to conducting due diligence in connection with PML.




Operational

-  ■ Failures in the processing of transactions attributable to unintentional human error or inadequate or defective processes or system failures, or as a consequence of external events.
-  ■ Management encompasses an exhaustive and complete set of policies, manuals and procedures that ensure the minimisation of operational errors. As far as possible, Sareb automates those risks that are considered critical.
-  ■ Sareb has controls to ensure the continuity of processes, plans to tackle technological incidents and plans to cover critical functions and suppliers.




Real Estate

-  ■ The evolution of the price of real estate assets, whether owned by Sareb or not, indirectly affects this credit exposure and directly affects the portfolio of awarded real estate assets.
-  ■ Active risk management covers the analysis of all the variables that affect the evolution of the real estate market, in order to optimise measurement and implement palliative strategies.
 - A real estate rating model has been made, which is periodically updated according to the availability of data on social and economic figures and sales of real estate, which makes it possible to improve the real estate assets measurement.
-  ■ The company remains alert to developments in the health, economic and social situation and strives to adapt to the new real estate preferences of consumers and investors.




Financial information

-  ■ The consequences of errors in financial information attributable to inadequate accounting policies or failures in the establishment of accounting treatment criteria for transactions or deficiencies in how they are implemented.
-  ■ Management comprises a set of controls that provide reasonable assurance about the reliability of the financial information included in the annual accounts.
-  ■ The continuity plans ensure the execution and approval of financial information, even in the midst of a pandemic. In general, the design and execution of controls over financial information were conducted by means of remote working, with the deadlines unaffected.


Credit


-  ■ Possibility of loss arising from the total or partial failure of our customers or counterparties to meet their financial obligations to the Group, or a deterioration in their creditworthiness.
-  ■ Management establishes specific procedures based on the different characteristics of the financial asset units and operations.
-  ■ The impact of Covid-19 led to a downgrade of the ratings of certain entities, although this did not have a material effect in terms of the limits established and neither did it imply changes to the management of cash surpluses, which, in any event, were adjusted to the company's investment policy in transactions in organised markets with daily exchange of guarantees.


Interest rate

-  ■ The magnitude of the interest rate risk is directly linked to the size of the portfolio received in relation to the bonds issued for the acquisition of the company's assets and the payment of a floating interest rate linked to Euribor and the Spanish Treasury spread with respect to market swaps.
-  ■ Management is carried out through the daily monitoring of the evolution of interest rate curves and monthly assessment of the impact on Sareb's finance costs, raising awareness of extreme scenarios.
-  ■ The Covid-19 pandemic significantly increased uncertainty, leading to a drastic reduction in the volume of transactions in certain markets. Against this backdrop, volatility has increased and so has the possibility of exposure to extreme finance cost scenarios. Sareb has ramped up the frequency of reviews of extreme scenarios and their impact.


Liquidity

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


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

-  ■ The pandemic did not trigger cash outflows beyond those deriving from the company's normal activity. The cash surplus remains above the minimum available liquidity ratio and the risk of default on debts acquired in respect of third parties is kept to a minimum.


Strategic


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

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


-  ■ Despite the onset of the health crisis, Sareb's strategy continues to rest on the pillars established in the Plan. However, the company has implemented operational and business measures to tackle the standstill in activity triggered by Covid-19.


Reputational


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

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

Counterparty

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

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

-  ■ Covid-19 led to a downgrade of the ratings of certain entities, although this did not have a material effect in terms of the limits established and neither did it imply changes to the management of cash surpluses.



6

Appendices

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Picture: Construction work at a residential building belonging to Arqura Homes in Granada (Andalusia).

About this report

Since 2017, Sareb has prepared its Annual Activity Report in accordance with the guidelines of the International Integrated Reporting Framework (IIRC) and with the reporting principles of the Global Reporting Initiative

The company complies with its duty to report annually and biannually on the evolution of its activity, and is working towards the implementation of the provisions of Act 11/2018⁵¹, which extends the obligation to present a non-financial information statement to companies with more than 250 employees within a maximum period of three years, which will apply to Sareb from next year.

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

Scope of the information

The information and quantitative data in this report correspond to 2020. However, and with the aim of making it easier for the reader to understand the evolution of the business from the outset, the figures and facts relating to previous years are also included.

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



Picture: Garden view of a Sareb house development in Udias (Cantabria).

⁵¹ Arising from RD-Law 18/2017 and which transposes the 2014/95/EU directive into Spanish Law.

Materiality Assessment

GRI: 102-46



Methodological development

The company's materiality study is the result of a series of consultations and surveys among Sareb's various stakeholders: employees, public administrations, supervisors, shareholders, customers, suppliers and Society at large

The consultations among internal groups establish a starting point from which to define matters that could be significant, while the responses compiled from external stakeholders enable Sareb to learn which of these issues are of most concern to them or they believe could have the greatest impact, based on the context and trends in the sector.

All of their contributions have enabled Sareb to compile its materiality matrix, which in its 2018 review took into account the following aspects to enrich all perspectives.

Internal prioritisation	140 employees were surveyed to reflect on, review and update the results obtained in the previous materiality assessment.
External prioritisation	<p>In addition to the interviews carried out in 2017 with the various external stakeholders, in 2018 the reputation survey that Sareb conducted during the year was also taken into account. This quantitative and qualitative analysis, which was based on over 1,600 surveys of company stakeholders⁵², gathered information about stakeholder concerns and priorities in relation to Sareb.</p> <p>A review of the sector context and trends that affect Sareb and potentially influence stakeholder assessments and decisions was also taken into account.</p>

As a result of Covid-19 and the need to respond to more immediate matters, the company has scheduled an update of its materiality study in 2021. This new analysis will outline the state of play of matters that are significant for Sareb in light of the 'new normality' and the emerging sensitivities and expectations, both internal and external.

Below are the 18 significant issues that emerged from the consultations—all important, but listed in order of priority—and the materiality matrix currently in place.

⁵² The reputation survey includes consultations with experts from the real estate, financial and Public Administration sectors, customers, opinion leaders, employees and society in general. Consultations with opinion leaders do not have quantitative assessments. Employees are not taken into account for the external perspective, as they are part of the internal dimension, where ad hoc consultation has been conducted with 140 people.

List of issues

GRI: 102-44, 102-47

LEVEL ONE PRIORITY

- 1 Efficient and responsible management of the asset portfolio received

- 2 Transparency in the activity carried out

- 3 Payment of the debt without cost to the taxpayer

- 4 Integrity, prevention of corruption and conflicts of interest

- 5 Creation of value to improve the commercial viability of the portfolio

LEVEL TWO PRIORITY

- 6 Commercial viability of real estate assets

- 7 Systems for the control, supervision and monitoring of activity

- 8 Flexibility to adapt to the market

- 9 Relationship with counterparties: Public Administrations, suppliers, etc.

- 10 Expected return for shareholders

- 11 Talent management and the professional development of employees

- 12 Respect for free competition and the free market

- 13 The company's role in providing impetus to the real estate sector

- 14 Closeness and communication with stakeholders

LEVEL THREE PRIORITY

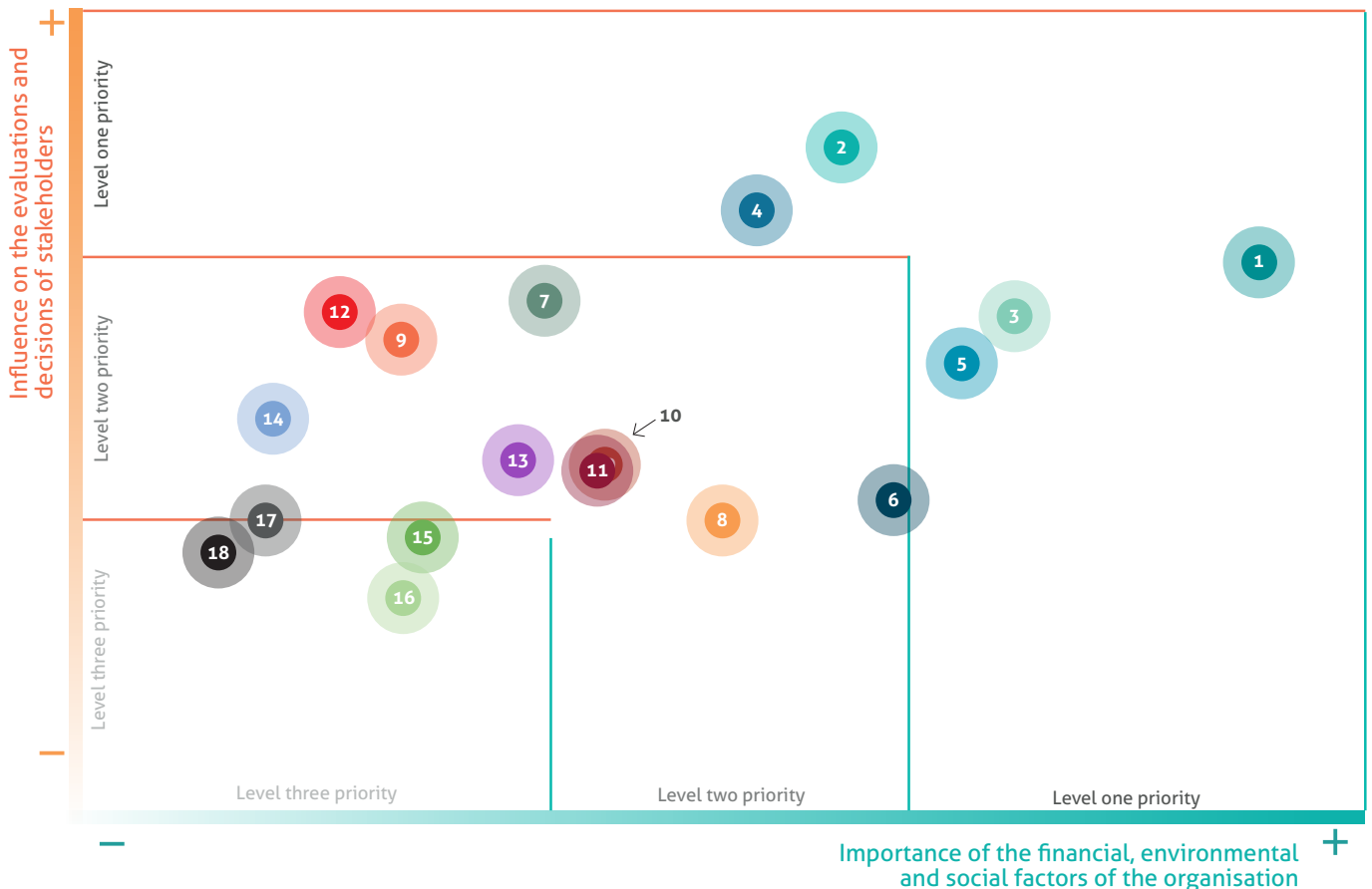
- 15 Respect for equality, diversity and non-discrimination

- 16 Applied innovation: efficiencies and development of new products and services

- 17 Impact of construction work on the environment

- 18 Social action initiatives related to housing

Materiality matrix



Closeness and communication with stakeholders

Sareb identifies its stakeholders on the basis of their influence and impact of the company's activity in the short, medium and long term. Taking these criteria into account, and bearing in mind the assumption that this

year is an ongoing process, Sareb's main stakeholders are its employees, its shareholders, the supervisory body and Public Administrations, its customers, its suppliers and society in general.

Mechanisms for closeness and communication with stakeholders

Transparency is one of Sareb's values, which assumes the commitment to keeping open communications on its activity, policies and procedures, aware that it acts under the watchful eye of its stakeholders.

With this in mind, the company has various online and face-to-face mechanisms which ensure the availability of information in time and form adapted to each group, in order to manage the relationship between the parties and facilitate decision-making in relation to the organisation.

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

In 2021, Sareb is working to update its materiality assessment considering the thoughts and expectations of its key stakeholders in order to facilitate decision-making with regard to the organisation.

Channels and initiatives worthy of mention

Employees

- Sareb conducts staff surveys to identify employees' concerns and possible improvements. The company then develops action plans to respond to the issues raised.
- The Sareb intranet functions as an interactive platform where employees receive information about company initiatives and achievements, and share their own thoughts on the subject.
- In 2020, in a context dominated by Covid-19, Sareb remained committed to an ongoing dialogue with its employees in order to be aware at all times of their state of health, frame of mind, and their concerns, and to keep them informed of the company's operations.



Different surveys have been carried out to this end and the use of the platform 'Teams' has been promoted as a tool for adapting to the method of teleworking—holding training webinars to explain how it works—.

Shareholders

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



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

At the beginning of 2020, the company received an award in the third edition of the Ramón del Corral Dircom Awards, promoted by the Association of Communication Directors (Dircom). These awards acknowledged the best examples of communication and public relations in Spain and in this edition over 200 projects were submitted in the 23 categories, covering campaigns, events, publications, multimedia, digital and strategy.

To be specific, Sareb received acknowledgement for the best social networks campaign for "Dialogue with our stakeholders".


The strategy comprised:

- Network intelligence and listening to meet the challenge of hyper transparency and to manage the reputation of the entity.
- Preparing general interest content to gain a higher profile in an information-saturated environment.
- Attracting ambassadors to humanise communication and empower individuals.


i More information on [Huellas](#) and [Sareb's social network campaigns](#)




Supervisory body and Public Administrations

- Sareb maintains fluid and transparent communication with the supervisory body and Public Administrations, meeting on a regular basis to share information about the evolution of the company and the fulfilment of its objectives. 
- Moreover, through the various departments (such as Institutional Relations, Sustainability, Communications and the geographical branch offices), Sareb works closely with the central and regional governments and town councils.


Customers

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

Suppliers

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

Company

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

GRI content index

Contents	Description of the content	Reference / Response
GRI 101: Foundation 2016		
GRI 102: General Disclosures 2016		
Organisational profile		
102-1	Name of the organisation	Sareb, Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.
102-2	Activities, brands, products and services	
102-3	Location of headquarters	Calle Costa Brava, 12 (28034 – Madrid)
102-4	Location of operations	Spain
102-5	Ownership and legal form	Public Limited Company
102-6	Markets served	Spain
102-7	Scale of the organisation	27, 28, 75
102-8	Information on employees and other workers	75-80
102-9	Supply chain	84, 85
102-10	Significant changes to the organisation and its supply chain	29-35, 84, 85
102-11	Precautionary Principle or approach	Not applicable
102-12	External initiatives	United Nations Global Compact
102-13	Membership of Associations	Association of Professionals in Regulatory Compliance; Spanish Operational Risk Consortium (CERO); Spanish Offices Association (AEO); Spain SAP Users Association (SAP AUSAPE); Spanish Association of Executives and Directors (Eje&Con); Association of Madrid Property Developers (ASPRIMA); Spanish Association of Shopping Centres (AECC); Institute of Internal Auditors; Association of Communication Directors (DIRCOM); Spanish Association of Customer Relationship Experts (AEERC).
Strategy		
102-14	Statement from senior decision-maker	8-12
102-15	Key impacts, risks and opportunities	11, 33, 98-101
Ethics and integrity		
102-16	Values, principles, standards and norms of behaviour	13, 97, 98
102-17	Mechanisms for advice and concerns about ethics	97, 98
Governance		
102-18	Governance structure	The Board of Directors is responsible for approving the Corporate Responsibility Policy—as part of its function of drawing up the strategy and policy guidelines of the Company—, drafting programmes and setting targets for the performance of all the activities included in the corporate purposes, as well as the Medium-Term Social Housing Programme, for providing rental properties at affordable prices through the autonomous regions and other public institutions.
102-21	Consulting stakeholders on economic, environmental, and social topics	104-105

Contents	Description of the content	Reference / Response
102-22	Composition of the highest governance body and its committees	89-94
102-23	Chair of the highest governance body	93
102-24	Nominating and selecting the highest governance body	92
102-25	Conflicts of interest	96
102-26	Role of highest governance body in setting purpose, values, and strategy	94, 95
102-27	Collective knowledge of the highest governance body	93
102-28	Evaluating the highest governance body's performance	96
102-35	Remuneration policies	96
Stakeholder engagement		
102-40	List of stakeholder groups	104
102-41	Collective bargaining agreements	All employees are covered by collective bargaining agreements.
102-42	Identifying and selecting stakeholders	104
102-43	Approach to stakeholder engagement	104
102-44	Key topics and concerns raised	104, 107
102-45	Entities included in the consolidated financial statements	At 31 December 2020, the only FABs set up that have not been deconsolidated are the 2013 Bull and Arqura Homes FABs. Those FABs have their own accounting and tax rules.
Reporting practice		
102-46	Defining report content and topic Boundaries	106
102-47	List of material topics	107
102-48	Restatements of information	Some data has been reviewed following the improvement of the data collection processes and this restatement is shown in the corresponding sections of the report.
102-49	Changes in reporting	The list of material topics is kept in respect of 2018.
102-50	Reporting period	2020
102-51	Date of most recent report	2020
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	comunicacion@sareb.es
102-54	Claims of reporting in accordance with the GRI standards	Essential
102-55	GRI content index	108
102-56	External assurance	Not applicable
MATERIAL TOPICS		
Efficient and responsible management of the asset portfolio received		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	16, 17, 38-42

Contents	Description of the content	Reference / Response
103-2	The management approach and its components	16, 17, 38-42
103-3	Evaluation of the management approach	16, 17, 38-42
GRI 201: Economic performance 2016		
201-1	Direct economic value generated and distributed	14 - 17
Transparency in the activity carried out		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	13 - 103
103-2	The management approach and its components	13 - 103
103-3	Evaluation of the management approach	13 - 103
Payment of the debt without cost to the taxpayer		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	43, 44
103-2	The management approach and its components	43, 44
103-3	Evaluation of the management approach	43, 44
GRI 203: Indirect economic impacts 2016		
203-2	Significant indirect economic impacts	14, 16, 17, 27
Integrity, prevention of corruption and conflicts of interest		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	13, 97, 98
103-2	The management approach and its components	13, 97, 98
103-3	Evaluation of the management approach	13, 97, 98
GRI 205: Anti-corruption 2016		
205-2	Communication and training about anti-corruption policies and procedures	97
Creation of value to improve the viability of the portfolio		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	20, 21
103-2	The management approach and its components	20, 21
103-3	Evaluation of the management approach	20, 21
Commercial viability of real estate assets		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	31-33, 49-56
103-2	The management approach and its components	31-33, 49-56
103-3	Evaluation of the management approach	31-33, 49-56
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GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	90, 91, 97, 98
103-2	The management approach and its components	90, 91, 97, 98

Contents	Description of the content	Reference / Response
103-3	Evaluation of the management approach	90, 91, 97, 98
Flexibility to adapt to the market		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	29-33
103-2	The management approach and its components	29-33
103-3	Evaluation of the management approach	29-33
Relationship with counterparties: public administrations, suppliers, etc.		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	21, 22-24, 84-85
103-2	The management approach and its components	21, 22-24, 84-85
103-3	Evaluation of the management approach	21, 22-24, 84-85
GRI 204: Procurement practices 2016		
204-1	Proportion of spending on local suppliers	85
GRI 308: Supplier Environmental Assessment 2016		
308-1	New suppliers that were screened using environmental criteria	Environmental criteria have been taken into account in the assessment of 56 suppliers.
GRI 414: Supplier Social Assessment 2016		
414-1	New suppliers that were screened using social criteria	Social criteria have been taken into account in the assessment of 56 suppliers.
Expected return for shareholders		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	13, 16-17
103-2	The management approach and its components	13, 16-17
103-3	Evaluation of the management approach	13, 16-17
GRI 201: Economic performance 2016		
201-1	Direct economic value generated and distributed	16-17
Talent management and the professional development of employees		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	75-80
103-2	The management approach and its components	75-80
103-3	Evaluation of the management approach	75-80
GRI 401: Employment 2016		
401-1	New employee hires and employee turnover	75
GRI 404: Training and education 2016		
404-1	Average hours of training per year per employee	79
404-2	Programmes for upgrading employee skills and transition assistance programmes	79

Contents	Description of the content	Reference / Response
404-3	Percentage of employees receiving regular performance and career development reviews	76
Respect for free competition and market		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its boundary	100.101
103-2	The management approach and its components	100.101
103-3	Evaluation of the management approach	100.101
GRI 206: Anti-competitive behaviour 2016		
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	No cases have been notified of non-compliance related to unfair competition and other similar practices in the reporting period.
The company's role in providing impetus to the real estate sector		
GRI 103: Management Approach 2016		
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GRI 406: Non-discrimination 2016		
406-1	Incidents of discrimination and corrective actions taken	No incidents of discrimination have been identified during the reporting period.
Applied innovation: efficiencies and development of new products and services		
GRI 103: Management Approach 2016		
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GRI 103: Management Approach 2016		
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Social action initiatives related to housing		
GRI 103: Management Approach 2016		
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Picture: Façade of an apartment building developed by Sareb in Ampuero (Cantabria).



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

Independent auditor's report on the annual accounts

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

Report on the annual accounts

Opinion

We have audited the annual accounts of Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (the Company), which comprise the balance sheet as at December 31, 2020, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at December 31, 2020, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note 2 of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

Basis for opinion

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="308 528 813 577">Valuation of the units of financial assets and real estate assets</p> <p data-bbox="308 607 837 792">At the year end, the Company assesses the need to execute valuation adjustments relating to financial and property assets impairment. This evaluation was carried out on individual basis, offsetting gains against losses for assets within the same “assets unit”, in accordance with the Bank of Spain Circular 5/2015, of September 30.</p> <p data-bbox="308 822 837 954">The valuation adjustments relating to financial assets and real estate assets impairment, is one of the most significant and complex estimation for the accompanying annual accounts, therefore was consider a key audit matter.</p> <p data-bbox="308 983 802 1059">According to the Bank of Spain Circular 5/2015, the Company has classified its assets in two different assets units as follows:</p> <ul data-bbox="308 1088 826 1274" style="list-style-type: none"> • Financial assets unit: credit rights transferred to the Company, mortgage foreclosures and acquired in payment after the transfer date. • Real estate asset unit: properties with that nature at the transfer date. <p data-bbox="308 1303 837 1435">In accordance with the regulation set by the Circular as well as based on the criteria established in it, the Company has developed a assets' methodology for estimating the impairment adjustments.</p> <p data-bbox="308 1464 815 1541">The process to estimate the possible impairment adjustments of the assets carried out by the Company is as follows:</p> <ul data-bbox="308 1570 837 2020" style="list-style-type: none"> • As regards to the property assets unit, the evaluation was carried out individually, according to the Bank of Spain Circular 5/2015, taking into account the following criteria: <ul data-bbox="379 1731 837 2020" style="list-style-type: none"> - Generally, the Company estimates the value of property assets based on their mortgage value, calculated from valuation reports (full individual appraisals) made in accordance with the criteria set out in Order ECO/805/2013, of 27 March. Appraisal companies registered in the Official Registry of Appraisal Companies of the Bank of Spain made these valuation reports. 	<p data-bbox="853 607 1423 768">Our audit work regarding the estimation of the impairment adjustments to financial assets and real estate assets value has focused, among others, on the analysis, evaluation and verification of the internal control system, as well as the performance of detailed tests on the estimates made by the Company.</p> <p data-bbox="853 797 1394 873">With respect to the internal control environment, we have evaluated the design and tested the controls operational effectiveness in the following areas:</p> <ul data-bbox="853 902 1423 1384" style="list-style-type: none"> • Verifying the IT general controls of the systems used to produce the financial information. Verification of the main aspects of the security environment of the information systems that include the calculation of impairment adjustments. • Verifying the adequacy of the policies and procedures, internal methodology approval to the relevant regulatory requirements applied, as well as obtaining, understanding and analysing the interpretations of the Company in relation to the specific applicable rules. • Understanding of the internal control environment regarding the internal valuation methodology, identifying and validating the main key controls. <p data-bbox="853 1413 1394 1462">In addition, we have carried out, among others, the following substantive procedures:</p> <ul data-bbox="853 1491 1423 1921" style="list-style-type: none"> • Reviewing the sample of the operations for the data quality testing purposes of the information contained in the systems, which was used as a basis for the assets' value estimation as well as for the calculation of possible impairment adjustment of the asset units' value. • Reviewing overall data consistency by executing a review of inputs used in the valuation model in accordance to the Circular 5/2015 inputs. • Evaluation of the competence, independence and integrity of the appraisal companies whose reports had been used for the valuation of the financial and property assets of the Company.



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

Key audit matter	How our audit addressed the key audit matter
<ul style="list-style-type: none"> - The company has the possibility to choose to perform full individual valuations or making valuation by using automatic valuations, with the objective to estimate the value of finished houses and annexes to them as well as commercial premises located in towns where there is a representative market for comparable properties, and if exists a valuation report prepared in accordance with regulation mentioned above and which seniority is less than three years. Appraisal companies registered in the Official Registry of Appraisal Companies of the Bank of Spain made these valuation reports. - For those assets of the property assets unit, different from categories mentioned in the previous paragraph, the Company uses its best estimate based on an internal valuation model evaluated by an independent expert. 	<ul style="list-style-type: none"> • For a selected sample of valuation reports, we have verified, in collaboration with our experts in this matter, the assumptions used by the appraisal companies in the realization of their valuations in order to evaluate the reasonableness of them, as well as comparing with market data relevant and attending to the current situation of the buildings. • In cases of use of automatic valuation models, we have verified, in collaboration with our experts in this matter, the adequacy of the valuation methodologies applied by the appraisal companies which are considered by the Company. • We have carried out verifications regarding to the adjustments applied by the Company on the values of the appraisals received from third parties in relation to: i) the reflection of the evolution of market prices and the horizons of the Company's business plan; ii) the estimated maintenance and marketing costs and iii) the update to present value of the values obtained after applying the above mentioned adjustments. • We have obtained and analysed the assessment made by the Company regarding the contrast between the evolution of the appraisals (revaluations made in the year) and the evolution of the price curves used by type of assets (land, residential, other assets) and respective analysis of the sales during the period.
<p>Additionally, to the valuation obtained according to the criteria described in the previous paragraphs, the methodology developed by the Company mainly considers the following aspects in the final valuation of the assets:</p>	<ul style="list-style-type: none"> • We have obtained and analysed the assessment made by the Company regarding the Covid-19 crisis impacts, considering the uncertainties over the estimations and key information used in valuation model, among them:
<ul style="list-style-type: none"> - Adjustments to reflect the evolution of market prices and the horizons of the Company's business plan. - Estimation of maintenance and marketing costs, which were deducted from the result applying the criteria described above. - Discount or update rate. The valuation obtained after the application of the above adjustments was update to present value by applying an estimated discount rate taking into account the cost of financing the Company and the inherent risks in the assets. 	<ul style="list-style-type: none"> - Valuation report (appraisals) prepared by Appraisal companies and evaluation of the corresponding assets' value. - The market price curves and the price curves used by type of assets (land, residential, other assets). - The estimated maintenance and marketing costs.



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

Key audit matter	How our audit addressed the key audit matter
<p>In relation with the adjustments made to the appraisals, should be taken into account that business plan hypotheses evaluation is a complex process that requires a high degree of judgment and estimations, based on the circumstances, applicable regulations and the existing data at each moment. The business plan is updated and approved by the Company's Board of Directors on an annual basis.</p> <p>Regarding to the financial assets, the evaluation was carried out on individual basis, according to the capacity of payment of their debtors, considering the existence of guarantors with demonstrated payment capacity.</p> <p>For those financial assets for which it was estimated that the recovery of the amounts owed would be make through the foreclosure of the guarantees, the valuation of the financial assets are made by taking into account the property valuation of the guarantees. The evaluation was carried out in a similar way as the real estate assets described above, including in the estimation of costs not only those of maintenance and commercialization until the subsequent sale of the collateral, but also those necessary for the execution of the guarantees (procedural, legal and fiscal).</p> <p>Financial assets without property asset collateral that presents delays in contractual obligations exceeding eighteen months from the date of transfer of the assets to the Company, or from the date of the first default if this is later, are considered, except for evidence against, with null value.</p> <p>According to the criteria described above and the value of each asset calculated, the Company estimates the value of each asset, compensating for losses and gains of assets within the same assets' unit.</p> <p>As indicated in notes 4.7, 4.7.1 and 4.7.2., in estimating the value of the assets, a series of assumptions based on the business plan of the Company had been apply. In notes 4.7.1 and 4.7.2, the Company had included a sensitivity analysis on the key assumptions considered more volatile.</p>	<ul style="list-style-type: none"> • We have performed procedures contrasting the appraisal's value of residential assets (residential) with the public information available for comparable assets and with transactions on comparable markets. • We have reperformed calculation of the impairment adjustments for each asset units basing on the estimation of assets' value. • We have evaluated by means of preparation alternative model and in collaboration with our experts, the methodology applied, sensitivity analysis and hypotheses used by the Company in the asset units' valuation process. • We have verified the correct accounting registration of the impairment adjustments estimated by the Company in accordance with the Bank of Spain Circular 5/2015. <p>Based on the procedures described above and in the context of our audit report of the accompanying annual accounts, we consider that the methodology used by the Company, as well as the impairment estimation of its asset units, according with the Circular 5/2015 are within a reasonable range in the context of the applicable accounting framework and the circumstances that were considered in the process of preparation of accompanying annual accounts.</p>



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

Key audit matter	How our audit addressed the key audit matter
<p>In accordance with the RD 4/2016, of December 2, on urgent financial measures, which modifies Act 9/2012, of November 14, on restructuring and resolution of credit institutions, the Company recognizes the valuation adjustments of the unit asset in the balance sheet, net of their tax effect, charged to "Value Change Adjustments - Impairment of financial assets" and "Value Change Adjustments – Impairment of real estate asset", within equity. As established in the aforementioned RD 4/2016, the aforementioned adjustments would not be considered equity for the purposes of the distribution of profits, the mandatory reduction of share capital and the mandatory dissolution for losses established in the Capital Companies Act (LSC).</p> <p>See notes 2.4. Critical aspects of the valuation and estimation of the uncertainty, 4.7 Impairment of financial assets, property investments and other accounts receivable, 4.7.1. Impairment of the property assets unit, 4.7.2. Impairment of loans and credits receivable and property assets received in payment of debts, 5. 5. Property Investments, 7.1.1. Long and short-term third-party loans, 8. Inventories, 11.4. Value change adjustments and 11.5 Equity Situation of the Company.</p>	

Aspects associated with the generation of financial information

The Company has four external managing companies (hereinafter, servicers) who manage the portfolios of financial and property assets assigned to them and the non-unconsolidated Banks Asset Funds (FAB), and prepare their financial information, meanwhile the Company's management, under Esparta contract's terms, assumes the management of the financial and accounting information, regarding assets' portfolio assigned to servicers, which initial contract has terminated, as well as aggregation of all financial and accounting information required for the Company's annual accounts preparation.

According to the functions assigned, each servicer registers and prepares the financial and accounting information of their own portfolios and the managed FABs, reporting this information to the Company on a monthly basis. Based on this information, the Company carries out a process of accounting aggregation and generation of the financial information as a whole.

Below are described the main procedures carried out, regarding the generation of the Company's financial and accounting information:

- Verifying the IT general controls (ITGCs) of the significant areas: applications' access management, operational systems and data bases, changes in IT programs and operations of the core IT platforms which contain information, that may have significant impact on the annual accounts.

In the framework of our work, certain aspects of improvement were detected in relation to access controls in some applications. This aspect has led to an increase in the work to be done by our side over the mitigating controls identified by the Company and an increase in the work done regarding certain substantive testing.



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

Key audit matter	How our audit addressed the key audit matter
<p>Among the accounting entries that are recorded by each servicer as part of the Company's accounting records, the most important are those that originate in the operation of sales of financial and property assets, mortgage foreclosures and dations in payment, leases of real estate, maintenance expenses of real estate and ordinary management of loans, among others.</p> <p>For an adequate control of the operations managed in each servicer, the Company has a communication platform. This platform was use in order to gather information and documentation about the operations and verify that they are within the framework of functions delegated to each servicer or, in its case, to be able to authorize the transaction before its formalization and its subsequent accounting registration.</p> <p>Consequently, the financial and accounting information associated with the operations managed at the headquarters of each servicer, resides in the computer systems of each of them, this way each and one of them is responsible for monthly and year end information submission to the Company. So, the Company's activities are highly dependent on information technology systems (IT) and an adequate control over the information systems is fundamental to guarantee the correct processing of the accounting information. Some of those systems are managed directly by external technology providers, under the supervision of the Company. In this context, such aspects as organisation of the Company's technological area, controls over operations' maintenance and development, physical security and logic and systems' usage, including those cases where the system depends on external IT provider, were evaluated. Also, during the year were carried out an IT migration project for financial assets and property assets portfolio.</p> <p>Due to the situation caused by Covid-19 regarding mobility restrictions, the Company and the servicers have adopted extraordinary measures, such as security measures for the systems and access controls, among others, to ensure that they can continue operating normally.</p> <p>In this context, the knowledge, evaluation and verification of controls established by the Company, related to the applications' maintenance and development, physical and logic security and the use of the systems, including those cases with dependence on external technology providers, to ensure the integrity of financial information, as well as the execution of certain substantive verification tests at the servicers' headquarters, were consider a key audit matter.</p>	<ul style="list-style-type: none"> • Evaluation of the assessment made by the Company regarding the additional measures and procedures implemented both by the Company and by each servicers' in the internal control, due to the Covid-19 situation. • Evaluation of the internal control related to the IT migration projects occurred during this year, considering the pre-migration activities, data transformation, test plans and implementation. • Reconciliation between the financial information contained in the origin and the destination systems at migration date. • Identifying automatic controls and key manual controls established by each servicer, on the financial and accounting information sent to the Company, and verification. • Reviewing the sample of the operations, executed by each servicer with supporting documentation, verifying the proper accounting treatment and classification. Likewise, we have verified whether the framework of delegated functions was fulfilled or, where appropriate, the existence of authorization of the operation by the Company when it is required. • Likewise, we have identified the automatic controls and key manual controls established by the Company, regarding the integrity of the financial and accounting data submitted by the servicers and we have evaluated their effectiveness. • Verifying the reconciliation of accounting inventories generated by each servicer with the financial information provided by the Company. • Understanding and analysis, on a sample basis, of the manual adjustments posted to the system where financial information is registered. • Reviewing the data quality testing, on a sample basis, verifying the information accounted in the Company's systems with the supporting documentation and verifying consistency between the information in the in the servicers' systems and the Company's one.



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

Key audit matter	How our audit addressed the key audit matter
See note 1, 4.6.1 and 7.2.1. of the report of the attached annual accounts.	Our procedures, in the context of our audit report of the accompanying annual accounts, allow us to obtain sufficient and adequate audit evidence in relation to the accounting aggregation process and the generation of financial information by the Company. We have not identified relevant aspects that could significantly affect the financial information included in the accompanying annual accounts.

Emphasis of matter

We draw attention to note 2.4 of the annual accounts, which describes that the Company maintains agreements, as the consequence of the accumulated losses to the date, negative net equity under mercantile terms. Under this situation and in accordance with what is set within contingently convertible subordinated debt issuance contract as described in the note 13.2, the Company expects to convert the subordinated debt in total, in the amount of Euro 1,430 million, although, based on the business plan's forecasts and considering the previous periods losses' compensation and simultaneous equity's increase and decrease, caused by debt's conversion agreements that the Board will be proposing to the General Shareholders' Meeting, as stated in the note 2, it is not expected that these measures will be sufficient to avoid an unbalance of net equity under mercantile terms in short-term period. However, Real Decreto-ley 6/2020 ("Royal Decree") dated March 10, 2020, set the non-application to the Company of article 363.1.e) of Capital Companies Act ("Ley de Sociedades de Capital"), regarding dissolution causes due to losses that lead to net equity amount to be below than half of the share capital, unless the share capital increases or decreases sufficiently, and when there is no need to declare insolvency. As a result, the Directors have prepared the accompanying annual accounts for the year 2020 on a going-concern basis, according with the circumstances described on Note 2.4. aforementioned. Our opinion is not modified in respect of this matter.

Other information: Management report

Other information comprises only the management report for the 2020 financial year, the formulation of which is the responsibility of the Company's directors, and does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the management report. Our responsibility regarding the management report, in accordance with legislation governing the audit practice, is to:

- a) Verify only that the certain information included in the Annual Corporate Governance Report, as referred to in the Auditing Act has been provided in the manner required by applicable legislation and, if not, we are obliged to disclose that fact.
- b) Evaluate and report on the consistency between the rest of the information included in the management report and the annual accounts as a result of our knowledge of the Company obtained during the audit of the aforementioned financial statements, as well as to evaluate and report on whether the content and presentation of this part of the management report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have verified that the information mentioned in section a) above has been provided in the manner required by applicable legislation and that the rest of the information contained in the management report is consistent with that contained in the annual accounts for the 2020 financial year, and its content and presentation are in accordance with applicable regulations.



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

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

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

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

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

Auditor's responsibilities for the audit of the annual accounts

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

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

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

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.



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

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

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

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

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

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

Report on other legal and regulatory requirements

Report to the audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit committee dated on March 31, 2021.

Appointment period

The General Ordinary Shareholders' Meeting held on April 30, 2019 appointed PricewaterhouseCoopers Auditores, S.L. as auditors for a period of 3 years, as from the year ended December 31, 2019.

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

Services provided

PricewaterhouseCoopers Auditores, S.L. provided to the Company non-audit services during the period ended December 31, 2020. See details in the note 16.4 of the accompanying annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by:
Julián González Gómez (20179)

March 31, 2021

SOCIEDAD DE GESTIÓN DE ACTIVOS PROCEDENTES DE LA REESTRUCTURACIÓN BANCARIA, S.A. (SAREB)**BALANCE SHEETS AT 31 DECEMBER 2020 AND 31 DECEMBER 2019**

(Thousands of Euros)

ASSETS	Notes in the Report	31/12/20	31/12/19
NON-CURRENT ASSETS		21,374,845	25,152,950
Intangible assets	Note 4.1	40,732	37,939
Administrative concessions		387	453
Industrial property		27	33
Computer software		40,318	37,453
Property, plant and equipment	Note 4.2	23,729	2,491
Land and buildings		20,086	-
Fixtures		119	150
Technical installations and other property, plant and equipment		3,520	2,311
IT equipment		4	30
Property investments	Note 5	10,624,987	11,905,685
Land		4,513,525	5,264,448
Completed properties		5,192,881	6,154,504
Advances on property investments		918,581	486,733
Long-term investments in group companies and associates		71,729	58,908
Equity instruments	Note 7.2.1	36,097	38,036
Loans to companies	Note 7.2.2	35,632	20,872
Long-term financial investments	Note 7.1	10,410,198	12,824,106
Loans to third and related parties		9,821,840	11,740,698
Other financial assets		588,358	1,083,408
Deferred tax assets	Note 15.3	203,470	323,821
CURRENT ASSETS		6,211,441	6,316,788
Inventories	Note 8	881,094	906,556
Products in progress		758,331	801,541
Finished products		92,364	52,695
Advances to suppliers		30,399	52,320
Trade and other accounts receivable	Note 9	277,458	280,280
Customer receivables from sales and services rendered		234,391	249,323
Sundry debtors		15,387	13,574
Staff		12	12
Current tax assets	Note 15.1	17,837	5,104
Other receivables from Public Administrations	Note 15.1	9,831	12,267
Short-term investments in Group companies and associates		3,167	4,138
Loans to companies		3,167	4,138
Short-term financial investments	Note 7.1	1,572,619	2,008,597
Loans to companies		1,093,645	1,344,299
Other financial assets		478,974	664,298
Short-term accrual accounts		3,107	1,927
Cash and other cash equivalents	Note 10	3,473,996	3,115,290
Cash		3,072,468	2,553,988
Other cash equivalents		401,528	561,302
TOTAL ASSETS		27,586,286	31,469,738

Notes 1 to 19 described in the attached report form an integral part of the Balance Sheet at 31 December 2020.

SOCIEDAD DE GESTIÓN DE ACTIVOS PROCEDENTES DE LA REESTRUCTURACIÓN BANCARIA, S.A. (SAREB)**BALANCE SHEETS AT 31 DECEMBER 2020 AND 31 DECEMBER 2019**

(Thousands of Euros)

LIABILITIES	Notes in the Report	31/12/20	31/12/19
EQUITY	Note 11	(10,528,692)	(7,511,562)
SHAREHOLDERS' EQUITY-		(843,268)	229,773
Capital			
Subscribed capital		303,862	303,862
Issue premium		-	-
Legal reserve		19,174	19,174
Other reserves		2,959,698	2,959,698
Loss from previous years		(3,052,961)	(2,105,715)
Profit/(Loss) for the year		(1,073,041)	(947,246)
VALUE CHANGE ADJUSTMENTS-	Note 13.3	(9,685,424)	(7,741,335)
- Hedging operations		(566,675)	(922,322)
- Impairment of financial assets unit		(7,871,771)	(6,322,635)
- Impairment real estate assets unit		(1,246,978)	(496,378)
NON-CURRENT LIABILITIES		35,141,172	37,361,843
Long-term provisions	Note 12	4,817	3,662
Long-term debts	Note 13	35,136,355	37,358,181
Debentures and other negotiable securities		33,969,705	35,773,230
Derivatives		897,592	1,342,399
Other financial liabilities		269,058	242,552
CURRENT LIABILITIES		2,973,806	1,619,457
Short-term provisions		7,054	4,600
Short-term debts	Note 13	2,537,496	1,080,432
Amounts owed to credit institutions		13,676	15,301
Debentures and other negotiable securities		2,516,955	1,064,930
Other financial liabilities		6,865	201
Trade and other accounts payable	Note 14	429,256	530,426
Suppliers		327,595	430,658
Staff		7	4,628
Current tax liabilities		-	-
Other payables to Public Administrations	Note 15.1	73,546	75,634
Customer advances		28,108	19,506
Income collected in advance		-	3,999
TOTAL EQUITY AND LIABILITIES		27,586,286	31,469,738

Notes 1 to 19 described in the attached report form an integral part of the Balance Sheet at 31 December 2020.

SOCIEDAD DE GESTIÓN DE ACTIVOS PROCEDENTES DE LA REESTRUCTURACIÓN BANCARIA, S.A. (SAREB)
INCOME STATEMENT FOR THE YEARS 2020 AND 2019
(Thousands of Euros)

	Notes in the Report	31/12/20	31/12/19
ONGOING OPERATIONS			
Turnover	Nota 16.1	941,808	1,430,157
Sales of inventories		128,317	87,839
Income from sales of property investments		665,771	958,155
Income from leases		45,408	40,553
Income from sales of loans and credits		1,081	465
Financial income from loans and credits		169,150	329,652
Margin of recovery of loans and credits		(70,035)	(90,778)
Income from remuneration of FABs		703	1,193
Income from sale and liquidation of FABs, other Group companies and associates	Nota 7.2.1	1,413	103,078
Changes in inventories of finished products and work in progress	Nota 16.2	(86,219)	(61,962)
Sales costs	Nota 16.2	(666,978)	(957,995)
Sales costs of property investments		(664,486)	(861,711)
Sales costs of financial assets		(257)	(399)
Sales costs of FABs, other Group companies and associates		(2,235)	(95,885)
Other operating income		14,875	46,427
Non-core and other current operating income		14,875	46,427
Staff expense	Nota 16.3	(36,075)	(39,969)
Wages, salaries and similar		(29,480)	(33,300)
Social Security		(6,595)	(6,669)
Other operating expenses		(579,012)	(638,630)
External services	Nota 16.4	(348,420)	(427,837)
Taxes	Nota 16.4	(215,072)	(198,452)
Losses, impairment and changes in provisions for trade transactions	Notas 9 y 12	(12,483)	(7,810)
Other current operating expense		(3,037)	(4,531)
Amortisation/Depreciation of fixed assets	Notas 4.1, 4.2 y 4.3	(68,873)	(62,441)
Overprovisions	Nota 12	-	7,914
Impairment and profit/(loss) from sales of property, plant and equipment		-	(4)
- Profit/(Loss) from sales and others		-	(4)
Impairment and profit/(loss) from sales of financial instruments		(43,548)	(2,203)
Impairment and losses	Nota 4.6.2	(43,548)	(2,203)
Profit/(Loss) from sales and others		-	-
OPERATING PROFIT/(LOSS)		(524,022)	(278,706)

Continue

Notes 1 to 19 described in the attached report form an integral part of the Income Statement for 2020.

Financial income	Nota 16.6	3,191	3,160
From negotiable securities and other financial instruments			
- In third parties		3,191	3,160
Financial expense	Nota 16.5	(551,109)	(588,695)
For debts with third parties		(538,752)	(576,603)
Other financial expense		(12,357)	(12,092)
Exchange rate differences	Nota 4.12	-	(6)
FINANCIAL INCOME/(EXPENSE)		(547,918)	(585,541)
PROFIT/(LOSS) BEFORE TAXES		(1,071,940)	(864,247)
Income tax	Nota 15	(1,101)	(82,999)
PROFIT/(LOSS) FOR THE YEAR FROM ONGOING OPERATIONS		(1,073,041)	(947,246)
PROFIT/(LOSS) FOR THE YEAR		(1,073,041)	(947,246)

Notes 1 to 19 described in the attached report form an integral part of the Income Statement for 2020.

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2020 AND 2019

STATEMENT OF RECOGNISED INCOME AND EXPENSE

(Thousands of Euros)

	Notes in the Report	Year 2020	Year 2019
BALANCE OF THE INCOME STATEMENT	Nota 3	(1,073,041)	(947,246)
Income and expense recognised directly in equity			
- For cash flow hedges	Nota 15.2	(64,983)	(177,787)
- For impairment of financial assets	Nota 7.1	(1,549,136)	(1,230,949)
- For impairment of real estate assets	Nota 5	(750,600)	(496,378)
- Tax effect	Nota 15.2	16,246	44,447
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY (II)		(2,348,473)	(1,860,667)
Income and expense recognised in the income statement			
- For cash flow hedges	Nota 13.3	539,179	576,322
- Tax effect		(134,795)	(144,081)
TOTAL TRANSFERS TO THE INCOME STATEMENT (III)		404,384	432,241
TOTAL RECOGNISED INCOME AND EXPENSE (I+II+III)		(3,017,130)	(2,375,671)

Notes 1 to 19 in the attached report form an integral part of the statement of recognised income and expense for 2020

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

ESTADOS DE CAMBIOS EN EL PATRIMONIO NETO DE LOS EJERCICIOS DE 2020 Y DE 2019

ESTADO TOTAL DE CAMBIOS EN EL PATRIMONIO NETO

(Miles de euros)

	Capital	Legal reserve	Restricted reserve
OPENING BALANCE 2019	303,862	19,174	629,428
Total recognised income and expense	-	-	-
Transactions with shareholders	-	-	-
Other changes in equity (Note 2.5)	-	-	-
CLOSING BALANCE 2019 (Note 11)	303,862	19,174	629,428
Total recognised income and expense	-	-	-
Transactions with shareholders	-	-	-
Other changes in equity - Distribution of profit/(loss)	-	-	-
CLOSING BALANCE 2020 (Note 11)	303,862	19,174	629,428

Notes 1 to 19 of the attached report form an integral part of the statement of total changes in equity for 2020

"Voluntary reserves for application RD 4/2016"	Loss from previous years	Profit/(Loss) for the year	Value change adjustments - Financial derivatives	Value change adjustments - Impairment financial assets	Value change adjustments - Impairment real estate assets	TOTAL
2,330,270	(1,227,367)	(878,348)	(1,221,223)	(5,091,686)	-	(5,135,891)
-	-	(947,246)	298,901	(1,230,949)	(496,378)	(2,375,671)
-	-	-	-	-	-	-
-	(878,348)	878,348	-	-	-	-
2,330,270	(2,105,715)	(947,246)	(922,322)	(6,322,635)	(496,378)	(7,511,562)
-	-	(1,073,041)	355,647	(1,549,136)	(750,600)	(3,017,130)
-	-	-	-	-	-	-
-	(947,246)	947,246	-	-	-	-
2,330,270	(3,052,961)	(1,073,041)	(566,675)	(7,871,771)	(1,246,978)	(10,528,692)

Notes 1 to 19 of the attached report form an integral part of the statement of total changes in equity for 2020

SOCIEDAD DE GESTIÓN DE ACTIVOS PROCEDENTES DE LA REESTRUCTURACIÓN BANCARIA, S.A. (SAREB)**CASH FLOW STATEMENTS FOR THE YEARS 2020 AND 2019**

(Thousands of Euros)

	Year 2020	Year 2019
A) CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES (1 + 2 + 3 + 4)	198,379	705,446
1. Profit/(Loss) before taxes	(1,071,940)	(864,247)
2. Adjustments to profit/(loss):	472,252	284,310
(+/-) Amortisation/Depreciation of fixed assets	68,873	62,441
(+/-) Financial expense	551,109	588,695
(+/-) Financial income	(3,191)	(3,160)
(+/-) Financial income from interest on loans and credits	(169,150)	(329,652)
(+/-) Other adjustments to profit/(loss)	(31,420)	(44,031)
(+/-) Losses, impairment and changes in provisions for trade transactions	12,483	7,810
(+/-) Impairment of financial instruments and property, plant and equipment	43,548	2,207
2.a Tax payments (-)	(12,733)	(5,104)
3. Increase / (Decrease) of assets and liabilities	1,218,923	1,471,424
Increase / (Decrease) of inventories (+/-)	27,392	(11,628)
Increase / (Decrease) of accounts receivable (+/-)	6,642	(69,305)
Increase / (Decrease) of other current financial assets (+/-)	185,324	(1,521)
Increase / (Decrease) of accounts payable (+/-)	(101,170)	12,340
Increase / (Decrease) of other current liabilities (+/-)	6,664	3,128
Increase / (Decrease) of loans and credits to third parties	440,148	707,731
Increase / (Decrease) of property investments	653,923	830,679
4. Other cash flows from/(used in) operating/financing activities:	(408,124)	(180,937)
(-) Interest payable	(527,840)	(558,723)
(+) Dividends receivable	-	190,618
(+) Interest receivable	3,191	3,160
(+/-) Interest receivable from loans and credits	116,525	184,008
(+/-) Other receivables/(payables) from operating activities	-	-

Continue

	Year 2020	Year 2019
B) CASH FLOWS FROM/(USED IN) INVESTMENT ACTIVITIES (1 + 2)	468,740	650,034
1. Payments on investments:	(28,545)	(75,323)
(-) Property, plant and equipment, intangible assets	(14,460)	(18,416)
(-) Credit and holdings in associates	(14,085)	(56,907)
(-) Other financial assets	-	-
2. Receivables from divestments:	497,285	725,357
(+) Credit and holdings in associates	2,235	95,968
(+) Other financial assets	495,050	629,390
C) CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES (1 + 2 + 3)	(308,413)	(1,067,582)
1. Receivables from/(Payables for) equity instruments:	-	-
(+) Issue	-	-
(-) Amortisation/Depreciation	-	-
(-) Acquisition	-	-
(+) Sale of own shares	-	-
2. Net obtained from new financing with third parties	(308,413)	(1,067,582)
(+) Other non-current financial liabilities	36,487	(42,682)
(-) Drawdowns / (Amortisations) credit accounts	-	-
(-) Repayment and amortisation	(344,900)	(1,024,900)
3. Net receivables for issue of own securities	-	-
D) EFFECT OF CHANGES IN EXCHANGE RATES	-	-
E) INCREASE/(DECREASE) NET OF CASH AND CASH EQUIVALENTS (A + B + C + D)	358,706	287,898
F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3,115,290	2,827,392
G) CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (E + F)	3,473,996	3,115,290
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	-	-
(+) Cash and banks	3,072,468	2,553,988
(+) Other financial assets	401,528	561,302
(-) Less: Bank overdrafts repayable on demand	-	-
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3,473,996	3,115,290

Notes 1 to 19 described in the attached report form an integral part of the cash flow statement for 2020.

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

Report at 31 December 2020

1. Company Activity

The company Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A. (hereinafter, the "Company" or "Sareb") was incorporated for an indefinite term in Madrid, on 28 November 2012, in accordance with the provisions of Act 9/2012, of 14 November, on the restructuring and winding-up of credit institutions, with the name Sociedad Promotora de la Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A., as a single-member public limited company; its purpose is to carry out all the preparatory measures necessary for putting Sareb into operation. It is registered in the Companies Registry of Madrid in volume 30,521, Sheet 1, Section 8, Page M-549,293, 1st entry.

On 12 December 2012, it changed its term and name under the deed which places on public record the company resolutions adopted on that date in the presence of the Madrid Notary Mr José María García Collantes under number 1624 of his official record, limiting its duration until 28 November 2027 and assuming its current name.

At 31 December 2020, the Company changed its registered and tax address to Calle de la Costa Brava number 12 in Madrid (previously it was Paseo de la Castellana 89, Madrid).

The Company is governed by its Articles of Association and by legislation in force that is applicable to it, i.e. the current Capital Companies Act, except for the provisions of articles 537 and 348 bis thereof, in accordance with the terms of Act 9/2012, of 14 November, on the restructuring and winding-up of credit institutions, with the specific terms necessary for ensuring that the accounting

principles applicable to it are consistent with the mandate and general objectives of the company as established in the Act of reference and which are set out by law (see Note 2.1). Furthermore, the Company will not be subject to the provisions of articles 348 bis and 363.1 e) of the Capital Companies Act on the basis of RDL 6/2020.

Its corporate purpose consists of holding, managing and directly or indirectly administering, buying and selling the assets and, where appropriate, liabilities, transferred to it by the credit institutions referred to in the Ninth Additional Provision of the Act 9/2012, (or any legislation that replaces, implements or supplements it) which appear in their balance sheets or in those of any company over which it exercises control in the sense of article 42 of the Code of Commerce (and also any others that it might acquire in the future as a result of the mentioned activity involving the management and administration of such assets).

Notwithstanding the above-described corporate purpose, in accordance with the legislation regulating it, the Company has to contribute to the correct implementation of the processes for the restructuring or winding-up of credit institutions, making it possible to meet the objectives set out in article 3 of Royal Decree 1559/2012 in accordance with the general principles of transparency and professional management, namely:

- a) Contribute to the recovery of the financial sector by acquiring the related assets in such a manner that the risks associated with these assets are effectively transferred from the time of their transfer.

- b) Minimise public funding.
- c) Settle debts and meet obligations it assumes in the course of its transactions.
- d) Minimise any possible distortions in the markets that might arise from its actions.
- e) Sell the assets received, enhancing their value within the time period established and for which the company was incorporated.

Background to the incorporation of the Company and transfer of assets

In 2012: Acquisition of assets from banks in Group 1

On 21 December 2012, Sareb and the banks making up the mentioned Group 1 (that is, Bankia, S.A., Banco de Valencia, S.A., Catalunya Banc, S.A., Banco Gallego, S.A. and NovaGalicia Banco, S.A.) concluded the corresponding asset transfer contracts which, in accordance with the terms thereof, did not come into full effect until 31 December 2012. Those assets were transferred free of any charges by the assigning banks as a whole and at a fixed price which was for the amount of €36,695,308 thousand, and were acquired by Sareb through the issue of senior bonds for a total of €36,694,100 thousand, which were subscribed by the assigning banks, deferring the payment of the difference between the transfer price and the value of the bonds issued for a period of 36 months, which may be offset by the Company with any amount owed to it by the assigning banks under the terms set out in the asset transfer contracts. Those amounts were paid in full in 2013.

Below is the breakdown of the assets that were transferred by the banks in Group 1 according to their nature on that date:

	€ thousand
Financial assets	28,298,902
Real estate assets	8,396,406
Total	36,695,308

The breakdown of the financial assets that were transferred by the Group 1 banks, according to the type of guarantee on each, was as follows:

€ thousand	No. of assets	Total transfer
Loans	62,435	26,493,181
Normal	28,047	8,368,902
Sub-standard	11,877	6,646,904
Doubtful	22,511	11,477,375
Credits	5,714	1,805,721
Normal	1,810	537,427
Sub-standard	870	495,392
Doubtful	3,029	557,025
Others	5	215,877
Total	68,149	28,298,902

For its part, the breakdown of the real estate assets that were transferred by the banks in Group 1 was as follows:

€ thousand	No. of assets	Total transfer
Land	10,322	2,812,430
Completed properties for sale	30,158	2,426,138
Properties for rental	5,822	927,620
Total property investments	46,302	6,166,188
Works in progress	3,050	470,124
Completed properties	27,682	1,760,094
Total inventories	30,732	2,230,218
Total	77,034	8,396,406

Below is a summary of the main features of the senior bonds issued by the Company and subscribed by the Group 1 banks on 21 December 2012 in payment of the mentioned assets:

ISIN Code	Description	Issue date	Maturity date (**)	Applicable rate in force	Nominal (€ thousand) (*)
ES0352506002	SAREB/VAR BO 20131231 2012-1	31/12/2012	31/12/2013	2.374%	11,008,100
ES0352506010	SAREB/VAR BO 20141231 2012-2	31/12/2012	31/12/2014	2.747%	16,512,500
ES0352506028	SAREB/VAR BO 20151231 2012-3	31/12/2012	31/12/2015	3.149%	9,173,500
					36,694,100

(*) Those bonds carry an irrevocable guarantee from the Kingdom of Spain (see Note 13.2).

(**) There is an option to renew at the Company's discretion, as described in Note 13.

Those bonds were subscribed by the assigning banks in accordance with the following distribution:

	€ thousand
Bankia, S.A./Banco Financiero y de Ahorros, S.A.	22,317,600
Catalunya Banc, S.A.	6,708,300
Banco Gallego, S.A.	609,700
NovaGalicía Banco, S.A.	5,096,800
Banco de Valencia, S.A.	1,961,700
Total	36,694,100

In 2013: Acquisition of assets from banks in Group 2

On 20 December 2012, the European Commission approved the plans for the restructuring of the banks falling under Group 2 (Banco Grupo Cajatres, S.A., Banco Mare Nostrum, S.A., Banco Caja España de Inversiones, Salamanca y Soria, S.A. -CEISS- and Liberbank, S.A.) after they had been approved by the Bank of Spain.

On 28 February 2013, Sareb and the banks making up Group 2 concluded the corresponding asset transfer contracts; the assets were transferred free of charges by the assigning banks of Group 2 to Sareb as a whole and at a fixed price for the amount of €14,087,157 thousand,

and were acquired by Sareb through the issue of senior bonds at a nominal value of €100 thousand, for a total of €14,086,700 thousand, that were subscribed by the assigning banks, deferring the payment of the difference between the transfer price and the value of the bonds issued for a period of 36 months, which may be offset by the Company for any amount owed to it by the assigning banks under the terms set out in the asset transfer contracts. At 31 December 2013, that amount had been settled, with no amounts appearing for that item on the balance sheet at that date.

The breakdown of those assets that were transferred by the Group 2 banks, according to their nature, was as follows on that date:

	€ thousand
Financial assets	11,139,891
Real estate assets	2,947,266
Total	14,087,157

The breakdown of the financial assets that were transferred by the Group 2 banks, according to the type of guarantee on each, was as follows:

€ thousand	No. of assets	Total transfer price
Loans	21,889	10,855,331
Normal	9,337	4,642,163
Sub-standard	1,800	1,872,775
Doubtful	10,752	4,340,393
Credits	727	284,560
Normal	270	125,758
Sub-standard	137	44,161
Doubtful	230	110,643
Others	90	3,998
Total	22,616	11,139,891

For its part, the breakdown of the real estate assets that were transferred by the Group 2 banks was as follows on that date:

€ thousand	No. of assets	Total transfer price
Land	4,630	1,062,531
Halted building sites	1,445	163,505
Completed properties for sale	23,404	1,619,800
Properties for rental	906	98,140
Total property investments	30,385	2,943,976
Works in progress	27	3,290
Total inventories	27	3,290
Total	30,412	2,947,266

Below is a summary of the main features of the senior bonds subscribed on 28 February 2013 in payment of the mentioned assets:

ISIN Code	Description	Issue date	Maturity date (**)	Applicable rate in force	Nominal balance (€ thousand) (*)
ES0352506036	SAREB/VAR BO 20140228 2013-1	28/02/2013	28/02/2014	1.451%	4,225,900
ES0352506044	SAREB/VAR BO 20150228 2013-2	28/02/2013	28/02/2015	2.233%	6,339,200
ES0352506051	SAREB/VAR BO 20160228 2013-3	28/02/2013	28/02/2016	2.674%	3,521,600
					14,086,700

(*) Those bonds carry an irrevocable guarantee from the Kingdom of Spain (see Note 13.2).

(**) There is an option to renew at the Company's discretion, as described in Note 13.

Those bonds were subscribed by the assigning banks in accordance with the following distribution:

	€ thousand
Banco Mare Nostrum, S.A.	5,819,600
Banco Caja España de Inversiones, Salamanca y Soria, S.A.	3,137,300
Liberbank, S.A.	2,917,800
Banco Grupo Cajatres, S.A.	2,212,000
Total	14,086,700

Rectification of the deeds for asset purchases concluded in 2020 and 2019

Subsequent to the transfer, and in application of the provisions of the mentioned Royal Decree 1559/2012 and in the asset transfer contracts themselves, the loan and credit portfolios and the portfolios of real estate assets acquired from the banks in Groups 1 and 2 were reviewed in order to identify any inappropriate classification of assets, changes in perimeter and errors or variations in the valuation estimated on the date of transfer.

In 2020 and 2019, and as a result of the analysis made by the Company as described above, rectifications were made for the overall amounts of €6,725 and 1,229 thousand, respectively, by a price adjustment for financial assets in the amount of €2,054 and 1,229 thousand and a price adjustment for real estate assets in the amount of €4,671 thousand (in 2019 no adjustments were made to the price of the real estate assets).

In return, the assigning banks have handed Sareb part of the bonds issued in payment of the above-mentioned portfolios of transferred property for an amount equivalent to the assets returned, and also the cash equivalent of the coupons received by the banks corresponding to the bonds handed over. Furthermore, according to the transfer contract, the banks have applied a compensatory interest rate of 1% per year on the total amount of coupons paid by the Company, which were for €24 and 3 thousand in 2020 and 2019, respectively, in relation to the bonds returned.

The summary of the rectifications concluded in 2020 and 2019 is as follows:

2020

€ thousand	Real estate assets rectified (Note 5)	Financial assets rectified (Note 7)	Total rectifications	Bonds returned (Note 13.2)	Cash adjustment (*)
Banco de Valencia, S.A.	4,671	2,054	6,725	(6,600)	125
Total	4,671	2,054	6,725	(6,600)	125

(*) Corresponds to the difference, paid in cash, between the total amount of the rectification and the amount of the bonds returned.

2019

€ thousand	Real estate assets rectified (Note 5)	Financial assets rectified (Note 7)	Total rectifications	Bonds returned (Note 13.2)	Cash adjustment (*)
Bankia, S.A.	-	1,299	1,299	(1,100)	199
Total	-	1,299	1,299	(1,100)	199

(*) Corresponds to the difference, paid in cash, between the total amount of the rectification and the amount of the bonds returned.

(**) Out of the amount of Financial assets rectified, €218 thousand corresponded to loans sold prior to rectification.

Furthermore, during the years 2014 to 2017 the Company concluded different settlement agreements with all of the assigning banks under which the parties have agreed to waive demanding further price adjustments and also the 36-month period granted in the asset transfer contract for making claims.

Íbero Project

In 2014 the Company launched what was known as the "Íbero Project". That project consisted of substituting the management and administration contracts concluded on the date of transferring the assets, by way of a bidding process in which it sought:

- To group together the management of the nine portfolios initially provided by the banks in Groups 1 and 2 into new managers, in order to simplify and facilitate the management of the assets transferred.
- To achieve professionalisation and improvement in the quality of the service at market prices which would enable the Company to fulfil its commitments and the tasks with which it is entrusted, that is, to be able to achieve the divestment of the assets acquired within the period established and maximise their value.

During the months of November and December of 2014 the new administration and management contracts were formally awarded and signed, with the following new managers (servicers) being appointed:

- Solvia Servicios Inmobiliarios, S.L. was awarded the real estate portfolio of Bankia, S.A. and the entire portfolios of Banco Gallego, S.A. and Banco Caja España de Inversiones Salamanca y Soria, S.A.
- Altamira Asset Management, S.L. was awarded all of the portfolios up until then managed by Catalunya Caixa, S.A., Banco Mare Nostrum, S.A. and Banco Caja 3, S.A.
- Haya Real Estate, S.L.U. was awarded the loan portfolio originally transferred by Bankia, S.A. and Banco Financiero y de Ahorros, S.A.
- Lastly, Servihabitat Servicios Inmobiliarios, S.L. was awarded the portfolios initially transferred by NovaGalicia Banco, S.A. (Abanca, S.A.), Liberbank, S.A. and Banco de Valencia, S.A.

The term established under the contracts ranges from 5 to 7 years from when each one comes into force, and can be automatically renewed for a further year unless any of the parties informs the other giving 6 months advance notice that it does not wish to renew. Furthermore, the contract provides for the possibility of early cancellation by Sareb at any time by giving a minimum of 3 months advance notice and paying compensation to the managers calculated in accordance with the terms of the contract.

In any case, the contracts for the services to be provided by the managers include

- Migration: services necessary for developing, implementing and concluding the migration of the asset management and administration. The last portfolio migrated in 2018.
- Administration and management of the portfolios awarded: management is performed by the four managers listed above, who handle and manage the financial asset portfolios and real estate assets assigned to them. As part of their functions, each Servicer records and prepares the financial and accounting information for their portfolios, reporting to the Company.
- Legal advice in relation to the administration and management of the assets migrated.

The financial and accounting information associated to the operations managed by each Servicer lies in different IT systems, either the Company's systems or in those of the Servicer. In any case, the financial information is generated within the framework of a suitable control environment on those systems.

In consideration for the above services the contract establishes fees for management and administration and sale, which are calculated on the basis of the volume of assets held for management by each of the managers, and for sales, which are calculated on the basis of the revenue and cash generated in the divestment of the assets managed. In 2020 and 2019, fees for management and administration were accrued for the amount of €51,181 and 89,763 thousand, and sales commissions for the amount of €46,107 and 109,754 thousand, respectively (see Note 16.4).

Furthermore, and with the aim of guaranteeing a certain level of service and performance in the tasks entrusted, and also to bring their objectives in line with those of the Company, in 2014 the awardees set up performance guarantees for an initial amount of €588,600 thousand, of

which €186,068 thousand of nominal value are currently pending return, this being recorded under the caption "Other financial liabilities" in non-current liabilities on the accompanying balance sheet (see Note 13.4).

Regarding the above guarantees, it is worth pointing out that they were calculated based on an estimation of the assets that will be managed, adjusted to the final figure once the various migrations of the portfolios have been completed.

The return of those guarantees is considered a contingent item and is associated to the adequate trading performance of the managers. This contract provides for measuring the degree of the managers' fulfilment of the various performance indicators applicable to the services agreed upon, establishing a scale of penalties to be applied on the invoiced amounts and also the circumstances for early termination (for example if the managers' failure to fulfil extends over a period of 12 months with the highest level of materiality and degree of divergence from the target value established in the contract). On the basis of the fees accrued in 2020 and 2019, the Company has returned €46,256 and 59,349 thousand of guarantees provided by the managers, respectively (see Note 13.4).

Furthermore, as a result of the contract for the portfolio managed by Haya Real Estate, S.L.U. expiring on 31 December 2019, the Company has regularised as income the guarantee initially posted by that Servicer and which has not been returned, as the conditions set out in the contract for its return were not met. The amount of that guarantee regularised for that item was €3,318 and 36,117 thousand, respectively, which were recognised under the caption "Other operating income" on the accompanying income statement.

Esparta Project

In 2019, and in view of the expiry of the Íbero contract on 31 December 2019 relating to the portfolio managed by Haya Real Estate, S.L.U. the "Esparta Project" was put into operation. That project centres on defining the desired management model once the management contracts signed with "Íbero" have concluded. The central guidelines for the Esparta Project are as follows:

For the Financial Asset portfolio:

The management of major debtors is centralised and internalised in Sareb, who will be responsible for the marketing and management of those debt portfolios. The intention is to make the management of those assets more efficient and standard.

The retail financial asset portfolio, that is, debtors with debt positions of less than €30 M, is outsourced, for which a suitable, professionalised manager is sought. That contract -for the portfolio initially managed by Haya Real Estate S.L.U., was offered for tender and was awarded to Haya Real Estate, S.L.U. thus bringing continuity to the management carried out during recent years.

For the Real Estate Asset portfolio:

The marketing of single items of assets and works in progress takes place through Servicers and specialist managers; with this, the intention is to streamline and maximise the margin obtained in each business line. In those cases the selection of providers was made through open tenders, having selected a high number, and in this way also seeking to diversify the risk.

For the portion of rentals we looked for a Servicer specialising in rentals to handle the overall management, that is, marketing, invoicing and debt management. The service provider selected, following the tender, was Haya Real Estate, S.L.U.

For its part, minority assets will be marketed by Haya Real Estate, and same as for the Financial Asset portfolio, the aim is to bring continuity to the management and knowledge of the portfolio acquired by Haya over the last 5 years.

Both contracts have a maturity date set for 30 June 2022, and can be terminated by the Company at any time giving 3 months advance notice, after paying a penalty to the manager as compensation for the losses caused. HRE, for its part, can terminate the contract if the Company owes it more than €10 M, provided that that amount is due and payable. In consideration for the above services the contract establishes fees charged on the basis of the volume of sales, which are calculated on the basis of the revenue and cash generated in the divestment of the assets managed. In addition a predefined fixed commission is due for each year of the contract term.

On another note, the work for maintenance, technical renovation of assets, legal conversion, legal backup and administration of the real estate and financial assets will be carried out by Sareb with the support of different specialist providers. This will allow the Servicers to focus on the marketing aspect, carrying out management and administration with specialist providers, making it possible to streamline the cost of the services provided.

Other information

At 31 December 2020, the Company's annual accounts were not included in the consolidated annual accounts of any Shareholder using the full consolidation method as none held more than 50% of the Company's share capital and none were considered to control the Company or to have the power to govern its financial and operating policies so as to obtain benefits from its activities, or to hold a majority of voting rights or to have the power to appoint or remove the majority of members of its Board of Directors (see Note 11).

In turn, at 31 December 2020, the Company had no majority holdings in the capital of other Companies.

As for holdings in Bank Assets Funds ("FAB") (Note 4.6.1), which do not require the deconsolidation of the assets and liabilities involved, do not have any significant impact on the true and fair view of the equity, the financial position and the profit/(loss) of the Company, having included all assets, liabilities and profit or loss generated by those funds in these separate annual accounts. Consequently, in accordance with article 43 of the Code of Commerce, the Company is not required to prepare consolidated annual accounts.

2. Bases for the presentation of the Annual Accounts

2.1 Regulatory framework for financial information applicable to the Company

These annual accounts have been drawn up by the Directors in accordance with the regulatory framework for financial information applicable to the Company which is that set out in:

- a) Code of Commerce and other commercial legislation, with the specific aspects set out in sub-section 10 of the Seventh Additional Provision of Act 9/2012 which, where appropriate, were implemented in 2015 through a Bank of Spain Circular and amended under article 2 of RDL 4/2016 (see point c). On 11 March 2020, RDL 6/2020 was published, in which article 1 amends sub-section 3 of the seventh additional provision (referring to Sareb) of Act 9/2012, establishing that, given the particular features of the Company, it will not be subject to the provisions of articles 348 bis and 363.1 e) of the Capital Companies Act (see Note 2.4).
- b) The Spanish General Chart of Accounts approved by Royal Decree 1514/2007 and its subsequent amendments, except for the specific aspects included under Act 9/2012 and amendments thereto included in article 2 of RDL 4/2016.
- c) Similarly, due to the nature of its business, in the preparation of these annual accounts, the Ministry of Economy and Finance Order of 28 December 1994 which approved the adaptation of the 1990 General Chart of Accounts to Real Estate Companies was taken into consideration, and applicable in all issues not contrary to the provisions of the Code of Commerce, the Capital Companies Act, Act 9/2012 and the General Chart of Accounts approved under Royal Decree 1514/2007.
- d) In addition, the Company has to comply with the general requirements for transparency, and for the preparation of annual accounts as established in RDL 1559/2012.
- e) In accordance with the provisions of sub-section 10 of the Seventh Additional Provision of Act 9/2012, in 2015 the Bank of Spain issued Circular 5/2015, of 30 September, under which it implemented the specific accounting aspects for Sareb (hereinafter, "Circular 5/2015"). Subsequently, on 3 December 2016, an amendment was made to letter c) of sub-section 10 of that Seventh Additional Provision by way of article 2 of RDL 4/2016 of 2 December, on urgent financial measures, later included in the Circular 5/2015 by publication of Circular 2/2017.
- f) The mandatory rules approved by the Institute of Accounting and Account Audits in order to implement the General Chart of Accounts and relevant secondary legislation.
- g) All other Spanish accounting legislation that is applicable.
- h) On 30 January 2021 Royal Decree 1/2021 of 12 January was published amending, amongst others, the General Chart of Accounts approved by Royal Decree 1514/2007, of 16 November, which is applicable for years beginning after 1 January 2021. The main purpose of that amendment is to introduce the changes necessary for adapting the Accounting and Measurement Rule no. 9 «Financial instruments» and Accounting and Measurement Rule no.14 «Receivables from sales and services rendered» to IFRS-EU 9 and IFRS-EU 15, respectively. The Directors of the Company have assessed the impacts of this amendment, estimating that implementing it will not have any significant effect on the Company's annual accounts, as Circular 5/2015 is the regulation applicable to the Company for valuing its financial assets.

2.2 True and fair view

The accompanying annual accounts have been obtained from the Company's accounting records and are presented in accordance with the regulatory framework for financial information applicable to the Company and in particular with the principles and criteria contained therein, in such a way as to show the true and fair view of the equity, the financial position of the Company at 31 December 2020, the profit/(loss) of the Company and the cash flows during the year ended on that date.

The annual accounts of Sareb for 2019 were approved by its Shareholders General Meeting on 28 October 2020 and those for 2020, which were drawn up by the Board of Directors of Sareb in its meeting on 31 March 2021, will be submitted for the approval of the Shareholders General Meeting, and are expected to be approved without amendments.

2.3 Non-mandatory accounting principles applied

No non-mandatory accounting principles were applied in the preparation of these annual accounts. In addition, the Directors have drawn up these annual accounts taking into consideration the whole set of accounting principles and standards of mandatory application that have any significant effect on said annual accounts (see Note 4). There is no accounting principle that is mandatory and has a significant effect on these annual accounts which has not been applied.

2.4 Critical aspects of the assessment and estimation of uncertainty

In the preparation of the accompanying annual accounts, estimates were made by the Directors of the Company in order to measure certain of the assets, liabilities, income, expense and obligations reported therein. Basically these estimates refer to:

- The assessment of impairment of certain assets (see Notes 4.7, 5, 7 and 8).
- The useful life of intangible assets, property, plant and equipment and property investments (see Notes 4.1, 4.2, 4.3 and 5).

- The market value of certain financial instruments (see Note 7).
- The recoverability of prepaid tax and tax credits and the deductibility of impairment losses on the Financial Assets and Real Estate Assets units (see Note 15).
- The calculation of provisions (see Note 12).
- The estimation of the bonds and other short-term negotiable securities (see Note 13.2).
- The classification of the balance sheet amounts between the long term and the short term based on the estimated future cash flows (see Notes 7 and 13).

In 2014 the Company ended reviewing the assets transferred (*Due Diligence*). That analysis was intended to establish that the estimations and the mechanisms for calculating prices (correct application of the transfer pricing, confirmation of the features of the assets acquired and the accuracy of the information provided by the assigning banks) are reasonable.

Based on the outcome obtained from that analysis the Company has formalised successive rectifications over the years. The rectifications formalised in 2020 and 2019 are detailed in Note 1. Except for those rectifications, with the current information, the estimation of any possible differences that might come to light regarding the transfer pricing is not relevant for the purposes of these annual accounts.

Although, in accordance with applicable legislation, these estimations have been made on the basis of the best information available at the end of the year 2020 and at the date of preparing these annual accounts, it is possible that events that might take place in the future may lead to modifications (increasing or decreasing) in the coming years, which, in case of occurrence, will be carried out prospectively, with a balancing entry in the income statement of the year affected in the future.

The pandemic caused by Covid-19 is putting governments, institutions, companies and society in general to the test. The efforts for controlling the health emergency are having important repercussions on the economy. Governments and administrations around the world are striving to find the balance between containing the virus and the necessary continuation of business activity. Most Governments have adopted a set of measures that seek to slow down the spread of the disease in order to contain the health crisis: generalised lockdown of entire

populations, restrictions to people's mobility, social distancing, etc. In Spain those measures reached their maximum expression in the nationwide declaration of the State of Emergency, for the second time under the democracy, decreed under Royal Decree 463/2020 of 14 March 2020, which declared the State of Emergency for managing the health crisis situation created by Covid-19, which remained in force under successive extensions until 21 June 2020. The State of Emergency was again declared on 25 October 2020 under Royal Decree 926/2020 with an initial duration of 15 days, extendible for a further 6 months until 9 May 2021, as the instrument necessary for giving legal status to the measures adopted by the Autonomous Regions to combat the health emergency.

However, those measures, which were seen to be very effective in slowing down the spread of the virus, have a direct impact on economic activity that affects practically all business sectors, although reflecting particularly on the services sector.

The main pharmaceutical companies of the world entered into a race against time to develop a vaccine. At the end of 2020, the health authorities of the different countries approved its use and mass vaccination campaigns were launched. The authorities of the major countries predict that in 2021 those campaigns will reach a level of immunisation among the population that will enable social and economic normality to be restored. It is difficult to make estimates regarding the evolution of the pandemic and its consequences on the company and the economy for the coming year. The consequences will undoubtedly be marked by the effectiveness and degree of immunisation achieved in the vaccination campaigns under way.

As far as the Company is concerned, the Directors and the Management of the Company have made a preliminary assessment of the current situation from the best information available, although for the reasons mentioned above, that information could be incomplete. As a result of that assessment, the following aspects are highlighted:

- Liquidity risk: it is likely that the general situation of the markets could lead to a general increase in liquidity constraints in the economy, and also a credit crunch. In this respect, the Company has the capacity, that it already had, to be able to renew the maturity of the bonds issued in consideration for the assets transferred by the assigning banks (Note 13.2).
- Operational risk: the changing and unpredictable state of events implies the emergence of a risk of temporary interruption in sales. For this reason, the Company has established working groups and specific procedures intended to monitor and manage the evolution of its operations at all times with the aim of minimising the impact on them. In 2020, the Company has granted concessions to its tenants as a result of applying the provisions of RDL 11/2020. Those concessions consisted of the possibility of deferring payment of rent due during the State of Emergency decreed in Spain in 2020. Those deferrals have not had a significant impact on these annual accounts, and were applicable to 199 contracts with deferred amounts totalling €382 thousand. Similarly, the Company has not availed itself of any kind of measure for managing its operating costs, such as Temporary Redundancy Schemes (ERTEs, in its Spanish acronym), Downsizing Plans (EREs, in its Spanish acronym) or moratoriums in rental contracts.
- Risk of changes in certain financial figures: the factors mentioned above, together with other specific factors such as the evolution that the prices of real estate assets in Spain could have in the short term, could bring about a reduction in the next annual accounts of the amounts in captions that are relevant for the Company such as "Turnover", "Value change adjustments – Impairment of Financial and Real Estate Assets" and "Profit before/after taxes", or in key indicators. For the moment and having analysed the evolution of the prices and valuations of the real estate assets that were updated in 2020, these were seen to have decreased slightly due to the situation described above; it is estimated that the impact in the following years for this reason will be limited, having reflected the decreased value of the assets for that concept in these annual accounts (see Notes 5 and 7).
- Risk of balance sheet asset measurement: a change in the Company's future sales estimates or in the prices of the real estate market in Spain, could have an adverse effect on the carrying amount of the assets resulting from the need for further impairment adjustments. In this respect, Notes 4.7.1 and 4.7.2 include a sensitivity analysis on the possible impacts on impairment testing, if any changes arise in any of the basic assumptions for the models used. However, generally speaking, the appraisals received in 2020 have dropped by 0.45% compared to 2019, which has resulted in greater impairment in the amount of €414 M as against the €2,300 M recognised in 2020.

- Continuity risk (going concern): taking into account all the previously mentioned factors and also the recent change in legislation following the publication of RD-Law 6/2020, the directors consider that the conclusion described in this note on the application of the going concern principle continues to be valid at the date of preparing these annual accounts.

Lastly, we would highlight that the Directors and Management of the Company are constantly monitoring the evolution of the situation, in order to successfully address any possible impacts that might arise, both financial and non-financial.

Going concern principle

At 31 December 2020, the situation of the equity of the Company is as follows:

	€ thousand
Equity in the annual accounts of Sareb, S.A. at 31/12/2020	(10,528,692)
Less:	
Value change adjustments for cash flow hedges	566,675
Value change adjustments for impairment of the Financial Assets unit	7,871,771
Value change adjustments for impairment of the Real Estate Assets unit	1,246,978
Equity for the purposes of reduction and dissolution 31/12/2020	(843,268)

It should be mentioned that under accounting legislation in force, any changes in the value of hedging derivatives are recognised in equity until they are allocated to profit or loss in the corresponding year. The total fair value of this interest rate risk derivative, net of its tax effect, is recognised under the caption "Value change adjustments – Hedging operations" (see Note 13.3). However, from a business perspective and according to the provisions of article 36 of the Code of Commerce, these value changes in the hedging derivative yet to be allocated to the income statement are not considered as equity for the purposes of profit distribution, mandatory reduction of share capital and mandatory dissolution for losses.

In turn, as established by article 2 of RD-Law 4/2016, the Company has recorded the value adjustments of the units of assets established in Circular 5/2015 allocating them to the caption "Value change adjustments – Impairment

of financial assets -and- Impairment of real estate assets" net of taxes. As established in that RD-Law the adjustments referred to above will not be considered as equity for the purposes of profit distribution, mandatory reduction of share capital and mandatory dissolution for losses (see Note 11.5).

At 31 December 2020, the Company shows positive working capital for the amount of €3,237,635 thousand as a result of classifying the senior debt as long term, because although €21,091,400 thousand of senior debt contractually matures in 2021, the Company has the option of unilaterally renewing the maturity term of those bonds, meaning that a good part of the debt has been classified as long term taking the current estimates of the Company into consideration. In addition, at 31 December 2020, the amount of cash and other cash equivalents was €3,473,996 thousand.

The Company has sustained significant losses during 2020, €1,073,041 thousand, which, together with those incurred in preceding years, has resulted in a reduction of its equity to a negative figure of €10,528,692 thousand, being less than half of its share capital. However, for the purposes of the grounds for capital reduction and dissolution described in article 327 of the Capital Companies Act (LSC), its equity is a negative figure of €843,268 thousand.

It is important to highlight that, on 11 March 2020, Royal Decree-Law 6/2020 was published which, in article 1 amends sub-section 3 of the seventh additional provision (referring to Sareb) of Act 9/2012 (on the restructuring and winding-up of credit institutions) with the following text:

- This company will be incorporated for a limited period of time to be established by law, and it will not be subject to the provisions of articles 348 bis and 363.1 e) of the Capital Companies Act. The law will also establish or, where appropriate, attribute to the FROB [Fund for Orderly Bank Restructuring] the authority to determine the initial amount of share capital and issue premium.*

As this new regulation is essential for the purposes of eliminating uncertainties regarding legal aspects and its day-to-day operation as an undertaking which could arise in respect of the amount of its shareholders' equity, the motives set out under that regulation are relevant:

Act 9/2012 of 14 November is also amended, referring to the legal system governing Sociedad de Gestión de

Activos Procedentes de la Reestructuración Bancaria, S.A. (Sareb) (...). Sareb is incorporated as a Public Limited Company having certain special features arising from its specific corporate purpose, which is essentially to sell off the portfolio of assets transferred to it, in the best conditions possible, and the public interest resulting from its activity. Both purposes mean that SAREB, while being governed by legislation generally applicable to business companies, necessarily follows a legal system that is special in certain aspects which are essential for the fulfilment of its social purpose.

In order to continue striving to achieve its aims and for SAREB to pursue its basic task of selling off assets on a normal basis, the legal system provided for this company (...) needs to be urgently supplemented in respect of not applying the provisions of article 363.1.e) of the Consolidated Text of the Capital Companies Act, (...). Article 363.1.e) regulates dissolution on the grounds of a company's equity being reduced to an amount less than half of its share capital. The necessity of SAREB not being subject to this ground for dissolution arises from its legal mandate to divest assets, maximising their recovery value, within a specific time period, in respect of all the assets that have been transferred to it and which form part of its equity. This particularity makes it essential to adapt the grounds for dissolution established in general for business companies to its special legal system; as opposed to the purpose of SAREB, other companies engage in business for an indefinite period of time, which therefore does not relate to the ultimate purpose of SAREB which is to sell off assets.

This legal amendment therefore endorses the continuity of the divestment activity of Sareb on a normal basis, regardless of the situation of its shareholders' equity and the circumstance contained in article 363.1e) of the Capital Companies Act.

Although the circumstance for a mandatory reduction of share capital contained in article 327 of that Law has not been included in the regulatory amendment, the Directors consider that as they are two legal frameworks that are closely linked, created with progressive and successive thresholds, in the event that at year-end the Company's equity position is less than half of its share capital [art.363.1.e) of the Capital Companies Act], the obligation of reducing its capital due to losses as established in article 327 of the Capital Companies Act disappears as such, because as from that moment the company is required to comply preferentially with the framework that provides for the presence of a legal cause for dissolution;

this is accompanied by the singularities of Sareb's own legal system (the public interest aspect of its activity, liquidation mandate, and limited term of existence).

It should also be pointed out that Sareb's financial design makes it possible to guarantee that, despite its situation in terms of shareholders' equity, the Company will be able to continue fulfilling all payment obligations with third parties arising from the performance of its mandate and its operations for liquidation of assets with complete normality, as it has been doing up until now. In fact, the level of liquidity with which Sareb was set up has remained almost intact, and even in a scenario under the pressure of no cash generation, the Company's liquidity would enable it to cover more than 3 years of ordinary expense (mainly the maintenance of the assets transferred to it). Regarding senior debt obligations, which constitute the main liability of the Company, under the senior debt contracts, Sareb applies, and will continue to apply, the right of renewal by re-issue which replaces those that have matured, except for the amount that can be paid off with the liquidity surplus, after deducting all Sareb's payment obligations from its income. Renewing senior debt in the terms indicated and only paying off the mentioned liquidity surplus will guarantee the Company's liquidity for meeting its obligations until the statutory deadline for its existence has expired.

In addition, at 31 December 2020, the Company has €1,429,560 thousand of subordinated debt (see Note 13), complying with the terms and conditions established in the deed of issuance for its conversion, which will make it possible to restore the equity balance in the short term. In this respect, the Directors are expected to propose the conversion of the subordinated debt, whereby on 31 March 2021, following the preparation of these annual accounts, and according to the terms and conditions of the deed of issuance, the Directors will propose the resolutions described below to the Shareholders General Meeting:

	€ thousand
Offset of losses charged against reserves	2,978,872
Capital reduction to zero to offset losses carried forward	303,862
Waiver of the shareholders' preferential subscription right	-
Capital increase for capitalisation of subordinated debt (*)	1,429,560
Capital reduction to offset losses carried forward	843,268

(*) Under the provisions of article 343 of the Capital Companies Act, the resolution for reducing the capital to zero can only be adopted if there is a simultaneous resolution for a capital increase with a preferential subscription right, so the General Meeting has to either approve a capital increase recognising the shareholders' preferential subscription right or that right has to be expressly waived by all the shareholders of the Company; to this end the Board of Directors will put forward two alternative proposals for resolution in this respect.

The proposals described above will be submitted to the Shareholders General Meeting for approval, following the proposal for the distribution of profit, and they are expected to be approved without amendments. Once those resolutions are adopted, the Board Meeting held immediately after the Shareholders General Meeting would approve the figure for the conversion of unsecured subordinated debentures that can become convertible in accordance with these annual accounts, for the amount of €1,429,560 thousand, and it would implement the capital increase by issuing the shares necessary for the conversion. The new shares would have the same par value, class, series and voting rights.

In line with the legal interpretation made by the Company of the conditions for the conversion of subordinated debt set out in the original contract, the conversion for the amounts stated above could take place under a single deed.

Accordingly, as the distribution of the holders of the subordinated debt is similar to the structure for the distribution of the Company's share capital at 31 December 2020, after putting into effect the proposed capital reduction to offset losses and the capital increase by capitalising the subordinated debt, the Company's shareholding structure would remain in the same current percentages at 31 December 2020.

Sareb is required to update its Business Plan every year for all of its remaining life and to apply the accounting principles and standards in force in its financial reporting. Following the last update, the shareholders' equity after that conversion would be consumed within a short period of time, although the exemption under article 363 of the Capital Companies Act and the non-application of article 327 of the same Act would not involve the Company being in a situation of grounds for dissolution or needing to reduce its share capital.

In this respect, the Company therefore continues responding to the corporate purpose for which it was incorporated under Act 9/2012: a process of orderly liquidation of the assets transferred to it under the principle of optimising the outcome of the assets fund making up its balance sheet. In that respect, the Company has opened numerous business lines for creation of value. Those lines are in addition to those of social interest in the framework of the current real estate market.

In consequence, based on the above, as they have done in previous years, the Directors of the Company have drawn up these annual accounts on the principle of the company as a going concern (see Note 19).

Changes in accounting policies

In 2020 there have been no significant additional changes in accounting policies with regard to the policies applied in 2019.

2.5 Comparison of the information

The information contained in this report referring to 2019 is presented solely for comparison with the information for 2020, in accordance with the provisions of current legislation.

For the purposes of a better presentation of the information, the Company has opened an item on the balance sheet for loss from previous years using the breakdown shown previously in the statement of changes in equity.

2.6 Grouping of items

To enhance comprehension of the balance sheet, income statement, statement of changes in equity and cash flow statement, certain items are presented in grouped form, and the necessary breakdown is given in the corresponding notes, wherever it is relevant.

2.7 Correction of errors and changes in estimations

No significant errors have been detected in the preparation of the accompanying annual accounts that would involve the restatement of the amounts included in the 2019 annual accounts.

2.8 Environmental impact

Given the business in which the Sareb is engaged, it has no responsibilities, expenses, assets, provisions or contingencies of an environmental nature which could be significant in respect of its equity, financial position and profit or loss.

For this reason, in the Company's annual accounts for 2020 no information is given relating to this issue.

2.9 Presentation of the annual accounts

Unless indicated otherwise, the figures reflected in these annual accounts are stated in € thousand.

3. Distribution of profit or loss

The proposals put forward by the Board of Directors for the distribution of the profit/(loss) obtained in 2020, to be submitted for the approval of the Shareholders General Meeting and the proposal for 2019 which was approved by the Shareholders General Meeting held on 30 October 2020 are as shown below:

€ thousand	2020	2019
Balance of the income statement	(1,073,041)	(947,246)
Distribution:		
To legal reserves	-	-
To voluntary reserves	-	-
To loss from previous years	(1,073,041)	(947,246)

4. Principles for accounting and measurement

The main principles for accounting and measurement used by the Company in the preparation of the Annual Accounts for 2020, in accordance with the regulatory framework applicable were as follows:

4.1 Intangible assets

Intangible assets are initially valued for their acquisition price or production cost. Subsequently, they are valued at cost decreased by the relevant accumulated amortisation and, where appropriate, by any impairment losses they may have undergone. These assets are amortised over their useful life.

Industrial property

The amounts recognised by the Company under the caption Industrial property correspond to the expenses capitalised by obtaining the corresponding patents, or similar, including costs for registering and formalising the industrial property, notwithstanding any amounts that can also be included in the accounts for purchasing the corresponding rights from third parties. The Company amortises the amounts capitalised under the caption "Industrial property" on a straight-line basis over 10 years.

Administrative concession

Under the caption of Administrative concessions, the Company records the rights of use it has on several berths in the port of Santa Pola (Alicante). The useful life of those berths is 17 years from when they were acquired by the Company, and they are depreciated on a straight-line basis over that useful life.

Computer software

Computer software acquired or designed by the Company is recognised at acquisition price or production cost, as the case may be, amortised on a straight-line basis over 5 years. The costs for maintaining computer software are recognised in the income statement in the year incurred. At 31 December 2020 and 2019 that caption mainly includes the gross cost of the computer software acquired

by the Company, for the amount of €76,445 and 63,593 thousand, respectively.

The provision for the amortisation of the intangible assets in 2020 and 2019 was €10,079 and 8,519 thousand, respectively, having been recognised with a charge to the caption "Amortisation/Depreciation of fixed assets" on the accompanying income statement. The balance of the cumulative amortisation at 31 December 2020 and 2019 was €36,257 and 26,170 thousand, respectively. Additions in 2020 mainly relate to the development and evolution of various computer software used by the Company for managing its financial and real estate assets.

The work the Company performs on its own fixed assets is reflected at the accumulated cost resulting from adding the internal costs determined according to the actual consumption of materials and manufacturing expenses to the external costs, applied using the same principles as those used for measuring inventories. In 2020 and 2019, the Company has not capitalised any cost for these items in its intangible assets.

Impairment of intangible assets

Whenever there are indications of impairment of intangible assets with a finite useful life, that classification being applicable to all of the Company's intangible assets, it performs "impairment testing" to assess whether there is any indication of impairment that reduces the recoverable value of such assets to below their carrying amount.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable value, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in previous years. That reversal of an impairment loss is recognised as income.

In 2020 and 2019, the Company has not recognised impairment for its intangible assets.

Furthermore, at the end of 2020 and 2019 the Company has no firm commitments for the purchase and/or sale of any items of intangible assets for any significant amount.

4.2 Property, plant and equipment

Initial measurement

Property, plant and equipment is initially measured at acquisition price or production cost, to which the amounts of additional or complementary investments made are added, and subsequently reduced by the relevant accumulated depreciation and the impairment losses if any, pursuant to the criteria mentioned in this Note.

Costs of expanding, upgrading or improving property, plant and equipment that increase its productivity, capacity or efficiency, or prolong its useful life are capitalised as an increase in the cost of the asset.

Repair and maintenance costs for the year are recognised as "External services" in the accompanying Income Statements.

In 2020 the Company reclassified an office block in calle Costa Brava 12 (Madrid) from the caption "Property Investments" to "Property, plant and equipment" for the amount of €20,086 thousand. That building is now being used by the Company as its head office.

In 2020 and 2019, the Company has not capitalised any financial interest as an increase in the value of its property, plant and equipment.

The work the Company performs on its own fixed assets is reflected at the accumulated cost resulting from adding the internal costs determined according to the actual consumption of materials and manufacturing expenses to the external costs, applied using the same principles as those used for measuring inventories. In 2020 and 2019, the Company has not capitalised any cost for these items in its property, plant and equipment.

Depreciation

The depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the assets. The annual depreciation percentages for the respective current cost value, where relevant, and the estimated years of useful life are the following:

Caption	Annual percentage	Years of estimated useful life
Straight-line depreciation method:		
Other facilities	10	10
Constructions	2	50
Fixtures	10	10
Data processing equipment	20	5
Other property, plant and equipment	12,5	8

The provision for the depreciation of property, plant and equipment at 31 December 2020 and 2019 was €503 and 486 thousand, respectively, having been recognised with a charge to the caption "Amortisation/Depreciation of fixed assets" on the accompanying income statement. The balance of the cumulative depreciation at 31 December 2020 and 2019 was €2,234 and 1,777 thousand, respectively.

The assets in progress do not begin to depreciate until they are fully operational, which is when they are transferred to their corresponding account in property, plant and equipment, depending on their nature.

Impairment of property, plant and equipment

Whenever there are indications of impairment of property, plant and equipment, that classification being applicable to all of the Company's property, plant and equipment, it performs "impairment testing" to assess whether there is any indication of impairment that reduces the recoverable value of such assets to below their carrying amount.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable value, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in previous years. That reversal of an impairment loss is recognised as income.

In 2020 and 2019, the Company has not recognised impairment for its property, plant and equipment.

Furthermore, at the end of 2020 and 2019 the Company has no firm commitments for the purchase and/or sale of any items of property, plant and equipment for any significant amount.

4.3 Property investments

The caption property investments on the balance sheet includes the values for land, buildings and other constructions that are held, either to earn rentals or for capital gains when sold as a result of future increases on the respective market prices.

Initial measurement

Property investments are initially measured at acquisition price or production cost, to which the amounts of additional or complementary investments made are added, and subsequently reduced by the relevant accumulated depreciation and the impairment losses if any, pursuant to the criteria mentioned in this Note.

According to the provisions of letter a) of sub-section 10 of the Seventh Additional Provision of Act 9/2012, the acquisition cost of the assets received from the assigning banks in Group 1 and Group 2 was established applying the transfer prices for each type of assets that were fixed by resolution of the Bank of Spain according to the principles established in RD 1559/2012.

Under the provisions of Rule 3 of Circular 5/2015, in the case of real estate assets allocated or acquired in payment of debts, the amount for which they are initially recognised is the carrying amount of the financial assets cancelled on the date of foreclosure or dation in payment. The legal and registry expenses, and taxes paid are added to the initial value provided that by doing so the estimated fair value of that initial value is not exceeded.

Costs of expanding, upgrading or improving these assets that increase their productivity, capacity or efficiency, or prolong their useful life are capitalised as an increase in the cost of the assets.

The Company recognises any properties acquired under mortgage foreclosure procedures having a court ruling under the caption "Advances on property investments".

Those properties are transferred to the caption of "Land" or "Completed properties" once that ruling becomes final.

Repair and maintenance costs for the year are recognised as "External services" in the accompanying Income Statement.

The work the Company performs on its own fixed assets is reflected at the accumulated cost resulting from adding the internal costs determined according to the actual consumption of materials and manufacturing expenses to the external costs, applied using the same principles as those used for measuring inventories. In 2020 and 2019, the Company has not capitalised any cost for these items in its property investments.

In 2020 and 2019, the Company has not capitalised any financial interest or charges as an increase in the cost of property investments.

Subsequent measurement and evaluation of impairment

The impairment of those assets is assessed as described in Note 4.7.

Depreciation

The depreciation of property investments is calculated on a straight-line basis over the estimated useful life of the assets. The annual depreciation percentages for the respective cost values, where relevant, and the estimated years of useful life are the following:

	Annual percentage	Years of estimated useful life
Straight-line depreciation method:		
Constructions	2	50
Other facilities	10	10
Fixtures	10	10
Data processing equipment	20	5
Other property, plant and equipment	12,5	8

The provision for the depreciation of property investments in 2020 and 2019 was €58,291 and 53,436 thousand (see Note 5) having been recognised with a charge to the caption "Amortisation/Depreciation of fixed assets" on the accompanying income statement.

4.4 Asset exchanges and awards

"Asset exchanges" are taken to be the acquisition of property, plant and equipment or intangible assets in exchange for other non-monetary assets or for a combination of these and monetary assets.

As a general rule, the asset received in an asset exchange transaction with commercial substance is recognised at the fair value of the asset given up, plus, where appropriate, any monetary consideration paid. The valuation differences that arise on derecognition of the asset given up in the exchange are recognised in the income statement.

Assets received in an exchange that lacks commercial substance are measured at the carrying amount of the asset given up plus, where appropriate, any monetary consideration paid, up to the limit of the fair value of the asset received if this is lower.

In the specific case of assets awarded as payment of debt, depending on their nature and the purpose for which they are to be used, they are classified as property investments and inventories and recognised in accordance with the terms of Notes 4.3. and 4.11, respectively.

4.5 Leases

The Company considers as operating leases those originating from an agreement under which the lessor arranges with the lessee the right to use an asset for a certain period of time, in return for a one-off payment or a series of payments, without involving a lease which, under the provisions of current legislation, could be considered as a financial lease.

The Company charges to the income statement the income and expense arising from the operating lease agreements in which it acts as lessor in the year to which they relate. Likewise, the acquisition cost of the asset is presented on the balance sheet according to its nature, increased by the amount of the costs of the agreement

directly attributable, which are recognised as an expense during the term of the agreement, applying the same method used to report income from the lease.

For its part, the Company treats any amount collected or paid that could be made through an operating lease agreement as an advance collection or payment and takes it to the income statement throughout the term of the lease as the profits from the leased assets are transferred or received. In the current context of Covid-19, the Company has granted concessions to its tenants as a result of applying the provisions of RDL 11/2020, as indicated in Note 2.4.

In 2020 and 2019, the Company has not entered into any financial lease agreement.

4.6 Investments in associates and Financial assets - Categories of financial assets

4.6.1 Investments in Group companies and associates

Associates are entities over which significant influence can be exercised. Significant influence is understood to be when the Company has a holding in another company and has the power to participate in the financial and operating policy decisions of the investee, but without having control or joint control over them. Usually, this influence is evidenced by a direct or indirect holding of 20% or more of the investee's voting rights.

They are valued for their cost less, if the case, the accumulated amount for adjustments related to impairment. However, if there is an investment prior to its status as a Group company, jointly controlled entity or associate, its carrying amount before acquiring that status is considered as the cost of the investment. Any previous adjustments in value recorded directly against equity are maintained there until they are derecognised.

If there is objective evidence that the carrying amount is not recoverable, the appropriate value adjustments are made for the difference between the carrying amount and the recoverable value, this being understood as the higher amount between the fair value less the sales costs and the present value of future cash flows derived from the investment. Unless there is better evidence of the recoverable value, the impairment of these investments

is estimated based on the value of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement. Value adjustments and, where applicable, their reversal, are recognised in the income statement in the year they arise.

Holdings in associates are entered under the caption "Long-term investments in associates – Equity instruments" on the balance sheet and measured for their acquisition cost, net of any impairments that might have been sustained by those holdings (see Note 4.7.3).

When the remuneration arising from these holdings does not originate unequivocally from earnings generated before the acquisition date, they are recognised under the caption "Turnover" on the income statement (see Note 16.1).

Bank Assets Funds (FABs)

Article 20 of Royal Decree 1559/2012, of 15 November, authorises the Company to create separate equity compartments in what are known as "Bank Assets Funds" (hereinafter, FABs).

The corporate purpose of the FABs, fund-based entities without legal personality, will be to liquidate the portfolio of assets and liabilities provided by Sareb, for which their duration will be the term for which they were created.

In its accounting of the investments in FABs the Company distinguishes between:

- FABs whose creation does not transfer substantially all the risks and rewards incidental to ownership of the assets and liabilities transferred to third party investors. As a general rule, such funds are those in which the Company has control and holds over 50% of the sum of the liabilities and equity of the Fund. In those cases, the Company does not derecognise the assets and liabilities (that is, it does not recognise any sales income nor the corresponding costs) and it measures them using the same criteria applicable before the transfer; it does however recognise a liability for an amount equal to the consideration received which it measures at amortised cost, where appropriate netting and recognising both the income from the assets transferred and not derecognised as costs of the new financial liability when it is effectively sold to third parties. At 31 December 2020, the only FABs set up that have not been deconsolidated are the 2013 Bull and Arqura Homes FABs. Those FABs have their own accounting and tax rules.

- FABs whose creation does transfer substantially all the risks and rewards incidental to ownership of the assets and liabilities transferred to third party investors. As a general rule, such funds are those in which the Company does not hold more than 50% of the total liabilities and equity of the Fund. In these cases, and given that control of the assets sold has usually been transferred to the investor, the Company records the cost of the amounts equivalent to the share capital subscribed by the Company under the caption "Long-term investments in associates – Equity instruments". Those equity instruments are measured in accordance with the terms of Note 4.7.3 (Impairment of equity instruments issued by FABs). Furthermore, if any financing has been granted by the Company, it is recognised under the caption "Long-term investments in associates - Loans to companies". At 31 December 2020, the only FABs set up that have been deconsolidated are the Teide 2013 and Esla FABs.

Below is a summary of the main transactions carried out with FABs in 2020 and 2019:

Arqura Homes Bank Assets Fund

On 5 June 2019, the Company created the "Arqura Homes Bank Assets Fund" through the contribution of a portfolio of land, works in progress, and certain monetary rights associated to different Sareb assets, whose overall accounting costs amounted to €727,831 thousand, for an aggregate price of €811,389 thousand.

The sales price was paid by the fund through the issue of 5,000 securities, each with a par value of €162,277.8.

On 5 March 2020, the Company sold 500 equity securities of what is known as the "Arqura Homes Bank Assets Fund", which represents 10% of the total capital issued by that fund. The sales price assigned to those securities was €81,139 thousand, of which €16,228 thousand were paid at that time. The following schedule of payments was established for the deferred amount: €16,228 thousand due for payment on 1 November 2020, which has been received in full; a second payment of €16,228 thousand due for payment on November 2021 and lastly, a final payment of €32,455 thousand due on 1 November 2022. Arqura Homes Bank Assets Fund has made repayments during 2020, as a result of which the amount still outstanding on the securities subscribed by that investor is €75,274 thousand (see Note 13.3).

After the sale of securities, the Company continues to be the majority shareholder of Arqura Homes Bank Assets Fund, holding a 90% interest in the fund. Consequently, the Company has not deconsolidated the assets and liabilities of that fund from these annual accounts.

At 31 December 2020 and 2019 the Company had granted the following financing facilities to "Arqura Homes Bank Assets Fund":

- A loan used for funding the payment of VAT and IGIC charged on transferring the assets. The total amount of that loan was €115,140 thousand, of which the entire amount has been repaid (€1,390 thousand were outstanding at 31 December 2019).
- A credit facility used for funding the initial expenses of the fund. That credit facility has an amount available of €75,000 thousand, of which €4,077 thousand have been drawn down at 31 December 2020 (€10,714 thousand at 31 December 2019).
- A credit facility used for funding the future urban development expenses for all the sites transferred. The amount available under that credit facility is €100,000 thousand. The amount drawn down from this credit facility at 31 December 2020 is €6,023 thousand (no drawdowns had been made at 31 December 2019).
- Lastly, 73 developer loan contracts were signed for a total aggregate amount of €374,349 thousand used for financing the works in all property development projects to be started by the Fund. The amount drawn down under those loans at 31 December 2020 was €75,063 thousand (€295 thousand at 31 December 2019).

All the above-mentioned contracts have an interest rate indexed to 12-month Euribor and a 2.5% spread.

Esla Bank Assets Fund

On 23 October 2019, the Company created "Esla Bank Assets Fund" through the contribution of land and construction works in progress that had been halted, whose overall accounting costs amounted to €50,199 thousand, for an aggregate price of €52,180 thousand.

The sales price was paid by the fund through the issue of 300 securities, each with a par value of €104,360. Furthermore, 40% of the price was deferred by granting a senior loan, which will mature on 23 October 2024. The

total amount of senior financing was €20,872 thousand, of which the entire amount is pending repayment at 31 December 2020. That amount is recognised under the caption "Long-term investments in Group companies and associates" on the accompanying balance sheet.

On 31 December 2019, the Company sold 95% of the securities in that fund, that is, 285 securities, which were sold at their par value amounting to €29,743 thousand. The sales price was received in full on the date of sale.

After the sale of the securities, the Company became the minority shareholder of "Esla Bank Assets Fund", holding a 5% interest in the fund. Consequently, the Company has deconsolidated the assets and liabilities of that fund from these annual accounts.

At 31 December 2020 and 2019, the Company had granted the following financing facilities:

- A loan used for funding the payment of VAT and IGIC charged on transferring the assets. The total amount of that loan was €2,777 thousand, the entire amount of which was repaid on 22 July 2020.
- A credit facility used for funding the initial expenses of the fund. That credit facility has an amount available of €2,780 thousand, which was drawn down in full at 31 December 2020 (€1,000 thousand had been drawn down at 31 December 2019). That financing facility is recognised under the caption "Short-term investments in Group companies and associates" on the accompanying balance sheet.
- Lastly, a loan was granted to be used for funding the CAPEX incurred on the assets acquired. The limit of that financing has been set at €44,380 thousand. At 31 December 2020, €14,760 thousand had been drawn down from that credit facility. That financing contract expires on 31 December 2024.

The above financing facilities have a fixed interest rate of 3%.

4.6.2 Loans and receivables

This category of financial instruments includes debt instruments originating in the services provided by the Company and those which, while not originating in those services, represent fixed or determinable collection rights and are not traded in an active market.

Loans and receivables are recognised on the balance sheet at 31 December 2020 under the captions "Long-term investments in Group companies and associates - Loans to companies", "Long-term and short-term financial investments corresponding to "Loans to third and related parties", "Loans to companies" and "Other financial assets" and the captions "Trade and other accounts receivable" and "Cash and other cash equivalents" on the asset side of the balance sheet on those dates.

The Company follows the policy of transferring to the caption of doubtful assets any loans and credits having interest and/or capital payments due and outstanding for more than 90 days.

Initial measurement

In general, loans and receivables are initially measured at fair value, which is the transfer/acquisition price, which is equivalent to the fair value of the consideration paid plus the transaction costs directly attributable to them. In 2013 the Company capitalised those costs necessary for taking control of the assets as their increased value, which amounted to €17,561 thousand. At 31 December 2020 and 2019, the amount capitalised for the expense amounted to €10,524 and

10,910 thousand, respectively (Note 7.1.1.).

According to the provisions of letter a) of sub-section 10 of the Seventh Additional Provision of Act 9/2012, the acquisition cost of the assets received from the assigning banks in Group 1 and Group 2 was established applying the transfer prices for each type of assets that were fixed by resolution of the Bank of Spain according to the principles established in RDL 1559/2012.

Subsequent measurement

The assets included in this category are measured at their amortised cost, net of any impairment. The interest generated by these assets is recorded in the income statement, applying the effective interest rate method. According to the reply to the consultation made to the Bank of Spain and to the earlier pronouncements from the Institute of Accounting and Account Audits (ICAC), the estimation of the future cash flows for the purposes of establishing the effective interest rate takes into account, where appropriate, the value of the collateral on transactions.

The Company applies a policy for write-offs consisting of retiring from the balance sheet any loans and receivables that have extinguished without there being any other type of personal or property-based guarantee from third parties. That analysis is carried out every year. In 2020, and as a result of the analysis, the Company derecognised €44,135 thousand, recognised under the caption of "Impairment and losses from sales of financial instruments" on the accompanying income statement. That caption also records a net provision for the amount of €1,648 thousand (see Note 7.2.1).

Notwithstanding the above, certain items established in applicable legislation, maturing in less than one year, are booked initially at their nominal value if the effect of not discounting their cash flows is insignificant, and are later measured for the same amount.

Any impairment losses existing on these assets are booked in accordance with the terms of Note 4.7.2.

At 31 December 2020 and 2019, Sareb did not hold or have any financial assets of the type provided for in applicable legislation, other than those outlined in this note.

4.7 Impairment of financial assets, property investments and other accounts receivable

As stated in Note 2.1, pursuant to the provisions set out in sub-section 10 of the Seventh Additional Provision of Act 9/2012, in 2015 the Bank of Spain published Accounting Circular 5/2015 which implemented the specific accounting aspects of the Company.

The publication of that Circular 5/2015 regulated the principles which were to be the basis of the method that the Company was to use for estimating the value of the assets transferred by the banks in Group 1 and 2. According to the terms set out in the Circular, the calculation of that value has to be made in a way that is consistent with the one originally used for establishing the transfer pricing to the Company taking into account the evolution of market prices and the time horizons forecast in the Company's business plan, which is updated and approved by the Board of Directors every year.

To comply with the provisions of the Circular, the Company has implemented and approved the method for

estimating the adjustments related to impairment based on the criteria established in the Circular.

The recognition of the impairment arising as a result of measuring the assets should be made per asset unit. The Circular establishes the offsetting of losses with capital gains on assets within the same «asset unit». The asset units set forth in the Circular are as follows:

- a) Properties awarded or acquired in payment of debts, regardless of their origin, provided that they appear on the individual balance sheets of the assigning banks or in their consolidated balance sheets at the time of the transfer.
- b) The following credit rights:
 - Loans or credits for financing land for property development in Spain or for financing property construction or development in Spain, whether in progress or completed, regardless of their age and accounting classification.
 - Participating loans granted to companies in the real estate sector or to companies related to them, regardless of their age and accounting classification.
 - Other loans or credits granted to the holders of credits or loans included in sub-section 1 above, if the Fund for Orderly Bank Restructuring (FROB) considers the transfer to be suitable, so that the Sareb can properly manage the assets transferred.
- c) The properties and credit rights that meet the requirements set out in the foregoing letters coming from companies in the real estate sector, or from companies related to them, over which the credit institution exercises control as set forth in article 42 of the Code of Commerce.
- d) Instruments representing the capital of companies in the real estate sector or of companies related to them which directly or indirectly enable the credit institution or any other company in its group to exercise joint control or significant influence over them, if the Fund for Orderly Bank Restructuring (FROB) considers the transfer to be suitable as they hold a considerable volume of assets referred to under letter a), or serve as an effective channel for the company to engage in property construction or development in Spain.

- e) Consumer loans or credits or loans to small and medium businesses, loans or credits guaranteed by mortgage or by any other assets not included in those sub-sections, whenever those assets are especially impaired or if their continuation on the balance sheet would be considered detrimental to the viability of the company. The consideration of the presence of these circumstances will require a prior report from the Bank of Spain.

Notwithstanding the definition given in Circular 5/2015 for 5 asset units, only the first two are applicable to Sareb: the one relating to the properties awarded originally transferred to Sareb and the one created by the original credit rights.

It is worth mentioning that the Circular establishes that the assets awarded or received in payment of debts subsequent to the transfer dates will remain in the asset unit in which they were initially included.

At the end of the year, or whenever the Company publicly provides information on its financial position, it should assess the need to make adjustments related to impairment of each of the asset units. To this end, with the best information available at all times, it will assess whether the carrying amount of the asset unit is higher than the value estimated for the asset unit as a whole using the method implemented by the Company, according to the criteria established in Rule 4 of Circular 5/2015. If that is so, an impairment will be recognised net of taxes, with a charge to the caption "Value change adjustments" within the Company Equity, in compliance with the provisions of article 2 of RDL 4/2016 (see Note 2.1).

The debit balance of that account will be taken to the income statement only in those years in which the Company shows a profit. For this purpose the profit before taxes will be taken into account without considering any possible accrual of interest on the subordinated debt.

Impairment of each «asset unit» can be reversed when there is evidence that the value of the assets in the «asset unit» has been recovered using the method implemented by the Company and regulated under Circular 5/2015, with the limit being the value that the «asset unit» would have had if no impairment had been recognised.

In each «asset unit», the amount of the losses in the impaired assets can be offset against the capital gains on the unimpaired assets included in the same «asset unit», estimated according to the criteria of Rule 4 of Circular 5/2015.

Assets shall remain in their corresponding «asset unit» as long as they meet the requirements set out in letter a) of sub-section 1 of article 36 of the Code of Commerce, namely that there are sufficient objective factors confirming that the likelihood of recovering the value of the asset recognised is not remote. In 2020 and 2019 no assets were derecognised in their corresponding asset units other than the derecognition described in Note 4.6.2 for €44,135 thousand.

In compliance with the Bank of Spain Circular 5/2015, the Company has measured its entire portfolio of Financial and Real Estate Assets. However, considering the large volume of assets and collateral subject to being measured, and the complexity of that process, there is a small percentage of the portfolio that has not obtained a qualifying appraisal in accordance with Rule 4 of the Circular.

In relation to 2.45% of the portfolio, 2.26% in terms of the carrying amount (3.8% and 5.1% respectively in 2019) of the assets recognised under the captions "Financial investments - Loans to third and related parties", "Property investments" and "Inventories" - (on which there are no qualifying appraisals in accordance with Rule 4 of the Circular), the Company, the same as in 2019, has updated the latest appraisals available using correction indices calculated on the basis of information obtained from the updating carried out on the 97.55% of the portfolio (96.2% in 2019) that does meet the qualifying requirements described in the mentioned Rule 4. At 31 December 2020, this block includes 1.84% of appraisals (2.04% in respect of the carrying amount) which, having been eligible in the measurement process for the previous year and fulfilling the technical requirements of the Circular, exceeded the 3-year period for updating. The calculation of this estimation takes into consideration the type of asset, its location and the age of the appraisals available. According to the Directors, the criteria followed provide the best estimation of the value of the assets in this portfolio, and will not differ significantly from the values that would result from an updated appraisal that is eligible under Rule 4 of the Circular.

Furthermore, it is worth mentioning that for the case of appraisals in which the appraiser has indicated any kind of conditioning factors, the Company has applied correction indices according to each type, whether due to being unable to have access to the property, due to checking the urban land development, or checking with registries. Those correction indices range from 7% to 30% and have been drawn up internally on the basis of

the best understanding and professional judgement of the Company.

It is worth highlighting that in the context of Covid-19, the appraisal companies have adapted the measurement principles used in the updates made in 2020 so that in all cases the values reflect the best measurement possible with the information available. In this respect, many of the assets re-appraised during the year had been valued in 2017 and 2018 (specifically 25.98% of the portfolio) and what has been seen in general, particularly in the residential sector, is that the appraisal values have dropped slightly compared to previous years; this in effect entails a drop in valuation as the price curve effect (development and others) that had been positive in recent years, had fallen to levels of past years.

At the same time, in the re-appraisals carried out in 2020, in an insignificant part of the portfolio of re-appraised assets, although the appraisal companies initially included paragraphs indicating that the appraisal had been carried out in a situation of uncertainty in the context of Covid-19, those caveats were taken into consideration by Management for estimating the impairment of those assets, ensuring that in the end, the asset appraisals used for that estimate were free from limitations or caveats.

Assets will be derecognised from the balance sheet for their carrying amount, without taking into consideration any adjustments related to impairment estimated per «asset unit» as a result of applying the provisions of Rule 4.

Below are the principles applied by the Company for establishing the existence of impairment losses in each of the different asset units identified, and also the method employed for calculating the hedges accounted and recognised for that impairment.

4.7.1 Impairment of the real estate assets unit

This asset unit includes the amounts booked under the captions "Property investments" and "Inventories" except for €8,289 and 6,527 M in 2020 and 2019 respectively of real estate assets received by the Company in payment of debts subsequent to the date of transferring the financial assets and which have been measured within the asset unit itemised in Note 4.7.2.

To determine the value of its real estate assets the Company takes into account the features that a properly

informed buyer would use for deciding to buy it, such as its geographical location, available infrastructure, legal status, terms of sale or operation, demand and offer for similar properties, its most likely use, as well as aspects related to urban development, demographical evolution and prices of utility supplies. For the purposes of considering the legal status of the property and its urban development issues, for the measurement of the land the Company has used the development levels defined in article 4 of Order ECO/805/2003, of 27 March on the rules for measuring real estate assets and defining the rights for certain financial purposes.

Estimation of the value of Property investments for rental

In those property investments that the Company keeps for rental, the value has been calculated on the basis of discounting future cash flows, considering the level of occupation corresponding to the date when measured, the likelihood of future occupation of the properties and current market rents.

Estimation of the value by making individual appraisals

The Company has estimated the individual value of its real estate assets according to measurement reports from independent experts with proven experience in the area and type of assets being appraised. The valuation of the assets has been specifically carried out by appraisal companies registered in the Registry of Licensed Appraisal Companies held by the Bank of Spain, in accordance with the criteria established in Order ECO/805/2003, of 27 March, on the rules for measurement of real estate assets. In accordance with the provisions of Rule 4 of the Bank of Spain Circular 5/2015, those appraisals were performed by independent experts who took into account the following methods depending on the type of assets:

- Residual dynamic method for land.
- Discounting future cash flows for assets used for obtaining income, considering the expected occupation levels and current market rents.

At least every three years, the Company shall review the mortgage appraisals made on its real estate assets by changing the independent expert. If the market conditions and circumstances demonstrate the need to perform appraisals more frequently, the Company will reduce that period.

Estimation of the value of completed properties, ancillary and commercial premises

In the case of completed properties and their ancillary premises (such as garages or storerooms) as set out in Rule 4 of Bank of Spain Circular 5/2015, they may be measured using automated valuation methods by independent experts (appraisal companies registered in the Registry of Licensed Appraisal Companies held by the Bank of Spain). Those methods can be used to determine the value of commercial premises in towns where there is a market that is representative of comparable properties in the sense that, at almost any time, it is possible to find operators willing to negotiate a sale or rental. However, it is Company policy to have an ECO appraisal carried out, as it considers that with this, the situation of the asset and its market value can be more accurately represented. Assets measured using those statistics-based methods account for 0.96% (1.35% in terms of carrying amount) for mortgage guarantees, and 4.19% (2.95% in terms of carrying amount) for real estate assets (0.7% of the carrying amount of mortgage guarantees and 1.8% of the carrying amount of the real estate assets at 31 December 2019).

Those measurements using automated valuation methods are recalculated every year and are performed taking into account the statistics from the National Institute of Statistics in respect of the evolution of prices for new and resale property.

Estimation of value of other assets using internal estimations or methods

In the case of real estate assets other than those described in the previous sub-sections and with a combined carrying amount per batch of less than €1 M, the company has used its best estimate to establish their current value, at least once a year. Those estimates were made using measurement models for which an external independent expert has recognised the method, and solely for those assets for which sufficiently tested data was available. Otherwise, those assets would be measured using the ECO appraisals.

In addition to the measurements carried out according to the above methods, the method developed by Sareb, based on the criteria established in Circular 5/2015 applicable to both property and financial assets, includes a number of assumptions, of which the following are worthy of special mention:

- Adjustments for reflecting the evolution of market prices and the horizons of the Company's business plan. In order to apply those adjustments, the Directors have employed their best estimate depending on the type and location of the different real estate assets, as well as the estimated sales for the different years contained in the business plan. To this end, and on the basis of the provisions of Circular 5/2015, they have considered an estimated evolution of average market prices ranging from between 1.0% and 1.9% in 2020 (2.8% and 3.3% in 2019), and an average time horizon, depending on the different types of assets, ranging from between 2.7 and 5.4 years in 2020 (3.4 and 6.1 years in 2019). In this respect, the change in the main assumptions is chiefly due to a temporary worsening of the expectations for growth in asset prices as a result of the situation generated by Covid-19.
- Estimation of the costs for maintenance and marketing, which are deducted from the estimated measurements. In order to calculate that cost estimate, the average estimate of the asset's permanency has been taken into consideration, taken from the Business Plan as reflected in the previous paragraph. To this end, according to the different types of asset, the average costs associated to them range between 2.4% and 11.9% in 2020, respectively (1.6% and 10.4% in 2019). In this respect, the change in the main assumptions is chiefly due to changes in the strategy for asset divestment with the aim of trying to maximise their value and consequently, in some cases, increasing the period of continuity on the Company Balance Sheet; this was not seen to be substantially affected by the situation generated by Covid-19.
- Discount rate. The measurement obtained after applying the above adjustments is updated to the current value using an estimated discount rate taking into consideration the Company's financing costs and the risks inherent to the assets. Average rates have been considered ranging between 0.4% and 1.34% in 2020 (0.77% and 1.41% in 2019), which include an aggregate figure for the finance costs estimated for the Company according to the Business Plan. Moreover, the financial assets measurement model includes a measure that is in addition to the finance costs related to the Business Plan and the real estate risk contained in the methods under the ECO Order, which varies between 5% and 30% (6.6% and 40% at 31 December 2019). In this respect, the change in the main assumptions was not substantially affected by the situation generated by Covid-19.

- Also, and in application of the Circular, any measurement that is seen to be 15% higher than the mortgage value or the value obtained using sample statistical procedures or automated valuation models must be evidenced with more than one market transaction involving similar assets. However, the Company has made no adjustments higher than 15% above the mortgage value or the measurements obtained using sample statistical procedures or automated valuation models.

At 31 December 2020, the Company showed net losses in this asset unit amounting to €1,247 M (€496 M at 31 December 2019). As a result of that impairment, the Company has provisions which have been funded with a charge to the caption "Value change adjustments – Impairment of real estate assets" for the amount of €751 M (€496 M at 31 December 2019). That provision is recognised under the caption "Property investments" on the accompanying balance sheet (Note 5).

The Company has carried out a sensitivity analysis on the key assumptions considered to be more volatile in the Real Estate Assets measurement model. The results obtained are summarised below:

Effect on equity		
€M	+ 100 p.b / + 1 year	- 100 p.b./ - 1 year
Appraisal values	44	(44)
Sales prices of real estate assets	176	(164)
Time horizon of the business plan	43	(53)

In 2019 those sensitivities brought about effects ranging between €381 thousand of capital gains and €372 thousand of lower capital gains.

4.7.2 Impairment of loans and credits receivable and real estate assets received in payment of debts

Trade receivables

At least at the end of the year, the Company carries out impairment testing to bring the trade receivables into line with their recoverable value. Objective evidence of

impairment is considered to exist if the recoverable value of the financial asset is lower than its carrying amount. If this happens, this impairment is recognised in the income statement. At 31 December 2020 and 2019, the Company has a provision for impairment of trade receivables for the amount of €68,400 and 59,487 thousand, respectively (see Note 9).

Loans and credits and other real estate assets received in payment of debts

The value of financial assets representing debt transferred to the Company is estimated on an individual basis according to the payment capacity of the main debtors liable for payment, where appropriate, considering the possible existence of guarantors or surety with proven payment capacity.

Estimating the payment capacity of debtors takes place either individually depending on the payment capacity of the debtor if this can be verified and evidenced with documents in respect of fulfilment of contractual obligations with no significant delays or hold-ups in payments. In the case of loans without collateral, the valuation is made collectively, considering that the expected loss of the portfolio in question is reflected, except for financial assets without collateral not paid or whose payment has been delayed for over 18 months and which are considered to be of zero value, unless demonstrated otherwise. That principle is applied to the residual value of assets with collateral other than a first-ranking guarantee, after deducting all of the liability insured with the first-ranking guarantees, including interest on arrears. Only when the Company is the sole best-ranking creditor, the current value of the debt is used when this is less than the mortgage liability and the value of the guarantee could cover both senior-ranking and junior-ranking loans, whether fully or partially.

For any financial assets (or real estate assets received by the Company in payment of debts) in respect of which it is estimated that the amounts owed will be recovered by enforcing the guarantees and those guarantees represent a first-ranking real right to the assets, or a lesser ranking right if the requirements set out in the previous paragraph are met, the valuation of the financial asset will be made taking into consideration the property measurement of the guarantees. That measurement is made according to the terms set out in Note 4.7.1 on Real Estate Assets (including in the estimation of costs not only those for maintenance and marketing up until the subsequent sale of the collateral, but also those necessary for the foreclosure of the guarantees (court costs, legal costs and taxes).

In the case of loans and receivables with collateral other than properties, such as pledging debt securities or capital, the Company calculates their market value on the measurement date if it is a financial instrument traded on an active market or, where appropriate, it uses generally accepted measurement methods.

For the estimation of the value of these assets a number of assumptions have been applied, based on the Company's Business Plan, which are listed in Note 4.7.1. With regard to the costs and deadlines for foreclosure and dation in payment of collaterals, these have been estimated on the basis of the type of assets and the Company's Business Plan, fluctuating between 1.95% and 28% of the debt (1%-26% for 2019). In this respect, the change in the main assumptions was not substantially affected by the situation generated by Covid-19.

The composition of the provision for impairment of the loans and credit unit for the years 2020 and 2019 is as follows:

Type of transaction	31/12/2020		31/12/2019	
	Carrying amount (€M)	Loss / (Gain) (€M)	Carrying amount (€M)	Loss / (Gain) (€M)
With collateral	14,722	4,036	17,040	3,429
Personal guarantee or without first charges	2,129	1,900	2,367	2,289
Awarded Sareb	8,289	1,936	6,527	605
Totales	25,140	7,872	25,934	6,323

Following the impairment testing carried out, at 31 December 2020 and 2019, the Company has provisions which have been funded with a charge to the caption "Value change adjustments – Impairment of financial assets" for the amount of €7,872 and 6,323 M, respectively, for the impairment of debt instruments classified as loans and receivables and assets received in payment of debt (see Note 7.1.1.). However, while that provision has been calculated per asset unit in accordance with the terms of Circular 5/2015, at 31 December 2020 it was assigned according to the current asset classification and recorded under the caption "Long-term financial investments – Loans to third and related parties", which corresponds to debt instruments classified as loans and receivables, for the amount of €5,936 M (see Note 7.1.1.) and under the caption "Property investments" the amount corresponding to assets received in payment of debt amounting to €1,936 M (see Note 5).

The same as for the unit of real estate assets, the Company has carried out a sensitivity analysis on the key assumptions considered to be more volatile in the Financial Assets measurement model, obtaining the following results:

€M	Effect on equity	
	+ 100 p.b. / + 1 year	- 100 p.b./ -1 year
Appraisal values	159	(159)
Sales prices of real estate assets	618	(580)
Time horizon of the business plan	347	(371)

In 2019 those sensitivities brought about effects ranging between €1,570 thousand of capital gains and €1,485 thousand of lower capital gains.

4.7.3 Investments in Group companies and associates

Impairment losses on the investments in Group companies and associates are estimated and booked by the Company whenever, according to the provisions of applicable legislation, there is objective evidence that the carrying amount of an investment in those companies may not be recovered.

When estimating the existence of evidence of the impairment of those holdings, amongst other factors,

the Company considers any drop in its underlying book value adjusted for any non-recorded unrealised gains of the companies or the evolution of its share price (in the case of those that are publicly traded), inactivity of the investee, its financial position, etc.

The amount of the impairment loss to be recognised is estimated as the difference between the carrying amount of the holdings and their recoverable value, this being understood as the higher amount between the fair value less the sales costs and the present value of future cash flows arising from the investment.

In any cases in which it is not possible to estimate the recoverable value of an investment as described in the previous paragraph or in any insignificant investments, the estimation of their impairment is based on the equity of the investee company, adjusted by the amount of the unrealised gains existing at the date of impairment measurement.

In application of the 2nd consultation of the Official Bulletin of the Institute of Accounting and Account Audits (BOICAC) 79, adjustments related to impairment and, where applicable, their reversal, are recognised as income or expense, respectively, under the caption "Impairment and profit/(loss) from sales of financial instruments – Impairment and losses" forming part of the operating profit/(loss) on the income statement. The reversal of a previously recorded impairment is limited to the carrying amount of the investment that would have been recorded on the date of reversal if the value impairment had not been recorded.

In 2020 and 2019 the impairment recorded by the Company for this item was €2,235 and 1,859 thousand, respectively (see Note 7.2).

4.8 Categories for classification of financial liabilities

This category includes the classification of trade payables originating in the purchase of assets and services under the Company's trade transactions, the funding received (see Note 1) and any non-trade payables which are not derivatives and have no trade origin.

Debits and items payable are initially measured at the fair value of the consideration received, adjusted by the transaction costs directly attributable to them. Subsequently those liabilities are measured for their amortised cost.

Notwithstanding the above, certain items established in applicable legislation, maturing in less than one year, are booked initially at their nominal value if the effect of not discounting their cash flows is insignificant, and are later measured for the same amount.

Derivative financial instruments are measured at fair value.

The interest accruing on those liabilities, calculated using the effective interest rate method, is recorded under the caption "Financial expense" on the income statement.

4.9 Hedging Derivatives

The Company uses financial derivatives to hedge its equity positions as part of its strategy for reducing its exposure to interest rate risks.

When the Group designates a transaction as a hedge it does so from the inception of the transactions or instruments included in the hedge, and the hedging transaction is documented appropriately. The hedging operation documentation identifies the hedged instrument or instruments and the hedging instrument or instruments, the nature of the risk to be hedged, and the criteria or methods used by Sareb to assess the effectiveness of the hedge over its entire life, taking into account the risk intended to be hedged.

Sareb only classifies as hedging operations those considered to be highly effective during their expected life. A hedge is considered to be highly effective if, during its expected life, the changes in fair value or in the cash flows that are attributed to the risk hedged under the hedging operation for the financial instrument or instruments hedged are almost entirely offset by changes in the fair value or in the cash flows, as appropriate, of the hedging instrument or instruments.

To measure the effectiveness of hedging operations defined as such, the Company analyses whether, from the beginning to the end of the term defined for the hedge, it may be expected, prospectively, that the changes in fair value or in the cash flows of the hedged item that are attributable to the hedged risk will be almost entirely offset by changes in the fair value or in the cash flows, as appropriate, of the hedging instrument or instruments and, retrospectively, that the results of the hedge will vary within a range of 80% to 125% of the results of the hedged item.

In order to establish that fair value, the Company takes into account its credit risk in the event of the measurement being negative, or the counterparty risk in the event of the measurement being positive.

The hedge accounting ceases to take place when the hedging instrument matures or is sold, expires or is exercised, or if it no longer meets the criteria for hedge accounting. At that time any cumulative gain or loss corresponding to the hedge instrument that has been recorded in equity is held there until the anticipated transaction has occurred. If the hedging operation is no longer expected to occur, any cumulative gains or losses recognised in Equity are transferred to the income statement.

Cash flow hedges

The hedging operations held by the Company at 31 December 2020 are in line with the definition of "Cash flow hedges", that is, hedges to cover exposure to cash flow fluctuations associated to the interest rate risk for a highly probable forecast transaction and for the financing received at a floating interest rate, respectively, which affect the Company's income statement. The portion of the gain or loss on the hedging instruments qualifying as effective hedges is recognised temporarily in equity, net of tax, under the caption "Value change adjustments - Hedging operations", and the corresponding portion is taken to the income statement in the year or years in which the planned hedged operation affects profit/(loss).

In 2020, the derivatives hedging the 1-year bonds and part of the 2-year bonds have conserved their effectiveness within the thresholds required under the applicable accounting legislation but, due to the downward trend in the interest rates to which the hedged risks are indexed and to Sareb's application of a "floor" by which the interest rate may in no case be lower than 0%, they have lost part of that effectiveness. At 31 December 2020 and 2019, the measurement of the ineffective portion of the derivatives was €142,026 and 112,636 thousand, respectively. The Company has recorded the change in the ineffectiveness as a "Financial expense" (see Note 16.5).

Certain information is provided in Note 13.3 on the cash flow hedging operations carried out by the Company.

4.10 Derecognition of financial instruments

Financial assets are derecognised when any of the following circumstances arises:

1. The contractual rights on the cash flows generated by the asset have expired; or
2. The contractual rights on the cash flows from the financial asset are assigned and substantially all its risks and rewards are transferred or, although these are not substantially transferred or retained, control over the financial asset is transferred.

Also, a financial liability is derecognised when the obligations it generates have been extinguished or when it is repurchased by the Company, with the intention either to resell or to cancel it.

4.11 Inventories

These mainly correspond to property developments in progress and to the value of the associated land intended for sale in the normal course of the Company's business. Sareb recognises under the caption "Inventories" all assets on which it is going to take any kind of action, construction and/or development for subsequent sale through marketing.

The costs incurred in property development still to be completed are considered as works in progress. Those costs include any corresponding to the sites, urban development and construction, as well as the capitalisation of the financial expense incurred during the construction stage and any other direct and indirect costs attributable to them. Moreover, the Company does not capitalise marketing costs, which are taken directly to the income statement.

All real estate assets for which the Company's governing bodies have approved an investment and development plan for their subsequent retail sale are transferred from "Property investments" to the caption "Inventories".

The expense corresponding to any property developments for which construction has concluded during the year and are still to be sold is transferred from "Works in progress" to "Completed buildings".

The principles applicable to the impairment testing of inventories are similar to those applicable to Property investments (see Note 4.7.1.).

4.12 Foreign currency transactions

The functional currency used by the Company is the Euro. Therefore, transactions in currencies other than the Euro are considered to be denominated in foreign currency and are recorded according to the exchange rates in force at the transaction dates.

At the end of the year, the Company had no balances nor had it carried out transactions in foreign currencies for any significant amount. The amount recognised in 2020 and 2019 for this item was an expense for the amount of €1 and 6 thousand, respectively.

4.13 Income and expense

Income and expense are recorded according to the principle of accrual, that is, at the moment when the goods or services represented by them are provided, regardless of when actual payment or collection occurs. This income is measured at the fair value of the consideration received, after deducting discounts and taxes.

Reporting in the income statement

In line with the provisions set out in sub-section 10 of the Seventh Additional Provision of Act 9/2012, of 14 December, and its amendment included in the Ninth Additional Provision of Act 26/2013, of 27 December, and also the provisions of Bank of Spain Circular 5/2015, the Company has recognised the income generated as a result of the process for orderly management and liquidation of all the transferred assets in the income statement forming part of its "Turnover" (see Notes 2.1 and 16.1).

Income from interest

Notwithstanding the principles provided in the Accounting and Measurement Rule 9 of the General Chart of Accounts (GCA), under which the subsequent measurement of the financial assets should follow the amortised cost principle and also that "interest accrued is recorded in the income statement, applying the effective interest rate method",

the general application of the accrual principle and the amortised cost principle can have specific practical applications depending on the type of asset to which they are to be applied, the terms under which they were acquired and even the sector applying that principle, to the extent that it responds to the true and fair view of the annual accounts.

Considering the characteristics of the assets received and the high degree of uncertainty in their recovery through regular channels as already described in Note 4.6.2, the accrual model applied by Sareb provides that interest will only accrue on transactions in which they are estimated to be effectively recovered, backed up by the recoverable value of the guarantees for those transactions. That recoverable value is estimated on the basis of the principles set out in Note 4.7.2.

As part of the effective interest rate, the Company records under the caption "Turnover – Margin of recovery of loans and credits", the difference between the recovered value and the net book value of the loans and credits that have been offset or partially repaid.

Income from sales of loans and credits

Income from sales of loans are recognised under the caption "Turnover – Sales of loans and credits". That sale takes place once all the risks and benefits related to the financial assets transferred have been passed on to the buyer, which usually coincides with notarising the sales deeds and collecting payment on the sale.

Income from property sales (Property investments and Inventories)

Income from property sales (both for Property investments and Inventories) is recognised when the significant risks and rewards of ownership of the goods sold have been transferred to the buyer, and the Company neither continues to manage the goods nor retains effective control over them. That moment usually coincides with notarising the sales deeds for the property being sold. The amount of property sales is recorded under the caption "Turnover" on the accompanying income statement.

The Company includes in the accompanying Income Statement the charge for the amounts corresponding to the expense yet to be incurred for liquidating the promotion, as a provision for finishing building work.

Amounts paid in advance in the form of cash or notes receivable corresponding to reservations and sales contracts for promotions when they have not yet been handed over to the buyer and therefore the sale has not been recognised, are booked under the caption "Customer advances" on the liability side of the accompanying balance sheet, and are classified as current regardless of the date planned for recognition of the sale of the developments.

The Company recognises sales of land and sites when the risks and benefits inherent to them are transferred, which normally takes place when the sales deeds are notarised.

Income from leases

Rental income is recognised on an accrual basis, and incentive-related income and the initial costs of lease agreements are allocated on a straight-line basis.

4.14 Income tax

The expense or income from income tax includes the portion relative to the current tax expense or income and the portion corresponding to the deferred tax expense or income. Corporate Income Tax for the year is calculated based on the economic or accounting profit or loss determined by applying generally accepted accounting principles, which does not necessarily coincide with taxable profit or loss, this being taken as the tax base for this tax.

Current tax is the amount that the Company pays as a result of paying income tax relating to one year. Any deductions and other tax benefits in the tax charge, excluding any withholdings and payments made on account, and the tax losses that can be offset from previous years and applied effectively in this year, give rise to a lower amount of current tax.

Any deferred tax expense or income corresponds to the recognition and derecognition of the deferred tax assets and liabilities. These include any temporary differences which are identified as those amounts that are foreseen to be payable or recoverable, arising from the differences between the carrying amount of the assets and liabilities and the tax base value, and the tax loss carryforwards and unused tax credits. Those amounts are recorded by applying to the corresponding temporary difference or credit the charge at the rate at which it is expected to be recovered or paid.

Deferred tax assets are only recognised to the extent that it is considered probable that the Company will have future taxable profits available against which they can be offset. In this case, the deferred taxes are measured on the basis of the current tax rate expected at the time of recovery.

Deferred tax liabilities are recognised for all taxable temporary differences, except those arising from the initial recognition of the goodwill or other assets and liabilities in a transaction that has no effect on the taxable profit or loss or on the accounting profit or loss, and is not a business combination.

Deferred tax assets and liabilities originating in transactions with charges or payments directly made in equity accounts are also entered with a balancing entry in equity.

At the end of each year, the recorded deferred tax assets are reviewed, and appropriate adjustments are made to the extent that there are doubts as to their future recovery. Also, at the end of each year, the deferred tax assets not recorded on the balance sheet are assessed and recognised to the extent that it has become probable that future taxable profit will enable them to be recovered.

4.15 Provisions and contingencies

In the preparation of these annual accounts the Directors differentiate between:

- a) Provisions: credit balances that cover current obligations arising from past events, the cancellation of which is likely to originate an outgoing of resources, but that is undefined as to the amount and/or moment of cancellation.
- b) Contingent liabilities: possible obligations arising as a consequence of past events, the materialisation of which is conditioned to one or several future events occurring beyond the control of the Company

The annual accounts contain all the provisions with respect of which it is anticipated that the probability of having to attend to the obligation is greater than not having to. Contingent liabilities are not recognised in the annual accounts, but information is provided on them in the notes in the report, to the extent that they are not considered to be remote.

Provisions are measured at the current value of the best calculation possible of the amount necessary for cancelling or transferring the obligation taking into account the information available on the event and its consequences, and recording the adjustments that arise from updating those provisions as a financial expense as they become due.

The compensation to be received from a third party at the moment of liquidating the obligation, as long as there are no doubts that said reimbursement will be received, is recorded as an asset, except in the case of there being a legal relation through which part of the risk has been externalised, and by virtue of which the Company is not bound to respond; in that circumstance, the compensation shall be taken into account to estimate the amount for which, if appropriate, the relevant provision shall be recorded.

At 31 December 2020 and 2019, the Company had set up the provisions for risks and expenses described in Note 12, and also short-term provisions for €7,054 and 4,600 thousand, respectively. Those short-term provisions are, mainly, provisions for completion of works in the various developments under construction.

4.16 Transactions with related parties

A related party is deemed to be any individual or legal entity having control or significant influence over a company, or who is a key member of its Management. According to the Directors, no other company exercises sole or joint control of the Company and there is no association with key members of Management, other than their employment relationship.

Significant influence is understood to be the power to participate in the financial and operating policy decisions of the Company, but without having control over them. In this respect, the Company considers that the FROB is the only shareholder having any significant influence on the Company.

In general, transactions with related parties are recognised according to the general rules for measurement contained in the General Chart of Accounts, namely that the items involved in the transaction are initially recorded for their fair value and subsequently according to the relevant accounting standards.

Note 17 gives information on transactions with related parties concluded in 2020 and 2019 and on the balances held at 31 December of those years with related parties.

En la Nota 17 se ofrece información sobre las operaciones con partes vinculadas realizadas durante los ejercicios 2020 y 2019 y sobre los saldos mantenidos al 31 de diciembre de dichos ejercicios con partes vinculadas.

4.17 Termination indemnities

In accordance with current legislation, the Company is required to pay indemnities to any employees who, in certain conditions, have had their employment relationships terminated. Therefore, termination indemnities that can be reasonably quantified are recorded as an expense in the financial year in which the decision to dismiss them is taken. At 31 December 2020, the Company had no liabilities for this item. However, in 2020 and 2019, the Company recognised termination indemnities for the amount of €1,064 and 571 thousand, respectively, which were recorded under the caption "Staff expense – Salaries, wages and similar" on the accompanying income statement.

4.18 Cash flow statements

In the cash flow statements, prepared using the indirect method, the following expressions are used with the following meanings:

1. Cash flows: inflows and outflows of cash and cash equivalents, which are short term, highly liquid investments that are subject to an immaterial risk of changes in value.
2. Operating activities: the principal activities of the Company and other activities that are not classified as investment or financing activities. The Company classifies these activities as described in Note 4.13.
3. Investment activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
4. Financing activities: activities that result in changes in the size and composition of equity and liabilities that are not amongst the Company's operating activities, as well as any others which cannot be classified as for investment or operating.

5. Property investments

The composition of this caption at 31 December 2020 and 2019, is as follows:

	€ thousand	
	31/12/2020	31/12/2019
Land and sites	5.991.635	5.493.292
Completed buildings		
Homes - Main residence	5.219.637	4.812.219
Offices, commercial premises and multi-purpose facilities	1.239.260	1.128.279
Other properties	438.817	474.227
Homes - Other than main residence	-	7.313
Total completed buildings	6.897.714	6.422.038
Of which: Buildings for rental (Note 6)	1.104.248	1.046.202
Of which: Land	4.224.644	3.862.845
Impairment losses	(3.182.943)	(496.378)
Advances on property investments	918.581	486.733
Total property investments	10.624.987	11.905.685

For its part, the changes under the caption Property investments in 2020 and 2019 are as follows:

2020

	€ thousand			
	Completed buildings	Land and sites	Advances	Total
Cost				
Balance at 1 January 2020	6,679,483	5,493,292	486,733	12,659,508
Additions from awards and donations	726,023	418,852	999,893	2,144,768
Other additions	1,841	12,974	138	14,953
Sales and derecognition	(573,112)	(115,492)	(4,390)	(692,994)
Transfers	375,183	188,610	(563,793)	-
Transfers to PPE (Note 4.2)	(21,377)	-	-	(21,377)
Transfers to Inventories (Note 8)	-	(1,930)	-	(1,930)
Withdrawals due to rectifications (Note 1)	-	(4,671)	-	(4,671)
Balance at 31 December 2020	7,188,041	5,991,635	918,581	14,098,257
Depreciation				
Balance at 1 January 2020	(257,445)	-	-	(257,445)
Provisions charged against profit or loss	(58,291)	-	-	(58,291)
Transfers to PPE (Note 4.2)	1,291	-	-	1,291
Sales, derecognition and other changes	24,118	-	-	24,118
Balance at 31 December 2020	(290,327)	-	-	(290,327)
Impairment losses				
Balance at 1 January 2020	(228,844)	(267,534)	-	(496,378)
Provisions charged against Value change adjustments	(1,152,152)	(929,097)	-	(2,081,249)
Applications	-	-	-	-
Transfers (see Note 7.1)	(323,837)	(281,479)	-	(605,316)
Balance at 31 December 2020	(1,704,833)	(1,478,110)	-	(3,182,943)
Net balances at 31 December 2020	5,192,881	4,513,525	918,581	10,624,987

2019

	€ thousand			
	Completed buildings	Land and sites	Advances	Total
Cost				
Balance at 1 January 2019	6,357,963	5,461,173	311,022	12,130,158
Additions from awards and dations	700,335	401,891	864,774	1,967,000
Other additions	10,118	19,798	116	30,032
Sales and derecognition	(755,549)	(124,063)	(14,340)	(893,952)
Transfers	393,207	281,632	(674,839)	-
Transfers to Inventories (Note 8)	(26,591)	(547,139)	-	(573,730)
Withdrawals due to rectifications (Note 1)	-	-	-	-
Balance at 31 December 2019	6,679,483	5,493,292	486,733	12,659,508
Depreciation				
Balance at 1 January 2019	(236,250)	-	-	(236,250)
Provisions charged against profit or loss	(53,436)	-	-	(53,436)
Sales, derecognition and other changes	32,241	-	-	32,241
Balance at 31 December 2019	(257,445)	-	-	(257,445)
Impairment losses				
Balance at 1 January 2019	-	-	-	-
Provisions charged against Value change adjustments	(228,844)	(267,534)	-	(496,378)
Applications	-	-	-	-
Balance at 31 December 2019	(228,844)	(267,537)	-	(496,378)
Net balances at 31 December 2019	6,154,504	5,264,448	486,733	11,905,685

The most relevant changes produced in 2020 and 2019 under this caption are itemised as follows:

Other additions

In 2020 and 2019 the Company capitalised €14,953 and 29,916 thousand, respectively, as the higher cost of property investments corresponding to improvements and developments it carried out on the items of its Property investments. Those improvements were mainly related to urban development works carried out on land and sites.

Transfers between items

In 2020 and 2019 the Company reclassified €1,930 and 10,732 thousand from the caption Property investments to Inventories corresponding to various plots of land and works in progress that had been halted and regarding which the Company has decided to begin or resume the construction and development of residential properties (see Note 8).

Furthermore, in 2019, and following the creation of the Arqura Homes Bank Assets Fund, the Company decided to begin the promotion and development of €562,998 thousand of land and construction work that had been halted, meaning that those assets were reclassified to the caption of inventories (see Note 8).

Advances on property investments

The Company recognises under the caption "Advances on property investments" all properties acquired through mortgage foreclosure proceedings which have an enforcement order but are still pending a final ruling. The Company adopted that principle in 2017 in order to standardise the accounting and tax treatment of the operation.

Mortgage foreclosures and dations in payment

2020

On 25 September 2020, the Company reached an agreement for dation in payment with the borrower Urbanizadora de Valladolid, S.A. As a result of that agreement, the Company acquired a development of 151 residential properties and garages. The acquisition cost of those properties was €27,890 thousand, this being the net book value of the loans and credits repaid as partial payment of the award.

On 27 November 2020, the Company acquired 88 homes, 30 single-family homes, 55 garage spaces, 3 commercial premises and 5 serviced development land from the borrower Promotora Parque Santa Brígida, S.A. The acquisition cost of those assets was €21,404 thousand, this being the net book value of the loans repaid as part of the agreement for dation in payment.

On 10 December 2020, following a mortgage foreclosure procedure, the Company acquired ownership of 239 plots of development land. Those plots of land were recognised on the accompanying balance sheet for an amount of €35,949 thousand as that amount coincides with the carrying amount of the loans repaid as payment for the properties acquired.

On 30 December 2020, the Company has concluded, through an agreement for dation in payment with the borrower Vía Arasov, S.A., the acquisition of homes, commercial premises and land, which was recognised for an aggregate amount of €22,910 thousand.

2019

On 23 January 2019, as part of the bankruptcy procedure of the borrower, Martinsa Fadesa, S.A., the Company was awarded a package of unencumbered assets which were acquired with a charge to the financing granted to that Company. The acquisition cost of those properties was €36,813 thousand, this being the net book value of the loans and credits repaid as partial payment of the award.

On 30 July 2019, the Company reached an agreement for dation in payment with the borrower Rayl Ribalta, S.A. As a result of that agreement, the Company acquired 148 homes, 203 garages and 2 offices, which were recognised for an amount of €33,297 thousand.

On 6 March 2019, following a mortgage foreclosure procedure, the Company acquired ownership of 228 homes, 204 garages and 1 commercial premises. Those properties were recognised on the accompanying balance sheet for an amount of €25,751 thousand as that amount coincides with the carrying amount of the loans repaid as payment for the properties acquired.

On 4 June 2019, 115 homes were acquired under the agreement of dation in payment reached with Inmobiliaria Tabuena, S.A. The acquisition cost of those homes was €18,895 thousand, this being the net book value of the loans repaid as part of the agreement for dation in payment.

Sales and derecognition

2020

On 30 November the Company notarised the deed for the sale of a plot of land located in Cerdanyola del Vallés (Barcelona) for the price of €15,010 thousand. €7,355 thousand of the sales price was deferred, with 50% of that amount being due for payment at 12 months, and the other 50% at 24 months. Those amounts are secured under a condition precedent.

On 28 December a complex of finished properties located in the Region of Valencia were sold to the Valencia Regional Government. The sales price was €4,930 thousand, which has been received in full.

Subsequently, on 29 December a complex of finished properties located in Madrid were sold to Empresa Municipal de Vivienda y Suelo de Madrid. The aggregate sales price assigned to said sale was €8,300 thousand, said amount having been received in full.

On 30 December the Company sold a plot of land located in Barcelona for the price of €4,000 thousand. Part of that amount, €1,800 thousand, was deferred, and is due for payment on 30 December 2021.

2019

On 13 February the portfolio known as "Adra" was sold, comprising properties that had previously been acquired by way of dation in payment. The sales price for that portfolio was €16,441 thousand, which has been received in full.

On another note, during the months of March, April and May, deeds were notarised for the single items of

property that had not yet been notarised in 2018 as part of the "TER" portfolio while waiting for the Regional Government of Catalonia to exercise the right of first refusal, or not. The aggregate sales price of notarising those deeds was €18,075 thousand, of which €8,134 thousand had been deferred until 30 June 2020. Those amounts were received in full in 2020.

During the months of April, May, June and December 2019, deeds were notarised for the portfolio of single items of property that had not yet been notarised in 2018 as part of the "Garona" portfolio while waiting for the Regional Government of Catalonia to exercise the right of first refusal, or not. The aggregate sales price of that portfolio was €38,079 thousand, of which €17,190 thousand were deferred until 30 June 2020. At 31 December 2020, €465 thousand are still to be received.

On 30 December the "Mundaka" and "Roche" portfolios were sold, comprising portfolios of single items of property and properties available for rental. The sales price of those portfolios was €4,873 and 1,882 thousand, respectively. Those amounts have been received in full.

Lastly, on 23 October 2019, the Company created what is known as "Esla Bank Assets Funds", having transferred to that Fund a portfolio of land and construction work that had been halted amounting to €52,180 thousand (see Note 4.6.1).

At 31 December 2020 and 2019, the Company signed sales commitments on various homes and plots of land whose carrying amount is €90,059 and 67,519 thousand, to which sales prices of €92,343 and 75,291 thousand have been assigned, respectively; of these amounts, €2,462 and 2,171 thousand were advanced and have been recognised under the caption "Customer advances" on the accompanying balance sheet.

Other information

At the end of 2020 and 2019

- All the Company's Property investments are unencumbered and free from security rights.
- The Company has no fully depreciated items of Property investments on its balance sheet.
- There are no dismantling or withdrawal costs capitalised as a higher cost of the property investments for any significant amount.
- The assets awarded by Sareb forming part of the Financial Assets Unit have not generated any profit/ (loss) upon being entered on the balance sheet of real estate assets.
- In this respect, the application of the rules for measurement established by Circular 5/2015 for the Real Estate Assets Unit, consisting of the assets transferred by the assigning banks when Sareb was set up, which are classified under the caption Property investments and Inventories (see Note 8), at the end of 2020 and 2019 showed a capital loss on the net book value of 1,247 and 496 M, respectively.
- For its part, the measurement of assets awarded or received in payment of debt subsequent to the date of transfer, carried out according to the principles of Bank of Spain Circular 5/2015, has brought a capital loss to the Financial Assets Unit (see Note 4.7.2) of €1,936 and 605 M at 31 December 2020 and 2019, respectively, in addition to the need for reorganising the credit transactions of that Unit. In 2020, and in view of the evolution and acceleration of the conversion of the balance sheet, the Company has reclassified the impairment associated to the assets awarded or received in payment of debts, which to date were recognised under the caption of "Loans to third parties" on the accompanying balance sheet. The amount of that reclassification was €605 M (see Notes 7.1 and 4.7.2).

The Company's policy is to take out all insurance policies deemed necessary to cover the risks that could affect the Property investments. The insurance cover taken out by the Company in respect of its Property investments is higher than the net book value of the investments, and is updated annually.

6. Operating leases

At the end of 2020 and 2019, the Company acts as the lessor in certain operating lease agreements whose minimum lease payments, according to the contracts currently in force, without taking into account the invoicing of expense of homeowners' associations, future increases in the Consumer Price Index, nor future contractually agreed rent updates, are as follows:

€ thousand		
Minimum rents	2020	2019
€ thousand	39,872	34,061
Entre uno y cinco años	88,227	95,921
Más de cinco años	106,437	99,528
Total	234,536	229,509

Also, the amount of rent from the operating leases and sub-leases corresponding to 2020 and 2019 were recorded under the caption "Turnover" with the following breakdown:

€ thousand		
	2020	2019
Minimum payments per lease (Note 16.1)	45,408	40,553
Invoicing general expense	1,119	1,352
Total	46,527	41,905

The most significant lease agreements are those itemised below:

Location	Contract date	Type of property	Gross annual amounts (€ thousand)	Expiry date
Avda Principe Felipe (Torre Pacheco)	01/05/2019	Hotel	836	30/04/2034
Varios	27/06/2014	Apartamentos Turísticos	616	03/01/2023
Poligono Industrial V. Norte (Valencia)	01/08/2018	Nave Industrial	505	31/07/2023
c/ Gaiteira (La Coruña)	03/10/2020	Edificio de Oficinas	340	30/09/2028
c/ Amplaries (Oropesa del Mar)	13/07/2018	Apartamentos Turísticos	451	12/07/2022
c/ Manfredonia	01/03/2009	Nave Industrial	338	27/04/2024

The net cost of the Company properties being rented at 31 December 2020 and 2019 was €1,104,248 and 1,046,202 thousand, respectively (see Note 5).

Also, the amount of contingent rents, i.e. variable lease payments, corresponding to those leases, recorded in 2020 and 2019 under the caption "Turnover" are insignificant.

Lastly, the lease agreements in which the Company acts as lessee mainly refer to the leasing of various items of computer equipment. The lease payments to which the Company is committed for these items are insignificant at the end of 2020 and 2019.

7. Long-term and Short-term financial assets

The carrying amount of each category of financial asset held by the Company at 31 December 2020 and 2019 is shown below.

7.1 Breakdown of long-term and short-term financial investments

Below is the breakdown of financial assets belonging to Sareb at 31 December 2020 and 2019, classified according to the breakdown required under applicable legislation:

2020

Categories	Classes	€ thousand				Total
		Long-term financial instruments		Short-term financial instruments		
		Equity instruments	Credits, derivatives and others	Debt securities	Credits, derivatives and others	
Other financial assets	-	588,358	-	478,974	1,067,332	
Loans and receivables - Loans to third parties	-	9,821,840	-	1,093,645	10,915,485	
Assets available for sale	-	-	-	-	-	
Total	-	10,410,198	-	1,572,619	11,982,817	

2019

Categories	Classes	€ thousand				Total
		Long-term financial instruments		Short-term financial instruments		
		Equity instruments	Credits, derivatives and others	Debt securities	Credits, derivatives and others	
Other financial assets	-	1,083,408	-	664,298	1,747,706	
Loans and receivables - Loans to third parties	-	11,740,698	-	1,344,299	13,084,997	
Assets available for sale	-	-	-	-	-	
Total	-	12,824,106	-	2,008,597	14,832,703	

7.1.1 Long-term and short-term loans to third parties

The breakdown of the financial instruments - long-term and short-term loans to third parties, per counterparty and per instrument type, at 31 December 2020 and 2019, is as follows:

	€ thousand	
	31/12/2020	31/12/2019
Public Administrations		
Other resident sectors	17,962	18,192
Trade credit	760,755	974,189
Borrowing with collateral	-	-
with mortgage	749,947	945,909
with other collateral	749,947	938,613
Other term receivables	-	7,296
Overdrafts and others	1,438	8,583
Non-resident private sector	9,370	19,697
Doubtful loans and credits	-	-
Valuation adjustments	14,906,667	17,201,276
Impairment losses on assets	(4,769,899)	(5,108,660)
Other valuation adjustments - accrued interest pending collection	(5,935,806)	(6,322,635)
Others - Capitalised expense - (Note 4.6.2)	1,155,383	1,203,065
Others - Capitalised expense - (Note 4.6.2)	10,524	10,910
Total	10,915,485	13,084,997

In 2020 and 2019 the Company has granted no new loans or credits to third parties for any significant amount, except for the drawdowns that the borrowers have made on the available funds, which were also not significant.

Rectifications concluded

As stated in Note 1, in 2020 and 2019 the Company concluded the rectifications made on financial assets for the amount of €2,054 and 1,299 thousand, respectively, following the process of reviewing the portfolio of loans and credits transferred by the banks in Group 1 and 2.

Financial income

At 31 December 2020, 86.59% of the loan and credit portfolio is indexed to Euribor plus a market spread (87.67% of the total loans and credits at 31 December 2019). Conversely, 13.41% is indexed to fixed interest rates (12.33% at 31 December 2019) - see Note 7.3.3.

In 2020 and 2019, the Company recognised interest arising from its loan and credit portfolio for the amount of €169,150 and 329,652 thousand under the caption "Turnover" on the accompanying income statement (see Notes 4.13 and 16.1). That amount includes €116,525 thousand (€184,008 thousand in 2019) corresponding to amounts received in transactions offset or partially repaid which were applied to interest following the company's order of priority according to which it gives priority to the repayment of interest and then to capital, of which, €28,429 thousand (€38,145 thousand in 2019) were received for contractual interest.

Sales of loans and credits

In 2020 the Company has carried out wholesale sales of loans for the amount of €1,081 thousand, booking a gross positive margin of €824 thousand (€465 thousand of income and a gross positive margin of €66 thousand in 2019) (see Note 16.1).

In 2020 and 2019, and in view of the situation and the current strategy of the Company, no transactions took place for the sale of loans and credits for any individually significant amounts.

Margin of recovery of loans and credits

Under this caption the Company records the difference between the amount recovered from loans that have been repaid and/or fully or partially offset, and their carrying amount (see Notes 4.13 and 16.1). The order of priority adopted by the Company means that the amounts received are firstly applied to the repayment of interest and then to capital. The amount of interest received

during 2020 and 2019 was €123,832 and 184,008 thousand. This has resulted in the recovery of loans and credits in 2020 and 2019 being a negative figure of €70,035 thousand (negative figure of €90,778 thousand in 2019).

Adjustments related to impairment of credit risk

Changes in adjustments related to impairment recorded by the Company in 2020 and 2019 were as follows:

2020

	€ thousand				
	Opening balance	Provision	Transfer (Note 5)	Application	Closing balance
Provision for impairment of loans and credits	(6,322,635)	(218,487)	605,316	-	(5,935,806)
Total	(6,322,635)	(218,487)	605,316	-	(5,935,806)

Furthermore, in 2020 the Company recognised provisions for the amount of €1,205 M resulting from losses associated to the assets awarded or received in payment of debt. Those provisions were recorded under the caption of "Property investments" (see Note 5) even though those assets make up the Financial Assets unit according to Circular 5/2015.

2019

	€ thousand			
	Opening balance	Provision	Application	Closing balance
Provision for impairment of loans and credits	(5,091,686)	(1,230,949)	-	(6,322,635)
Total	(5,091,686)	(1,230,949)	-	(6,322,635)

As indicated in Note 5, in 2020 the Company reclassified €605,316 thousand corresponding to the impairment associated to the assets awarded or received in payment of debt which, for the purposes of Bank of Spain Circular 5/2015, are included in the Financial Assets Unit. However, given the volume and speed of the conversion of the balance sheet, the Company has decided to reclassify them to the caption of Property investments.

In application of the rules for measurement established by the Bank of Spain Circular 5/2015 for what is known as Financial Assets Unit, in 2020 and 2019, the Company recognised provisions for the impairment of its loan and credit portfolio for the amount of €218,487 and 1,230,949 thousand, respectively, for adjustments related to impairment of credit risk (see Note 4.7.2).

For its part, Note 7.3.1 includes the necessary information on the nature and degree of the credit risk of the portfolio of loans and receivables at 31 December 2020 and 2019 (see Note 4.7.2).

Other information

At 31 December 2020 and 2019:

- The nominal amount of unused credit associated to loan and credit transactions is €603,496 and 797,376 thousand, respectively. Nonetheless, practically all of that unused credit relates to loans that are overdue.
- There are no sales commitments for any significant amount regarding the financial assets appearing under the caption "Loans and credits to third parties".
- There are no lawsuits or seizure proceedings having any significant effect on the figure for long-term and short-term financial investments.

Taking into additional consideration what is described in Note 4.7, the Directors of the Company consider that the carrying amount of the aggregate balances included in this caption of the balance sheet approximates to the fair value.

7.1.2 Long-term and Short-term financial investments - Other financial assets

The breakdown of the caption "Other financial assets" -both long-term and short-term- on the balance sheet at 31 December 2020 and 2019 is as follows:

€ thousand	31/12/2020		31/12/2019	
	Non-current	Current	Non-current	Current
Monetary guarantees from derivative contracts concluded (Note 13.3)	545,409	468,291	825,816	658,184
Guarantees for leases (Note 6)	3,886	-	3,608	-
Deposits and judicial consignments	28,131	-	20,084	-
Fixed-term deposits	586	-	211,862	-
Other financial assets	10,346	10,683	22,038	6,114
Total	588,358	478,974	1,083,408	664,298

Guarantees for leases

Non-current guarantees and deposits mainly correspond to the amounts paid by the lessees which the Company deposits with the Institute of Housing or Chamber of Property pertaining to each Autonomous Region.

Monetary guarantees from derivative contracts concluded

At 31 December 2020 and 2019, the Company held guarantees for an amount of €1,013,700 and 1,484,000 thousand, respectively, from the counterparties with which it has entered into financial derivative contracts (see Note 13.3). Those guarantees have an interest rate indexed to the Eonia and to 3-month Euribor plus a market spread. Financial income accrued in 2020 and 2019 was insignificant.

The Directors of the Company consider that the carrying amount of the balances included in this caption of the balance sheet approximates to the fair value.

Fixed-term deposits

With the aim of optimising liquidity, at 31 December 2020 and 2019, the Company has €586 and 211,862 thousand, respectively, on deposits and fixed-term deposits in various banks, with maturity at more than 12 months.

Deposits and judicial consignments

At 31 December 2020 and 2019, the Company held deposits and judicial consignments for the amount of €28,131 and 20,084 thousand, respectively, mainly as a result of the mortgage foreclosure procedures in which it is involved.

7.2 Breakdown of financial investments with associates

The balance of the accounts under the caption "Long-term investments in associates" at the end of 2020 and 2019 is as follows:

2020

€ thousand	31/12/2019	Additions	Amortisations and derecognitions	31/12/2020
Financial investments in group companies and associates	46,802	296	(587)	46,511
Impairment financial investments in associates	(8,766)	(2,235)	587	(10,414)
Total equity instruments	38,036	(1,939)	-	36,097
Loans to associates	34,043	14,760	-	48,803
Impairment loans to associates	(13,171)	-	-	(13,171)
Total loans to associates	20,872	14,760	-	35,632
Total	58,908	12,821	-	71,729

2019

€ thousand	31/12/2018	Additions	Amortisations and derecognitions	31/12/2019
Financial investments in group companies and associates	331,151	31,897	(316,246)	46,802
Impairment financial investments in associates	(6,907)	(1,859)	-	(8,766)
Total equity instruments	324,244	30,038	(316,246)	38,036
Loans to associates	13,171	20,872	-	34,043
Impairment loans to associates	(12,827)	(344)	-	(13,171)
Total loans to associates	344	20,528	-	20,872
Total	324,587	50,566	(316,246)	58,908

7.2.1 Financial investments in Group companies and associates

Group companies

2020

The Company has no interests in any company in which it has a majority shareholding.

2019

On 5 August 2019, and before selling the shares in the Company T mpore Properties Socimi, S.A, the Company received a dividend for  190,618 thousand from that investee. That dividend was used to reduce the cost of the holding in that Company as it had been distributed with a charge against the issue premium previously paid up by the Company.

Subsequently, on 5 August 2019, the Company notarised the deed for the sale of 20,305,479 shares of the Company T mpore Properties Socimi, S.A. which constituted 75% of the total shareholding of that Company. The price assigned to those shares was  103,078 thousand, their cost being  95,885 thousand. Of the total price, the amount of  97,901 thousand was deferred, and is recognised under the caption "Trade

and other accounts receivable" on the accompanying balance sheet, having established its maturity date within three years, accruing an annual interest rate of 1.5%. That deferral has been guaranteed by a leading bank.

Following the above-mentioned sale, the Company T mpore Properties Socimi, S.A. ceased to be considered a Group company in 2019 and became an associate.

Associates

2020

In 2020 the only change produced in this caption of the balance sheet relates to the capital increase formalised by the Company T mpore Properties Socimi, S.A., which was not subscribed by the Company; this led to a dilution of its interest in that REIT, which went down to 21.22% from the 24.12% that was held at 31 December 2019.

In addition, in 2020 it recognised an impairment of  2,235 thousand on the interest held in Quabit Inmobiliaria, S.A.

The most relevant information on the interests held by the Company in associates at 31 December 2020 is as follows:

Company	Holding	Address	Main activity	� thousand					
				NBV	Shares	Issue premium	Other shareholders' contributions	Operating profit/(loss)	Profit / (Loss) after taxes
T�mpore Properties Socimi, S.A. (**)	21.22%	Pl. Manuel Gomez-Moreno, Madrid	Lease of properties	31,141	30,787	120,280	1,153	(1,765)	(7,319)
Hercesa Internacional, S.A.	6.4%	Plaza de Europa 3, Guadalajara	Property development	1,225	111,588	-	20,711	1,036	4,896
Quabit Inmobiliaria, S.A. (**)	2.87%	c/ Poeta Joan Maragall 1, Madrid	Property development	1,494(*)	74,381	179,717	120,034	71,583	147,483

(*) Includes impairment of  8,191 thousand.

(**) The shares of those companies are listed for trading on the Alternative Stock Market (MAB) in the case of T mpore and the continuous trading market in the case of Quabit.

In addition to the companies mentioned above, the Company holds a minority interest in the company Reyal Urbis, S.A. There is no breakdown of the information for that Company as there is no updated financial information available and it is fully impaired.

2019

In 2019 there were no significant changes in the portfolio of associates, with the only significant change being the status of T mpore Properties Socimi, S.A. as an associate after the sale of shares.

After that sale, the Company's percentage interest in T mpore was 24.12%.

The most relevant information on the interests held by the Company in associates at 31 December 2019 is as follows:

Company	Holding	Address	Main activity	� thousand					
				NBV	Shares	Issue premium	Other shareholders' contributions	Operating profit/(loss)	Profit / (Loss) after taxes
T�mpore Properties Socimi, S.A. (**)	24.12%	Pl. Manuel Gomez-Moreno, Madrid	Lease of properties	30,844	27,074	105,169	1,153	(1,738)	(3,883)
Hercesa Internacional, S.A.	6.94%	Plaza de Europa 3, Guadalajara	Property development	1,225	111,588	-	20,711	563	(4,206)
Quabit Inmobiliaria, S.A. (**)	2.87%	c/ Poeta Joan Maragall 1, Madrid	Property development	3,729(*)	74,381	179,717	-	(14,509)	(8,478)

(*)(*) Includes impairment of  5,956 thousand.

(**) The shares of those companies are listed for trading on the Alternative Stock Market (MAB) for the case of T mpore and the continuous trading market in the case of Quabit, with share prices at 31 December 2019 of  5 and 1 respectively.

Deconsolidated Bank Assets Funds

2020

No significant changes took place under this caption in 2020.

The most relevant information on the Bank Asset Funds deconsolidated at 31 December 2020 is as follows:

Company	Holding	Address	Main activity	� thousand			
				Values (*)	Reserves and other equity items	Gross margin (*)	Profit / (Loss) after taxes
1. Unlisted.-							
FAB 2013 Teide	15%	C/ Pr�ncipe de Vergara 131, Madrid	Real estate sales and management	86,000	-	1,834	-
Esla Bank Assets Fund	5%	c/ Medina de Pomar. 27, Madrid	Real estate sales and management	31,308	-	(9,529)	(13,201)

(*) Data extracted from the last annual accounts available at 31 December 2020, prepared in accordance with the regulations applicable to each company. At the date of preparation of these Annual Accounts, the annual accounts of FAB 2013 Teide and Esla Bank Assets Fund were yet to be audited.

2019

On 26 October 2019, the Company created what is known as "Esla Bank Assets Fund" through the contribution of land and construction work in progress that had been halted, for the price of €52,180 thousand (see Note 4.6.1). The transfer of those properties was taken up by the fund through the issue of equity securities amounting to €31,308 thousand, and the rest was deferred, through senior financing, for the amount of €20,872 thousand.

Subsequently, on 30 December 2019, the Company notarised the deeds for the sale of 95% of the securities subscribed for their par value, that is, €29,743 thousand, which have been received in full.

The most relevant information on the Bank Asset Funds deconsolidated at 31 December 2019 is as follows:

Company	Holding	Address	Main activity	€ thousand			
				Values (*)	Reserves and other equity items	Gross margin (*)	Profit / (Loss) after taxes
1. Unlisted.-							
FAB 2013 Teide	15%	C/ Príncipe de Vergara 131, Madrid	Real estate sales and management	87,815	-	2,050	-
Esla Bank Assets Fund	5%	c/ Medina de Pomar. 27, Madrid	Real estate sales and management	31,308	-	(109)	(345)

(*) Data extracted from the audited annual accounts at 31 December 2019, prepared in accordance with the regulations applicable to each company.

In 2015, at the request of the CNMV (Spanish National Securities Market Commission), the FAB Teide made a change to its accounting principles consisting of offsetting the profit/(loss) for the year by recording a balancing entry, i.e. an allowance account that reduces the amount of the debt securities issued. That change in the accounting principles had no impact on the annual accounts of the Company.

Non-Deconsolidated Bank Assets Funds

In 2020 there were no significant changes under this caption other than the sale of 10% of the capital of the Arqura Homes Bank Assets Fund described in Note 4. The main changes in 2019 relating to non-deconsolidated Bank Assets Funds are those described in Note 4.6.1. referring to the creation of the Arqura Homes Bank Assets Fund.

The most relevant information on the non-deconsolidated Bank Asset Funds is as follows:

2020

Company	Holding	Address	Main activity	€ thousand			
				Values (*)	Reserves and other equity items	Gross margin (*)	Profit / (Loss) after taxes
1. Unlisted.-							
FAB 2013 Bull	49%	C/ Príncipe de Vergara 131, Madrid	Real estate sales and management	50,364	-	107	-
Arqura Homes Bank Assets Fund	90%	c/ Medina de Pomar 27	Property development	811,389	-	18,964	10,780

(*) Data extracted from the last annual accounts available at 31 December 2020, prepared in accordance with the regulations applicable to each company. At the date of preparation of these Annual Accounts the annual accounts of that fund were yet to be audited.

2019

Company	Holding	Address	Main activity	€ thousand			
				Values (*)	Reserves and other equity items	Gross margin (*)	Profit / (Loss) after taxes
1. Unlisted.-							
FAB 2013 Bull	49%	C/ Príncipe de Vergara 131, Madrid	Real estate sales and management	50,364	-	375	-
Arqura Homes Bank Assets Fund	100%	c/ Medina de Pomar 27	Property development	811,389	-	12,061	9,615

(*) Data extracted from the audited annual accounts at 31 December 2019, prepared in accordance with the regulations applicable to each company

7.2.2 Loans to associates

The changes under that caption in 2020 and 2019 are as follows:

2020

	31/12/2019	Drawdowns	Repayments	31/12/2020
FAB 2013 Teide	-	-	-	-
Debt securities	13,172	-	-	13,172
Impairment debt securities	(13,172)	-	-	(13,172)
Esla FAB	20,872	14,760	-	35,632
Senior financing	20,872	-	-	20,872
Capex financing	-	14,760	-	14,760
Total	20,872	14,760	-	35,632

2019

	31/12/2018	Drawdowns	Repayments	31/12/2019
FAB 2013 Teide	344	(344)	-	-
Debt securities	13,172	-	-	13,172
Impairment debt securities	(12,828)	(344)	-	(13,172)
Esla FAB	-	20,872	-	20,872
Senior financing	-	20,872	-	20,872
Total	344	20,528	-	20,872

In 2020 and 2019, the entire profits from the debt securities received by the Company relate to the Teide FAB for the amount of €703 and 1,193 thousand, respectively (see Note 16.1).

7.3 Information on the nature and risk degree of the financial assets

Risk management is the key principle for achieving the objectives established for the Company, which consist of contributing to the recovery of the financial system, minimising public funding, settling debts and meeting obligations it assumes in the course of its operations, minimising any possible distortions in the markets that might arise from its actions and selling the assets received, enhancing their value within the time period established and for which the company was set up, while at all times preserving the Company's financial soundness and equity.

The Board of Directors is the governing body responsible for deciding on and approving the general procedures for internal control, as well as the policies on the assumption, management, control and reduction of the risks to which the Company is exposed. Having been assigned the functions delegated by the Board of Directors, the Risk Management and Control Team and the departments of Business and Direct Management also act in managing risk.

For its part, the Audit Committee, backed up by the department of Internal Audit and the department of Internal Control and Compliance, is responsible for supervising the effectiveness of the operating procedures and internal control systems, as well as ensuring compliance with applicable regulations.

The Company manages risk on the basis of the principles of independence, the commitment of Senior Management, delegation of functions, proactive management of lending and property investments in order to minimise default and the decreased value of the investments, by monitoring and controlling the positions and technical specialisation, establishing the most suitable tools and methods of risk management and measurement, and ensuring they are uniformly applied.

As a result of the very structure of the Company's opening balance sheet, the main risks to which it is subject are the following:

- Credit risk and the concentration of credit related to the financial assets units acquired by the Company, and also to certain investments made in the normal course of its business.
- Liquidity risk associated with financial instruments, arising from the lack of availability of the funds necessary for meeting the commitments acquired by the Company at reasonable prices and for continuing with its credit activity.
- Interest rate risk, linked to the likelihood of losses being generated by an adverse trend in market interest rates.
- Operational risk, brought about by losses due to unsuitable or faulty processes, personnel or internal systems, or due to external events.

Considering the type of assets and liabilities of the Company, the exchange rate risk corresponding to potential losses due to the adverse evolution of the prices of assets and liabilities denominated in foreign currency is not significant.

7.3.1 Credit risk

Credit risk is defined as the possibility of loss arising from the total or partial failure of our customers or counterparties to meet their contractual financial obligations, or a deterioration in their creditworthiness. At 31 December 2020 and 2019, 96.06% and 96.31%, respectively, of the loan portfolio as a whole was in default. It is managed by the Risk Management and Control Team according to the policies, methods and procedures approved by the Board of Directors of the Company.

In line with its corporate purpose, the Company's policy centres on managing the portfolios acquired in order to maximise their recoverability through collection or sale. With this, specific procedures are established for the management of credit risk depending on the different characteristics of the financial assets units, according to the definition included in Note 1 above, and of the operations included in each of those categories, based on the:

- Identification, analysis, monitoring of specific risks during the life of the transaction until they disappear.
- Measurement and valuation of those specific risks based on the methods established, which are in line with those used for calculating the transfer price of the financial assets units.
- Recovery management of risk transactions.

With regard to the business of assets for rental and real estate sales, the concentration of customer risk is not relevant and there are no significant deferrals of payment for the purposes of credit risk. Furthermore, in the case of deferred payment, it is Company policy to obtain from the customer the guarantees necessary for ensuring the recoverability of the deferred amounts, either through bank guarantees or conditions precedent or subsequent in the public deeds of transfer.

The Company's exposure to credit risk, at 31 December 2020 and 2019, mainly affects the transactions recorded in the category of financial assets under "Loans and receivables" (see Note 7.1); its carrying amount, including the contingent available amounts of the loans and credits held to date, is the maximum exposure to the credit risk at that date. In this respect, at 31 December 2020 and 2019,

the captions "Long-term financial investments - Loans to third and related parties" and "Short-term financial investments - Loans to companies" account for 90.25% and 90.06%, respectively, of the total financial assets of the Company.

Below is relevant information on the profile of credit risk of the investments included in these captions:

Loans to third parties per segment of industry of the borrower

The breakdown, at 31 December 2020 and 2019, of the "Long-term and short-term financial investments - Loans to third parties" based on the borrower's activities, is as follows:

€ thousand	Total		Of which: property collateral (gross of impairment)		Of which: remaining collateral (gross of impairment)	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Public Administrations	17,962	18,193	1,758	2,857	-	-
Financial institutions	-	-	-	-	-	-
Non-financial companies and individual businessmen	16,691,644	19,297,330	15,773,753	17,753,137	76,535	235,084
Property construction and development	14,727,475	18,131,976	14,234,592	16,985,618	45,286	219,792
Civil engineering work	16,702	1,147	13,228	868	-	-
Other purposes	1,947,466	1,164,207	1,525,932	766,975	31,249	15,292
Major companies	306,383	-	55,196	-	441	-
SMEs and individual businessmen	1,641,083	1,164,207	1,470,737	766,975	30,808	15,292
Other residential properties	131,161	81,197	119,306	74,628	-	-
Capitalised expense (Note 4.6.2)	10,524	10,912	-	-	-	-
Impairment losses on assets	(5,935,806)	(6,322,635)	-	-	-	-
Total	10,915,485	13,084,997	15,894,817	17,830,622	76,535	235,084

Actions for recovery - debt restructuring and refinancing:

Within the scope of measures for recovery carried out by the Company, there were various actions aimed at providing borrowers with the conditions necessary for meeting the contractual obligations established on the basis of the continuity of their business as the main guarantee of compliance.

Those actions comprised, amongst others, transactions for awarding property as collateral or as dation in payment of debts (see Note 5), liquidating guarantees and transactions for debt restructuring and refinancing.

The actions for recovery and, especially in the case of the transactions for debt restructuring and refinancing, were carried out based on objective criteria which took into account both the circumstances common to specific loan and credit portfolios, and the specific circumstances of the borrowers, such as their economic and financial situation, and also the viability of their business. The main criteria governing the analysis and implementation of these actions for recovery is to provide a solution to the existing payment problems and to avoid their deferral, and also to maximise the recoverable value of the assets received.

The debt restructuring and refinancing tools put into operation include modifying the conditions originally arranged with the debtors in respect of maturity periods, interest rates, guarantees provided and, in certain circumstances, remitting or partially reducing the amounts owed. The restructuring or refinancing transactions involve bringing the transaction completely or partially up to date with the payments of the corresponding debts.

In no case has the refinancing of transactions involved any adverse effect on the Company's assets in respect of

the status of the restructured or refinanced transactions nor any deferral of the recognition of possible losses due to the impairment of those transactions in accordance with the circumstances thereof. Therefore, all transactions which, in application of the provisions of the regulatory framework applicable to the Company, should be impaired have been considered as such for the purposes of preparing these annual accounts.

The number and amount of transactions refinanced in 2020 and 2019 is as follows:

2020

	No. transactions	Amount (€ thousand)
Restructured/ Refinanced transactions	524	552,694
Renegotiated/ Renewed operations	-	-
Total	524	552,694

2019

	No. transactions	Amount (€ thousand)
Restructured/ Refinanced transactions	489	623,915
Renegotiated/ Renewed operations	-	-
Total	489	623,915

Geographical distribution of the balance of loans and credits

The geographical distribution, at 31 December 2020 and 2019, of the "Long-term and short-term financial investments - Loans to third parties", and also of "Cash and other cash equivalents" is as follows:

€ thousand	31/12/2020	31/12/2019
Andalusia	1,707,455	1,944,168
Aragon	592,927	772,564
Asturias	261,132	304,295
Balearic Islands	340,847	377,789
Canary Islands	380,046	419,877
Cantabria	366,429	392,946
Castile - La Mancha	468,532	564,067
Castile and Leon	931,377	1,074,979
Catalonia	3,300,984	3,744,590
Extremadura	1,940,967	201,693
Galicia	835,778	1,013,093
Madrid	5,231,644	6,895,822
Murcia	2,265,154	924,682
Navarra	194,149	65,531
Region of Valencia	1,128,962	3,376,430
Basque Country	179,606	202,343
La Rioja	171,264	218,162
Ceuta and Melilla	17,509	18,979
Other non-resident sectors	-	-
- Others – Capitalised expense (Note 4.6.2)	10,524	10,912
- Impairment losses on assets	(5,935,806)	(6,322,635)
Total	14,389,480	16,200,287
Of which: Cash and other cash equivalents	3,473,995	3,115,290
Of which: Long-term and short-term loans to third parties	10,915,485	13,084,997

7.3.2 Liquidity risk

Liquidity risk is defined as the risk of Sareb not having the resources available for being able to pay its debts on their maturity dates.

The Company periodically and specifically establishes the cash requirements by means of preparing a treasury budget over a 12-month time horizon, which will be updated on a recurring basis with the aim of identifying those cash requirements or surpluses in the short term. Furthermore, for managing the liquidity risk, the general financing requirements in the medium and long term are identified, and also how to address them in a way that is consistent with the business projections.

In any case, the liquidity risk is also mitigated by the power that the Company has for renewing the bonds issued in consideration of the assets transferred by the assigning banks upon their maturity (see Note 13.2).

During the first years of life of the Company, the prudent concept has prevailed in managing liquidity, which is intended to be made more versatile. To this end, a procedure has been established for auctioning liquidity between entities to which limits of counterparty risk have been assigned. The auction takes place following the principles established in Sareb of transparency, competition, and maximisation of profitability.

The Board of Directors has also approved a policy for managing the company's liquidity risk which includes regular measuring and monitoring of a series of short-term and of long-term liquidity ratios, and also, where appropriate, implementing contingent measures designed to preserve the Company's liquidity position.

Breakdown of financial investments according to maturity

Following what is mentioned in Note 2.4, the Company considers its financial assets will be recovered in accordance with the schedule of payments contracted, except for those seen to have difficulties - doubtful - (Note 1) which will be recovered in a period in accordance with the updated estimates made by the Company.

Also, under the unilateral option to renew the maturity of the senior debt (Notes 2.4 and 13.2) the Company classifies the probable maturities of that debt according to updated forecasts. The breakdown of the maturities of the Company's financial assets and liabilities at 31 December 2020 and 2019, is as follows:

2020

	€ thousand						Total
	Less than 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	
Assets:							
Cash and other cash equivalents	3,473,996	-	-	-	-	-	3,473,996
Financial investments	1,572,618	2,243,338	1,629,044	1,325,150	952,180	4,260,486	11,982,816
- Loans and credits to third parties	1,093,645	1,693,054	1,590,970	1,325,150	952,180	4,260,486	10,915,485
- Other financial assets	478,974	550,284	38,074	-	-	-	1,067,332
Financial investments with associates	3,167	2,087	6,262	27,283	-	-	38,799
- Loans to companies	3,167	2,087	6,262	27,283	-	-	38,799
Total at 31 December 2020	5,049,781	2,245,425	1,635,306	1,352,433	952,180	4,260,486	15,495,612
Liabilities:							
Long-term and short-term debts	3,005,787	4,066,596	4,507,150	6,834,178	8,608,456	10,651,684	37,673,851
- Debentures and other negotiable securities	2,516,955	3,396,018	4,479,369	6,834,178	8,608,456	10,651,684	36,486,660
- Amounts owed to credit institutions	13,676	-	-	-	-	-	13,676
- Other financial liabilities	6,865	269,058	-	-	-	-	275,923
- Derivatives	468,291	401,520	27,781	-	-	-	897,592
Total at 31 December 2020	3,005,787	4,066,596	4,507,150	6,834,178	8,608,456	10,651,684	37,673,851

2019

	€ thousand						Total
	Less than 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	
Assets:							
Cash and other cash equivalents	3,115,290	-	-	-	-	-	3,115,290
Financial investments	2,008,597	1,878,345	1,875,673	2,295,182	2,199,651	4,575,255	14,832,703
- Loans and credits to third parties	1,344,299	1,304,568	1,398,343	2,262,881	2,199,651	4,575,255	13,084,997
- Other financial assets	664,298	573,777	477,330	32,301	-	-	1,747,706
Financial investments with associates	4,138	2,527	3,670	4,800	9,875	-	25,010
- Loans to companies	4,138	2,527	3,670	4,800	9,875	-	25,010
Total a 31 de diciembre de 2019	5,117,955	1,880,872	1,879,343	2,299,982	2,209,526	4,575,255	17,973,004
Liabilities:							
Long-term and short-term debts	1,589,669	1,603,091	1,777,444	2,366,558	3,440,812	27,661,040	38,438,614
- Debentures and other negotiable securities	1,064,930	916,606	1,408,134	2,346,638	3,440,812	27,661,040	36,838,160
- Amounts owed to credit institutions	15,301	-	-	-	-	-	15,301
- Other financial liabilities	201	242,553	-	-	-	-	242,754
- Derivatives	509,237	443,932	369,310	19,920	-	-	1,342,399
Total at 31 December 2019	1,589,669	1,603,091	1,777,444	2,366,558	3,440,812	27,661,040	38,438,614

The Company's available cash position, at 31 December 2020 and 2019, was €3,473,996 and 3,115,290 thousand, respectively. This liquidity, together with the cash generated from repayments, cancellations and sales of loans and credits, the cash generated from sales of real estate assets and from renting Company equity, lead the Directors to being confident that they will have sufficient resources to meet the cash requirements, mainly motivated by the maturity of the senior bonds and the financial expense accrued. In this respect, it should be pointed out that the Company has the unilateral right to cancel the senior bonds upon their maturity by delivering new senior bonds of similar characteristics, which very significantly reduce the liquidity risk. Furthermore, and if certain circumstances are fulfilled, Sareb has the option of extending the term of the negotiable securities.

7.3.3 Interest rate risk

Structural interest rate risk is defined as being the exposure of the Company to fluctuations in the market interest rates resulting from the varying maturity and repricing dates of assets and liabilities on the balance sheet. Management of the interest rate risk of the balance sheet seeks to keep the Company's exposure within levels in line with its strategy compatible with the Company's Business Plan and risk profile in the face of changes in market interest rates.

As regards assets, internal tools have been developed which make it possible to simulate cash flows and loan interest according to the contractual conditions on the basis of the information provided by the servicers. These tools allow for the inclusion of scenarios of interest rate variations and assess the impact on future interest flows, taking into account the likelihood of the borrower's creditworthiness.

Liability modelling also makes it possible to simulate the flows of issued debt with the market conditions or simulated scenarios and make an assessment of that debt. To mitigate the Company's strong exposure to changes in interest rates, arising from the high sensitivity of the company's liability and the strong insensitivity of the assets in the face of those changes, in 2013, the Company decided to use derivative instruments to hedge around 85% of the expected outstanding amount of the senior debt during a 9-year time horizon (2-year time horizon

at 31 December 2020) with the object of reducing the risk of any increases in interest rates having a significant negative effect on the future income statement. That decision was taken considering that the rates in force at the time of adopting the hedge were compatible with the Company's Business Plan.

Reference interest rates

With regard to the contractual interest rates to which the portfolio of loans and credits acquired is indexed, 88.07% (87.67% at 31 December 2019) of them are indexed to floating interest rates, 11.94% (12.33% at 31 December 2019) of them are indexed to fixed interest rates. Notwithstanding the above, and given that a large part of the portfolio of loans received has the status of non-performing loans, their actual sensitivity to fluctuations in interest rate is very low.

The floating interest rates applied to the above-mentioned amounts are indexed to Euribor at different periods plus the corresponding spread. However, the Company accrues interest income on the basis of the provisions of Note 4.13.

Interest rate hedging derivatives

As stated in Note 13.3, the Company has interest rate hedging contracts in place with various banks which make it possible to fix the interest rate of approximately 85% of the senior bonds that are estimated during the next 3 years, thus eliminating the uncertainty in the income statement and the future cash flows for the coming years that would result from the evolution of the reference interest rates.

The Directors of the Company have quantified the interest rate risk using a probability-based structure such as VaR with a 95% probability of standard deviation and a time horizon of one year. That analysis has concluded that, in 5% of the most extreme scenarios, the average upward fluctuation of 3-month Euribor by 79 b.p. and of the spread to which the company's senior debt is fixed (see Note 13.2) could have a total positive impact of €45 M (89 b.p. with a total negative impact of €17 M in 2019).

8. Inventories

The composition of this caption at 31 December 2020 and 2019, is as follows:

	€ thousand	
	31/12/2020	31/12/2019
Completed buildings	92,364	52,695
Homes	92,364	52,695
Offices, commercial premises and multi-purpose facilities	-	-
Other properties	-	-
Homes - Other than the borrower's main residence	-	-
Buildings under construction	758,331	801,541
Homes	758,331	801,541
Offices, commercial premises and multi-purpose facilities	-	-
Other properties	-	-
Homes - Other than the borrower's main residence	-	-
Advances to suppliers	30,399	52,320
Total	881,094	906,556

Changes in 2020 and 2019 under the caption "Inventories" were as follows:

	€ thousand			
	Completed buildings	Buildings under construction/ Land	Advances to suppliers	Total
Balance at 31 December 2018	19,387	269,052	20,131	308,570
Additions	-	54,029	32,189	86,218
Derecognition	(54,926)	(7,036)	-	(61,962)
Transfers to Property investments (Note 5)	88,234	485,496	-	573,730
Balance at 31 December 2019	52,695	801,541	52,320	906,556
Additions	-	80,748	-	80,748
Derecognition	(74,973)	(11,246)	(21,921)	(108,140)
Transfers	114,642	(114,642)	-	-
Transfers from Property investments (Note 5)	-	1,930	-	1,930
Balance at 31 December 2020	92,364	758,331	30,399	881,094

The most relevant changes produced in 2020 and 2019 under this caption are itemised as follows:

Additions

In 2020 and 2019 the Company incurred expense amounting to €71,383 and 54,029 thousand in building work and in continuing the works in progress. Those amounts were capitalised as the higher value of the inventories at 31 December 2020 and 2019.

Transfers between items

In 2020 the Company transferred €114,642 thousand corresponding to projects where the physical building work is completed to the caption "Completed buildings".

In 2019, the Company created Arqura Homes Bank Assets Fund (see Note 4.6.1) by a contribution to that fund of €776,085 thousand of land and works in progress, both ongoing and halted. Of those properties, €562,998 thousand were classified under the caption "Property investments" as their development is not foreseen. Following the contribution to the fund, and the foreseeable promotion and/or development of the properties, they have been transferred to the caption of Inventories.

Meanwhile, in 2020 and 2019 the Company carried out a detailed analysis of its works in progress with the object of maximising their value. That analysis mainly sought to differentiate those works in progress on which it expects to obtain a higher degree of profitability through building work, development, completion and offering the properties for sale through the retail channel. That analysis involved the Company making transfers from Property investments to Inventories for the amount of €1,930 and 10,732 thousand, respectively, in 2020 and 2019.

Rectifications

In 2020 and 2019 no rectifications were made affecting the caption Inventories.

Other information

At 31 December 2020 and 2019, the entire inventory of the Company is unencumbered and free from security rights.

Furthermore, in 2020 and 2019 no financial expense was capitalised as the higher cost of inventories.

As a standard procedure, practically all the presales are subject to indemnity clauses in the case of delayed delivery as they are concluded in contracts in similar terms. The mentioned clauses on indemnity for delay mainly consist of legal interest on the amounts paid during the period between the delivery date scheduled in the contract and the actual delivery date. The Company does not estimate any impact for this reason mainly due to the fact that the delivery date scheduled in the contracts allows for a safety margin of a certain number of months in respect of the anticipated delivery date. For this reason and due to the low number of transactions of this kind in 2020 and 2019, the Company has not considered any impact in the annual accounts of 2020 and 2019 for this item. Generally speaking, presales include indemnities in favour of the Company in the event of cancellation by the customer, although no amount is recorded for this item until contracts are actually terminated for causes not attributable to the Company.

The procedure followed by the Company in relation to guarantees or bank guarantees covering the advance payments received from customers anticipates that all advance payments received from customers are guaranteed. The total of advance payments received from customers as reservation deposits at 31 December 2020 was €25,646 thousand (€17,335 thousand at 31 December 2019).

The Directors of the Company consider that the carrying amount of the balances included in this caption of the balance sheet approximates at least to the fair value (see Note 5).

9. Trade and other accounts receivable

The breakdown of this caption, at 31 December 2020 and 2019, is as follows:

	31/12/2020	31/12/2019
Customer receivables from sales	230,717	249,323
Sundry debtors	15,387	13,574
Doubtful debts	72,074	59,487
Provision for insolvency	(68,400)	(59,487)
Staff	12	12
Current tax assets (Note 15.1)	17,837	5,104
Other receivables from the Public Administrations (Note 15.1)	9,831	12,267
Total	277,458	280,280

The amount recorded by the Company under the caption "Customer receivables from sales" includes the amount still to be received, mainly from real estate sales and income from leases handled by the Company in 2020 and 2019. This caption includes the amount still to be received arising from the sale of 75% of the shareholding in the Company *Témpore Socimi, S.A.* for the amount of €97,901 thousand (see Note 7.2.1). That amount has been deferred until 5 August 2022, accruing an annual interest rate of 1.5% and is guaranteed by a leading bank.

The amounts classified as doubtful debts and not yet provisioned at 31 December 2020 correspond entirely to outstanding rental payments that are less than 12 months old; this is the milestone used by the Company for provisioning them in full.

Changes in the provision for insolvency in 2020 were as follows:

2020

	31/12/2019	Provisions	Applications	31/12/2020
Provision for insolvency	(59,487)	(15,816)	6,903	(68,400)

2019

	31/12/2018	Provisions	Applications	31/12/2019
Provisión por insolvencias	(63,047)	(8,367)	11,927	(59,487)

Applications during 2020 and 2019 correspond mainly to the failure to receive any balances that the Company considers to be unrecoverable, given the credit situation of the debtor and the amount still to be received. It corresponds entirely to balances coming from rental contracts which the Company took over when it acquired the properties in question.

It is Company policy to require guarantees for deferred payments, whether guarantees payable on first demand or guarantors with proven solvency.

The Directors of the Company consider that the carrying amount of trade and other accounts receivable approximates to its fair value.

10. Cash and other cash equivalents

The caption "Cash and other cash equivalents" includes cash and short-term bank deposits with an initial maturity of three months or less.

The breakdown of those assets, at 31 December 2020 and 2019, is as follows:

	31/12/2020	31/12/2019
Otros activos líquidos equivalentes	401.528	561.302
Bancos	3.072.468	2.553.988
Total	3.473.996	3.115.290

The amount recorded, at 31 December 2020 and 2019, under the caption "Other cash equivalents" corresponds to various fixed-term deposits taken out by the Company for the amount of €401,528 and 561,302 thousand, respectively, with different banks. While the initial maturity of those deposits is usually set for more than three months, the Company has decided to classify it under that caption as it can opt to repay them in advance with no cancellation charge.

In 2020 and 2019, the Company recorded €71 and 18 thousand, respectively, as interest from those investments, and also the money deposited in current accounts (see Note 16.6). Furthermore, in 2020 and 2019, the Company obtained negative remuneration on various deposits and current accounts. That negative remuneration amounted to €7,158 and 5,931 thousand, recognised under the caption "Other financial expense" on the accompanying income statement (see Note 16.5).

At 31 December 2020, there are no restrictions on the use of cash and other cash equivalents, nor did they exist at 31 December 2019, except for an amount equivalent to 8% of the cash generated by the Company.

At 31 December 2020 and 2019, that amount stood at €16,100 and 169,100 thousand, respectively, and will be used for repaying the senior debt as set out in the contracts related to the issue of the Company's financing (see Note 13).

11. Equity

11.1 Share capital

At 31 December 2020 and 2019, the Company's share capital is represented by 2,170,440,000 shares, with a nominal value of €0.14 each one, fully subscribed and paid up. These shares all have the same voting and monetary rights.

Below is a list of shareholders having a shareholding equal or greater than 2.5% of the share capital at 31 December 2020 and 2019:

	Holding %	Share capital	Issue premium
Fund for Orderly Bank Restructuring (FROB)	45,90%	139,472	-
Banco Santander, S.A.	22,21%	67,499	-
CaixaBank, S.A.	12,24%	37,181	-
Banco de Sabadell, S.A.	6,61%	20,097	-
Kutxabank, S.A.	2,53%	7,698	-
Other shareholders	10,50%	31,915	-
Total	100%	303,862	-

The Company has no knowledge of any other shareholdings of 3% or more in the Share capital or in the voting rights of the Company, or of any which, while lower than the percentage established, allow it to exercise a notable influence over the Company.

11.2 Legal reserve

The legal reserve is restricted in its use, which is determined by different legal provisions. According to article 274 of the Capital Companies Act trading companies incorporated under that legal form are obliged, if they make profits, to transfer 10% of those profits to a reserve until such reserve reaches one fifth of the subscribed share capital. The purposes for which the legal reserve may be used are to offset losses, or to increase capital, in respect of the portion of the reserve that exceeds 10% of the increased capital, or to be distributed to shareholders in the event of liquidation.

At 31 December 2020 and 2019, the balance of the legal reserve was €19,174 thousand.

As established under article 326 of the Capital Companies Act, once the share capital has been reduced, the legal reserve will have to be funded so that it is again equivalent to 10% of the new capital.

11.3 Other reserves and profit/ (loss) from previous years

The composition of this caption at 31 December 2020 and 2019 is as follows:

€ thousand	31/12/2020	31/12/2019
Loss from previous years	(3,052,961)	(2,105,715)
Total Loss from previous years	(3,052,961)	(2,105,715)
Voluntary reserves for application of RDL 4/2016	2,330,270	2,330,270
Restricted reserve(*)	629,428	629,428
Total Other reserves	2,959,698	2,959,698

(*) This restricted voluntary reserve, as established in article 335.c) of the Spanish Capital Companies Act, will only be available with the same requirements as for the reduction of share capital.

11.4 Value change adjustments

This caption on the accompanying balance sheet includes the amount, net of taxes, of changes in the value of financial derivatives designated as cash flow hedging instruments (see Note 13.3) and the amount, net of taxes, arising from the impairment existing in the Financial Assets and Real Estate Assets units, in application of the provisions of RDL 4/2016 (see Notes 4.7 and 7.1.1.).

The changes in the balance for this caption in 2020 and 2019 are as follows:

2020

	€ thousand				
	Opening balance	Reductions for derecognition of tax credits	Reduction for impairment	Increases / Decreases	Closing balance
Measurement of derivatives	(922,322)	-	-	355,647	(566,675)
Impairment of Financial Assets unit (*)	(6,322,635)	-	-	(1,549,136)	(7,871,771)
Impairment of Real Estate Assets	(496,378)	-	-	(750,600)	(1,246,978)
Unit	(7,741,335)	-	-	(1,944,089)	(9,685,424)

(*) At 31 December 2020, that amount includes €1,936 M associated to the impairment of the portfolio of real estate assets awarded or received as payment of debt. In 2020 the Company reclassified that amount to the caption Property investments (see Notes 4.7.2, 5 and 7)).

2019

	€ thousand				
	Opening balance	Reductions for derecognition of tax credits	Reduction for impairment	Increases / Decreases	Closing balance
Measurement of derivatives	(1,221,223)	-	-	298,901	(922,322)
Impairment of Financial Assets unit	(5,091,686)	-	(1,230,949)	-	(6,322,635)
Impairment of Real Estate Assets	-	-	(496,378)	-	(496,378)
Unit	(6,312,909)	-	(1,727,327)	298,901	(7,741,335)

The equity value adjustments are as follows:

	€ thousand	
	31/12/2020	31/12/2019
Interest rate derivatives (Note 13.3)	(897,592)	(1,342,399)
Ineffective derivatives	142,026	112,636
Tax effect	188,892	307,441
Value change adjustments – Hedging operations (net of taxes)	(566,675)	(922,322)
Impairment Financial Assets unit (see Note 7.1.1)	(7,871,771)	(6,322,635)
Impairment Real Estate Assets unit (see Note 5)	(1,246,978)	(496,378)
Tax effect recognised	-	-
Decapitalisation tax credits from previous years	-	-
Value change adjustments – Impairment of Financial and Real Estate Assets Unit (net of taxes)	(9,118,749)	(6,819,013)
Total value change adjustments	(9,685,424)	(7,741,335)

11.5 Equity position of the Company

The equity accountable for the purposes of the mentioned articles 327 and 363.1 e) of the Consolidated Text of the Capital Companies Act is as itemised below:

	€ thousand
Equity in the annual accounts of Sareb, S.A. at 31/12/2020	(10,528,692)
Less:	
Value change adjustments for cash flow hedges	566,675
Value change adjustments for impairment of Financial Assets	7,871,771
Value change adjustments for impairment of Real Estate Assets	1,246,978
Equity for the purposes of reduction and dissolution 31/12/2020	(843,268)

It should be mentioned that under prevailing accounting legislation, any changes in the value of hedging derivatives are recognised in equity until they are allocated to profit or loss in the corresponding year. The total fair value of this interest rate risk derivative, net of its tax effect, is recognised under the caption "Value change adjustments

– Hedging operations" (see Note 13.3). However, from a business perspective and according to the provisions of article 36 of the Code of Commerce, these value changes in the hedging derivative yet to be allocated to the income statement are not considered as equity for the purposes of profit distribution, mandatory reduction of share capital and mandatory dissolution for losses.

In turn, as established by article 2 of RDL 4/2016 the Company has recorded the value adjustments of the units of assets established in Circular 5/2015 allocating them to the captions "Value change adjustments – Impairment of financial assets" and "Value change adjustments – Impairment of real estate assets" net of taxes. As established in that RDL the adjustments referred to above will not be considered as equity for the purposes of profit distribution, compulsory reduction of share capital and compulsory dissolution for losses.

Lastly, it should be pointed out that on 11 March 2020 Royal Decree-Law 6/2020 was published which, in article 1 amends sub-section 3 of the seventh additional provision of Act 9/2012. That amendment establishes that, given the particular features of the Company, it will not be subject to the provisions of articles 348 bis and 363.1 e) of the Capital Companies Act (see Note 2.4).

12. Provisions and contingencies

This caption of the balance sheet, at 31 December 2020 and 2019, includes the long-term provisions set up by Sareb with the object of covering certain liabilities, and also to cover other responsibilities undertaken by Sareb in the ordinary course of its business, which are reasonably covered. The changes that took place under this chapter of the balance sheet in 2020 and 2019 are shown below:

€ thousand		
	2020	2019
Opening balance for the year	3,662	7,862
Provisions	1,423	1,353
(Reversal)	(268)	(5,553)
Transfers and other changes	-	-
Closing balance for the year	4,817	3,662

The Company is party, as defendant, to certain lawsuits due to the responsibilities inherent to the business it is engaged in. The litigation for which it made provision in 2020 and 2019 are for amounts of little relevance if considered individually, and there are no others of any particular relevance. In this respect, Sareb makes provision for any likely risks arising from litigation according to the assessment made by its legal advisors.

13. Breakdown of financial liabilities

Below is the breakdown of financial liabilities assumed by Sareb at 31 December 2020 and 2019, classified according to the breakdown required under applicable legislation:

2020

Classes Categories	€ thousand						Total
	Long-term financial instruments			Short-term financial instruments			
	Amounts owed to credit institutions	Debentures and other negotiable securities	Derivatives and others	Amounts owed to credit institutions	Debentures and other negotiable securities	Derivatives and others	
Debits and items payable	-	33,969,705	269,058	13,676	2,516,955	6,865	36,776,259
Hedging derivatives	-	-	897,592	-	-	-	897,592
Total	-	33,969,705	1,166,650	13,676	2,516,955	6,865	37,673,851

2019

Categories	€ thousand						Total
	Long-term financial instruments			Short-term financial instruments			
	Amounts owed to credit institutions	Debentures and other negotiable securities	Derivatives and others	Amounts owed to credit institutions	Debentures and other negotiable securities	Derivatives and others	
Debits and items payable	-	35,773,230	242,552	15,301	1,064,930	201	37,096,214
Hedging derivatives	-	-	1,342,399	-	-	-	1,342,399
Total	-	35,773,230	1,584,951	15,301	1,064,930	201	38,438,613

13.1 Amounts owed to credit institutions

At 31 December 2020 and 2019, the Company has recognised the amounts of €13,676 and 15,301 thousand, respectively, under the caption "Amounts owed to credit institutions" as "Accrued interest pending payment" on the hedging derivatives subscribed in 2013 (see Note 13.3).

13.2 Debentures and other long-term and short-term negotiable securities

The composition of the caption "Long-term debts - Debentures and other negotiable securities" and "Short-term debts - Debentures and other negotiable securities" at 31 December 2020 and 2019 is shown below:

€ thousand	31/12/2020		31/12/2019	
	Non-current	Current	Non-current	Current
Negotiable securities- Senior debt	33,969,705	1,087,395	34,343,670	1,064,930
Negotiable securities- Subordinated debt	-	1,429,560	1,429,560	-
Accrued interest pending payment	-	-	-	-
Total	33,969,705	2,516,955	35,773,230	1,064,930

Negotiable securities- Senior debt

The breakdown of the balances included under the caption "Negotiable securities- Senior debt" in the previous table at 31 December 2020 and 2019 is as follows:

31 December 2020

Denomination	Issue date	Contractual maturity date	Applicable rate in force	€ thousand
SAREB/VAR BO 20211231 2020-2	31/12/2020	31/12/2021	3M Eur – 0.060%	10,260,300
SAREB/VAR BO 20211231 2018-4	31/12/2018	31/12/2021	3M Eur + 0.050%	1,353,000
SAREB/VAR BO 20211231 2020-1	28/02/2020	28/02/2021	3M Eur – 0.040%	4,064,100
SAREB/VAR BO 20210228 2019-2	28/02/2019	28/02/2021	3M Eur + 0.060%	5,414,000
Total short-term contractual maturities				21,091,400
SAREB/VAR BO 20221231 2020-3	31/12/2020	31/12/2022	3M Eur – 0.030%	13,542,600
SAREB/VAR BO 20220228 2019-3	28/02/2019	28/02/2022	3M Eur + 0.090%	423,100
Total long-term contractual maturities				13,965,700
Total				35,057,100

31 December 2019

Denomination	Issue date	Contractual maturity date	Applicable rate in force	€ thousand
SAREB/VAR BO 20201231 2019-4	31/12/2019	31/12/2020	3M Eur – 0.070%	10,262,300
SAREB/VAR BO 20201231 2018-3	31/12/2018	31/12/2020	3M Eur + 0.030%	13,553,500
SAREB/VAR BO 20200228 2019-1	28/02/2019	28/02/2020	3M Eur – 0.010%	4,064,100
Total short-term contractual maturities				27,879,900
SAREB/VAR BO 20211231 2018-4	31/12/2018	31/12/2021	3M Eur + 0.050%	1,387,600
SAREB/VAR BO 20210228 2019-2	28/02/2019	28/02/2021	3M Eur + 0.060%	5,463,700
SAREB/VAR BO 20220228 2019-3	28/02/2019	28/02/2022	3M Eur + 0.090%	677,400
Total long-term contractual maturities				7,528,700
Total				35,408,600

The total amount of negotiable securities, at 31 December 2020 and 2019, is represented by book entries. In addition, they have an irrevocable and unconditional guarantee from the Central Administration, waiving the benefit of excussion.

Sareb has the unilateral option to renew the above-mentioned issues of senior debt upon maturity although at the time of the transaction there were no significant differences between their fair value and nominal value.

That unilateral option, and also its business forecasts and the experience acquired since it was set up, allows the Company to consider that the mentioned short-term contractual maturities will materialise in the long term for an approximate amount of €20,004,005 and 26,808,370 thousand, respectively.

The interest rates accruing on those bonds are established as 3-month Euribor plus a spread. That spread is the same during the whole life of the issue.

2020

Amortisation of bonds in 2020

The summary of the amortisations of senior debt made by the Company in 2020 is as follows:

Denomination	Amortisation in cash	Amortisation Escrow Account (Note 10)	Amortisation by rectification (Note 1)	Amortisation through new issue	Total
SAREB/VAR BO 20201231 2019-4	-	-	2,000	10,260,300	10,262,300
SAREB/VAR BO 20201231 2018-3	-	7,900	3,000	13,542,600	13,553,500
SAREB/VAR BO 20211231 2018-4	-	33,000	1,600	-	34,600
SAREB/VAR BO 20200228 2019-1	-	-	-	4,064,100	4,064,100
SAREB/VAR BO 20210228 2019-2	49,700	-	-	-	49,700
SAREB/VAR BO 20220228 2019-3	243,600	10,700	-	-	254,300
Total	293,300	51,600	6,600	27,867,000	28,218,500

Rectification of deeds for asset purchases

As stated in Note 1, in 2020 the Company amortised €6,600 thousand in bonds, on the basis of the rectifications concluded during that year:

€ thousand	Banco de Valencia, S.A.	Total
SAREB/VAR BO 20201231 2019-4	2,000	2,000
SAREB/VAR BO 20201231 2018-3	3,000	3,000
SAREB/VAR BO 20211231 2018-4	1,600	1,600
Total	6,600	6,600

2019

Amortisation of bonds in 2019

The summary of the amortisations of senior debt made by the Company in 2019 is as follows:

Denomination	Amortisation in cash	Amortisation Escrow Account (Note 10)	Amortisation by rectification (Note 1)	Amortisation through new issue	Total
SAREB/VAR BO 20190228 2017-2	85,700	-	-	5,471,900	5,557,600
SAREB/VAR BO 20190228 2016-2	419,200	-	-	706,600	1,125,800
SAREB/VAR BO 20201231 2018-3	70,000	23,400	-	-	93,400
SAREB/VAR BO 20211231 2018-4	291,700	97,500	-	-	389,200
SAREB/VAR BO 20210228 2019-2	-	8,200	-	-	8,200
SAREB/VAR BO 20220228 2019-3	-	29,200	-	-	29,200
SAREB/VAR BO 20191231 2018-2	-	-	300	10,262,300	10,262,600
SAREB/VAR BO 20201231 2018-3	-	-	500	-	500
SAREB/VAR BO 20211231 2018-4	-	-	300	-	300
SAREB/VAR BO 20190228 2018-1	-	-	-	4,064,100	4,064,100
Total	866,600	158,300	1,100	20,504,900	21,530,900

Rectification of deeds for asset purchases

As stated in Note 1, in 2019 the Company amortised €1,100 thousand in bonds, on the basis of the rectifications concluded during that year:

€ thousand	Bankia, S.A.	Total
SAREB/VAR BO 20191231 2018-2	300	300
SAREB/VAR BO 20201231 2018-3	500	500
SAREB/VAR BO 20211231 2018-4	300	300
Total	1,100	1,100

Other information

In 2020, with the current situation of interest rates, and the existence of a 0% floor, no interest has accrued on those negotiable securities. In 2019 the Company accrued €280 thousand for that item, which is recognised under the caption "Financial expense – For debts with third parties" on the accompanying income statement (see Note 16.5). At 31 December 2019, accrued interest pending payment was €1 thousand and was recognised under the caption "Short-term debts - Debentures and negotiable securities" on the accompanying balance sheet. At the date of preparing these annual accounts that interest has been paid in full.

At 31 December 2020 and 2019, the senior negotiable securities issued by the Company are listed and admitted for trading.

The Directors consider that the carrying amount of the negotiable securities approximates to their fair value.

Negotiable securities - Subordinated debt

The breakdown of the balances included under the caption "Negotiable securities - Subordinated debt" in the previous table, at 31 December 2020 and 2019, is as follows:

31 December 2020 and 2019

	Issue date	Maturity date	Applicable rate in force	€ thousand
SAREB/8,00 OBSUBDCONV 20271127 2013	26/02/2013	27/11/2027	8,00%	1,429,560
Total				1,429,560

At 31 December 2020 and 2019 the distribution of the holders of subordinated debt is similar to the structure for the distribution of the Company's share capital at 31 December 2020 and 2019. In this respect, in line with the content of Note 2.4, after putting into effect the proposals for capital reduction to offset losses and capital increase through the capitalisation of subordinated debt, the Company's shareholding structure will remain in the same percentages as described in Note 11.

The principal conditions of the unsecured subordinated debentures which are occasionally convertible is itemised below:

- All the securities belong to a single series, have the same terms and conditions and therefore grant the same rights to their holders. They can be freely transferred and are represented by book entries and have been registered in the accounts ledgers kept by Iberclear and its authorised participants.
- The interest rate accruing on those bonds is fixed and will be due on an annual basis provided that profits have been obtained as established and sufficient reserves are available. For this reason, in 2019 and 2018 the Company has no coupons due or paid for

this item due to the difficulty of estimating future distributable cash flows.

- Total amortisation: compulsory on 27 November 2027.
- Partial amortisation: This is possible at the Company's discretion after the fifth year since issue, according to the existing solvency and leverage ratios.
- Conversion: The subordinated debt can be converted to capital in case of insufficient company equity in the event of: i) cumulative losses equal to or more than the share capital plus the reserves of the Company or (ii) if there are grounds for dissolution due to the fact that the losses have reduced the equity of the Company to an amount less than half of its share capital. That conversion should take place provided that there are audited annual accounts of the Company corresponding to a year in which insufficient equity is present. If conversion takes place, the shares will have the same nominal value, be of the same class and series, and will have the same rights as the ordinary shares outstanding and the share capital after conversion will be an amount equal to a maximum of 2% of the Company's assets (not taking impairment into consideration). In 2016, after approval from the

Shareholders General Meeting held on 5 May 2016, the Board of Directors approved the conversion of €2,170,440 thousand to share capital of the Company, by issuing 2,170,440 thousand shares each with a nominal value of €1. Following that conversion the balance of the subordinated debt was €1,429,560 thousand. At 31 December 2020, and in view of the Company's equity position, it has recognised the entire amount of the remaining balance of subordinated debt under current liabilities, as conversion is predicted to be formalised in 2021 (see Note 2.4).

- Rank: the convertible subordinated debentures are placed, in terms of credit priority:
 - Behind all other common creditors (senior) of the Company;
 - Pari passu with any subordinated, simple or convertible debt of the Company, issued or to be issued in the future, or that has been incurred or may be incurred in the future under any other title.
 - Ahead of the Company's ordinary or preference shares.

13.3 Derivatives

At 31 December 2020 and 2019, the main source of Sareb's financing came from debentures and negotiable securities issued in 2013 and 2012, or, where appropriate, renewed upon maturity, for the intention of the acquisition of the real estate and credit assets described in Note 1, which are indexed to floating interest rates. Due to the high volume of the transaction and in order to reduce the high exposure and the consequent risk for the Company to a possible rise in the interest rate, on 2 August 2013 the Company contracted an interest rate swap that enabled it to cover this risk for an initial notional amount of €42,221 M, which will be gradually reduced upon the maturity of each of the senior bonds hedged in future years, and establishing the debt at fixed interest rates within a range of between 0.491% and 3.145% per year. This operation is not for speculation purposes but for a cash flow hedge and, in reality, it involved converting part of the Company's borrowing during the period covered into borrowing at a fixed interest rate rather than the floating interest rate of the bonds issued.

The cash flow hedging was made in the context of time and market in which the interest rates were compatible with those contemplated in the Company's Business Plan, whereby under this operation a substantial part of it could be assured, reducing the risk that an increase in interest rates could jeopardise the Plan in question and the viability of the Company. In exchange, the operation meant waiving any possible benefits arising from a decrease in the reference interest rates for the portion and the period of time hedged.

The measures for easing monetary policy adopted by the European Central Bank since the end of 2013 have contributed to a gradual decrease in the interest rates which currently stand at historic minimums. That evolution has been transferred to the measurement of the hedging derivative contracted by the Company.

The market value of the interest rate derivatives (swaps) is obtained as the sum of the present value of all cash flows according to the contractual conditions and interest rates quoted on the market. The interest rates used for the future estimation of floating interest rates are obtained from instruments listed in financial markets and indexed to the EURIBOR 3M index. The discount interest rates used for updating cash flows are obtained from instruments listed in financial markets and indexed to the EONIA index.

The balance of the caption "Long-term debts – Derivatives" on the liability side of the balance at 31 December 2020 and 2019 corresponds entirely to the fair value of the mentioned interest rate risk hedging derivative taken out with various banks. The fair value of this derivative, obtained by applying generally accepted measurement methods based on observable market-based inputs, at 31 December 2020 and 2019, is €897,592 and 1,342,399 thousand, respectively (see Note 11.4).

The breakdown of the amount of the notional value and fair value of these operations, in relation to the time periods in which the cash flows are expected to arise, and the years in which they are expected to have any effect on the income statement, is as follows (€ thousand):

INTEREST RATE SWAPS	Range Fixed Rates	Maturity	2021	2022	2023	Totals
Notional			14,009,000	11,397,000	2,967,000	28,373,000
Fair value	2,71%-3,16%	2021-2023	(468,291)	(401,520)	(27,781)	(897,592)

The Company estimates that the effect of a 1 basis point increase in reference interest rates on the market value of those derivatives would have a positive impact of €2,830 thousand on the Company's equity. The estimated impact of a downward variation of 1 basis point in the reference interest rates would have a negative impact of a similar figure. That effect was also calculated at the end of 2019, when a positive impact of €4,077 thousand on the Company's equity was calculated and with a similar negative effect in the case of a downward variation.

Under accounting legislation in force, any changes in the value of hedging derivatives are recognised in the Company equity until they are allocated to profit or loss in the corresponding subsequent years. As set out in Note 4, in 2020 and 2019, the derivatives that hedge bonds issued over one year and part of the bonds issued over two years have maintained their effectiveness within the thresholds required under the Accounting and Measurement Rule 9. 6, but due to the downward trend in interest rates to which the hedged risks are indexed and to Sareb's application in 2020 and 2019 of a "floor" which stipulated that the interest rate could in no event go lower than 0%, it has lost part of that effectiveness. In consequence, the Company has recognised an amount of €29,390 and 30,674 thousand, respectively, of greater financial expense, resulting from the measurement of those hedging instruments under the caption "Financial expense" on the accompanying income statement (see Note 16.5).

The rest of the value of the derivatives, net of taxes, is recorded under the caption "Value change adjustments" for the amount of €566,675 and 922,322 thousand,

respectively, at 31 December 2020 and 2019. This effect, together with the impairment of the financial assets and the real estate assets units, places the Company in negative equity. However, from a business point of view, and according to the provisions of article 36 of the Code of Commerce on the distribution of profits, the mandatory reduction of share capital and mandatory dissolution for losses, these changes in the value of the hedging derivative yet to be charged to the income statement are not considered as equity.

Similarly, the amount that has been taken to the income statement from equity, at 31 December 2020 and 2019, was €539,179 and 576,322 thousand, respectively, recognised under the caption "Financial expense – For debts with third parties" (see Note 16.5).

The credit risk associated to derivative transactions is minimised through contractual arrangements for exchanging collateral and by other types of guarantee which depend on the nature and type of counterparty, according to the rules of the "International Swaps and Derivatives Association" (ISDA).

At 31 December 2020 and 2019, for the purpose of ensuring compliance with the terms of the derivatives contracts mentioned, Sareb had set up monetary guarantees in the name of the counterparties of the derivatives contracted which at that date showed a negative value for the Company, in the amount of €796,200 and 1,266,500 thousand, respectively; these are recognised under the caption "Long-term financial investments - Other financial assets" of the balance sheet, and also deposits in the balancing entries for a total amount of €217,500 thousand in both years (see Note 7.1.2).

13.4 Other non-current financial liabilities

The breakdown of this caption on the balance sheet at 31 December 2020 and 2019 is as follows:

	€ thousand	
	31/12/2020	31/12/2019
Fair value of the Íbero bonds	186,068	235,642
Discount effect on Íbero bonds	-	-
Total nominal amount of Íbero bonds	186,068	235,642
Advance FAB Arqura Homes (see Note 4.6.1 and 8)	75,274	-
Guarantees from lessees and Others	7,716	6,910
Total	269,058	242,552

In accordance with the provisions of Accounting and Measurement Rule 9, 5.6 of the General Chart of Accounts, the Company has measured the fair value of the bonds mentioned in Note 1 in relation to the Íbero Project. To calculate that update, the weighted average cost of the Company's debt was taken into consideration (see Note 13.1). In 2020, and with the evolution of interest rates, the Company concluded that the fair value of those guarantees coincides with their nominal value.

At 31 December 2019, and with the maturity under the "Íbero" contract of the portfolio managed by Haya Real Estate, S.A.U., the Company regularised as income the bond posted by that Servicer and which foreseeably will not be returned, with a charge against the fees due and pending payment at that date. The amount of that guarantee was €36,117 thousand, which were recognised under the caption "Other operating income" on the accompanying income statement.

The Directors estimate that the fair value of the caption "Other non-current financial liabilities" does not differ from its carrying amount.

14. Trade and other accounts payable

The breakdown of this caption of the balance sheet at 31 December 2020 and 2019 is shown below:

	€ thousand	
	31/12/2020	31/12/2019
Suppliers	38,631	79,611
Suppliers, invoices pending receipt	288,961	351,047
Staff	7	4,628
Current tax liabilities (Note 15.1)	-	-
Other payables to the Public Administrations (Note 15.1)	73,546	75,634
Customer advances	28,108	19,506
Total	429,253	530,426

The caption "Trade and other accounts payable" mainly includes the amounts pending payment for trade purchases and related expense, and the amounts of payments on account from customers received prior to the recognition of the sale of the properties or land.

At 31 December 2020, the caption "Suppliers, invoices pending receipt" includes amounts of

€42,140 and 73,231 thousand (€50,010 and 65,431 thousand at 31 December 2019) for expenses arising from management fees and sales commissions, respectively, and €173,187 thousand (€235,606 thousand at 31 December 2019) for general and maintenance expenses of the assets managed by the Company, for which the Company has not received the corresponding invoices.

At 31 December 2020 and 2019, the caption "Customer advances" mainly includes the amounts received in advance on account of future transfers of certain properties included under the captions Property investments and Inventories (see Notes 5 and 8).

The Directors consider that the carrying amount of trade payables approximates to their fair value.

Information on deferral of payments made to suppliers. Third Additional Provision. "Duty to provide information" under Act 15/2010, of 5 July

In accordance with the provisions of the Second Final Provision of Act 31/2014, of 3 December, in amendment of the Third Additional Provision of Act 15/2010, of 5 July, modifying Act 3/2004, of 29 December, which established measures to combat late payment in commercial transactions, and in relation to the information to be included in the Report accompanying the annual accounts on the deferral of payments to suppliers in trade transactions calculated on the basis of the provisions of Resolution of 29 January 2016 of the Institute of Accounting and Account Audits, the breakdown of the average period for payments made by the Company to suppliers in 2020 and 2019 is as follows:

	Year 2020	Year 2019
Average payment period to suppliers	33	35
Ratio of transactions paid	30	32
Ratio of transactions pending payment	89	54
	€ thousand	
Total payments made	681,255	481,064
Total payments outstanding	38,631	79,611

15. Public Administrations and tax position

15.1 Current balances receivable from and payable to Public Administrations

The composition of the current balances receivable from and payable to Public Administrations at 31 December 2020 and 2019 is as follows:

31 December 2020

	€ thousand			
	Assets		Liabilities	
	Non-current	Current	Non-current	Current
Tax Authority deferred VAT	-	468	-	-
Tax Authority VAT/IGIC receivable	-	9,363	-	-
Deferred tax assets	203,470	-	-	-
Provision for taxes	-	-	-	25,754
Tax Authority VAT/IGIC payable	-	-	-	41,623
Tax Authority Personal Income Tax payable	-	-	-	4,770
Tax Authority IGIC payable	-	-	-	176
Tax Authority VAT Ceuta and Melilla payable	-	-	-	658
Social Security payable	-	-	-	565
Corporate Income Tax	-	17,837	-	-
Tax Authority payable/receivable for other tax items	-	-	-	-
Total	203,470	27,668	-	73,546

31 December 2019

	€ thousand			
	Assets		Liabilities	
	Non-current	Current	Non-current	Current
Tax Authority deferred VAT	-	457	-	-
Tax Authority VAT/IGIC receivable	-	11,810	-	-
Deferred tax assets	323,821	-	-	-
Provision for taxes	-	-	-	33,799
Tax Authority VAT/IGIC payable	-	-	-	36,782
Tax Authority Personal Income Tax payable	-	-	-	2,932
Tax Authority IGIC payable	-	-	-	897
Tax Authority VAT Ceuta and Melilla payable	-	-	-	658
Social Security payable	-	-	-	566
Corporate Income Tax	-	5,104	-	-
Tax Authority payable/receivable for other tax items	-	-	-	-
Total	323,821	17,371	-	75,634

The balances corresponding to provisions for taxes correspond to the provision made for non-deductible VAT related to the provision for invoices to be received (see Note 14) at the end of 2020 and 2019.

15.2 Reconciliation of accounting profit/(loss) and tax base

The reconciliation of accounting profit/(loss) and the tax base for the tax in question, is as follows:

2020

	€ thousand				Total
	Income statement		Income and expense recognised directly in equity		
	Increases	Decreases	Increases	Decreases	
Balances of net income and expense for the period. Profit / (Loss)		(1,073,041)		(1,944,089)	(3,017,130)
Corporate Income Tax	1,101	-	118,549	-	119,650
Permanent differences	1,550	(29,986)	-	-	(28,436)
Temporary differences					
- Originating in the period	4,620	-	1,825,540	-	1,830,160
- Originating in previous periods	-	(11,856)	-	-	(11,856)
Tax base (taxable profit/(loss))	7,271	(1,114,883)	1,944,089	(1,944,089)	(1,107,612)

2019

	€ thousand				Total
	Income statement		Income and expense recognised directly in equity		
Balances of net income and expense for the period. Profit / (Loss)		(947,246)		(1,428,425)	(2,375,671)
	Increases	Decreases	Increases	Decreases	
Corporate Income Tax	82,999	-	99,634	-	182,633
Permanent differences	5,010	(31,512)	-	-	(26,502)
Temporary differences					
- Originating in the period	6,487	-	1,328,791	-	753,132
- Originating in previous periods	-	(14,435)	-	-	(14,435)
Tax base (taxable profit/(loss))	94,496	(993,193)	1,428,425	(1,428,425)	(898,697)

At 31 December 2020 and 2019, the main temporary differences arise from charges to provisions and amortisations, amongst others. For its part, the permanent differences originate in surcharges, penalties, the outcomes contributed by the FABs (see Note 4.7) and exemptions for income resulting from the transfer of certain properties.

The above tables are shown in accordance with the format required by the General Chart of Accounts of 2007. The amounts included under the caption "Income and expense recognised directly in equity" correspond to accounting adjustments not reflected in the tax base for the tax and, therefore are not effectively included in the tax base for Corporate Income Tax for the year.

The relevant tax effects recognised directly in equity at 31 December 2020 and 2019 correspond to the financial derivatives designated as hedging instruments for the amount of €355,647 and 307,441 thousand, respectively, and also the impairment of the Financial Asset and Real Estate Asset portfolios (see Note 11.4).

Shown below is the reconciliation between the expense for Corporate Income Tax booked by Sareb and the result of multiplying the applicable rate for Corporate Income Tax by the total income and expense recognised, before taxes, corresponding to 2020 and 2019:

2020

	(Income) / Expense (€ thousand)		
	Income statement	Amounts recognised directly in equity	Total recognised income and expense
Profit / (Loss) before taxes	(1,071,940)	(1,825,540)	(2,897,480)
Permanent differences	(28,436)	-	(28,436)
Total	(1,100,376)	(1,825,540)	(2,925,916)
Corporate Income Tax rate	25%	25%	25%
Total	(275,094)	(456,385)	(731,479)

Continue

	(Income) / Expense (€ thousand)		
	Income statement	Amounts recognised directly in equity	Total recognised income and expense
Deductions and credits	(845)	-	(845)
(Profit) / Loss arising from Corporate Income Tax	(275,939)	(456,385)	(732,324)
Adjustment for Corporate Income Tax previous year	6	-	6
Corporate Income Tax non-deconsolidated FABs (Note 4.6.1.)	(9)	-	(9)
Adjustment for limitation on tax assets of previous years	1,801	-	1,801
Adjustment for limitation on tax assets of the current year	275,242	574,934	850,176
Total (income) / expense recognised in the income statement	1,101	118,549	119,650

2019

	(Income) / Expense (€ thousand)		
	Income statement	Amounts recognised directly in equity	Total recognised income and expense
Profit / (Loss) before taxes	(864,247)	(1,328,791)	(2,193,038)
Permanent differences	(26,502)	-	(26,502)
Total	(890,749)	(1,328,791)	(2,219,540)
Corporate Income Tax rate	25%	25%	25%
Total	(222,687)	(332,198)	(554,885)
Deductions and credits	(796)	-	(796)
(Profit) / Loss arising from Corporate Income Tax	(223,483)	(332,198)	(555,681)
Adjustment for Corporate Income Tax previous year	3,609	-	3,609
Corporate Income Tax non-deconsolidated FABs (Note 4.6.1.)	98	-	98
Adjustment for limitation on tax assets of previous years	80,088	-	80,088
Adjustment for limitation on tax assets of the current year	222,687	431,832	654,519
Total (income) / expense recognised in the income statement	82,999	99,634	182,633

During the course of 2017, the Company received confirmation from the General Directorate of Taxation of the principles applied and also the principles to be applied in respect of changes in the balance for the provision and account for "Value change adjustments" arising in the future. In this respect, any value adjustments that had been recognised subsequent to 1 January 2016, taken to the "Value change adjustments" account with the intention of increasing the amount of the provision for impairment of the financial assets unit are not considered to be tax-deductible expense. Any reductions in the amount of that provision credited to the account for "Value change adjustments" are disregarded when calculating the profit/(loss) for the year. For this reason, given that, after 1 January 2016, the corresponding charge would not have been considered a tax-deductible expense, it should not be included in the tax base, notwithstanding the comments in the following paragraph.

At 1 January 2016, the balance of the account for "Value change adjustments" included the amount of the provision for impairment of the financial assets unit, recorded at 31 December 2015, net of taxes, with those provisions being classified as tax-deductible. Conversely, the provisions made as from 1 January 2016 were not classified as tax-deductible. For the purposes of tax treatment of the reduction arising in the provision, and for determining if it relates to charges that were tax-deductible or not, the Company applies a FIFO principle, considering that the amounts reversed relate initially to amounts that were considered to be tax-deductible. Once an amount has been accumulated equal to that included in the tax bases for the tax periods 2012 to 2015 for considering the corresponding charges to be tax-deductible, the reductions in the balance of the provision credited to the account for "Value change adjustments" will not be included in the tax base.

The Company also considers that the increased amount for the provision that has been recognised for the year in "Value change adjustments" of SAREB Equity in application of RDL 4/2016 is classified as a non-deductible item, having confirmed that principle with the Tax Authorities.

On 3 December 2016, Royal Decree-Law 3/2016 of 2 December was published in the Official State Gazette (BOE), under which measures are adopted in the area of taxation intended for the consolidation of public finances and other urgent social measures. That regulation introduces some amendments to the Corporate Income Tax Act 27/2014, of 27 November. It specifically adds the Fifteenth Additional Provision under which it establishes, indefinitely, the offsetting of tax losses up to a limit of 25 per cent of the previous tax base if the turnover for the preceding 12 months was at least €60 M.

The Company has analysed the recovery of all the deferred tax assets (tax credits and deferred tax assets) based on the Resolution of 9 February 2016, of the Institute of Accounting and Account Audits which implements the standards for accounting, measurement and preparation of annual accounts for the accounting for Corporate Income Tax under tax legislation, including the amendment mentioned and in accordance with the forecasts of the Business Plan, which covers a seven-year time horizon (eight years in 2019).

In consequence, the deferred tax assets recognised by the Company at the end of 2020, at a rate of 25 per cent (tax rate applicable under Corporate Income Tax), are those thought likely to be applied, according to future taxable profits or through the recovery of the measurement of the financial derivatives contracted by the Company (see Note 15.3). Said calculation was carried out as described considering the time horizon contemplated in its business plan, which anticipates generating future taxable profits to offset the tax assets booked, taking into account that the maximum annual limit for offsetting those tax credits is restricted to 25% of the positive annual tax base. In 2020 the Company did not derecognise any tax assets in that respect.

The reconciliation between the tax base and the tax payable for Corporate Income Tax for the years 2020 and 2019 is as follows:

€ thousand		
	2020	2019
Tax base (taxable profit/(loss))	(1,107,612)	(898,697)
Tax base according to tax rate (25%)	(276,903)	(224,674)
Deductions and credits	(845)	(796)
- Of which monetisable	(704)	(796)
Withholdings and payments on account	(10,994)	(522)
Tax (receivable) / payable	(11,698)	(1,318)

In addition, the Company has €6,139 thousand receivable for tax charges outstanding from previous years.

The breakdown of the tax bases recorded at 31 December 2020 and 2019 is as follows:

2020

	€ thousand	To 25%	Amount capitalised
Tax losses			
2012	200	50	-
2013	120,594	30,149	-
2014	494,350	123,588	-
2015	2,387,698	596,925	-
2016	706,118	176,530	-
2017	835,348	208,837	-
2018 (*)	904,044	226,011	-
2019	906,701	226,675	-
2020	1,107,612	276,903	-
Total	7,462,665	1,865,668	-

2019

	€ thousand	To 25%	Amount capitalised
Tax losses			
2012	200	50	-
2013	120,594	30,149	-
2014	494,350	123,588	-
2015	2,387,698	596,925	-
2016	706,118	176,530	-
2017	835,348	208,837	-
2018 (*)	904,044	226,011	-
2019	898,697	224,674	-
Total	6,347,049	1,586,764	-

(*) There is a difference between the tax losses for Corporate Income Tax for 2018 and the settlement finally submitted in Tax Form 200 as a result of a positive adjustment.

The above tax losses do not expire and can be offset at any time during the life of the Company.

For its part the Company has the following deductions at the end of 2020 and 2019:

	Amount of deduction	Expiry date
Deductions for R+D		
2019	880	2037
Total	880	

The whole of the expense for Corporate Income Tax arising in 2020 and 2019 corresponds to ongoing operations.

15.3 Deferred tax assets

The breakdown of the balance of this account at the end of 2020 and 2019 is as follows:

	€ thousand	
	2020	2019
Tax credit		
- For tax losses	-	-
- For unused tax credits	-	-
Temporary differences 2013	2,049	2,585
Temporary differences 2014	9,763	11,029
Temporary differences 2015	723	723
Temporary differences 2016	552	552
Temporary differences 2017	316	316
Temporary differences 2018	1,175	1,175
Temporary differences 2019	-	-
Market valuation of derivatives	188,892	307,441
Total deferred tax assets	203,470	323,821

With regard to the deferred tax assets recorded as a result of the measurement of the derivatives at market value, the Company estimates they will be reversed against the caption "Value change adjustments" on the accompanying balance sheet, according to the reversing of the valuation of the hedging derivatives contracted. The Company's provision for reversal is as follows:

Deferred tax assets	2021	2022	2023	Totals
Market valuation of derivatives	98,548	84,497	5,846	188,892

Both the prepaid taxes payable and the tax credits for tax losses were recognised on the balance sheet as the Directors consider that, based on their best estimate of the Company's future earnings, including certain tax planning measures, it is probable that these assets will be recovered.

15.4 Years open for inspection

Under current legislation, tax returns cannot be deemed definitive until they have been inspected by the tax authorities or the statute of limitations period (four years) has elapsed. At 31 December 2020, the Company has all the Corporate Income Tax accrued since its incorporation open for tax inspection. As a result, amongst others, of the different interpretations of current legislation, additional

liabilities could arise in the event of a tax inspection. In any case, the Directors consider that those liabilities, should the case arise, would not have any significant effect on the annual accounts.

In April 2019 the Tax Authorities began an inspection in respect of Value Added Tax for the years 2015 and 2016. Those proceedings were brought to a close by the pertinent authority in 2020. The outcome of the inspection was accepted by the Company by signing a record of acceptance, which has had no significant impact on these annual accounts.

At the end of 2020, the Company has no further inspections open with the Tax Authorities other than the one above.

16. Income and expense

16.1 Turnover

The breakdown per branch of activity at the end of 2020 and 2019 is as follows:

	€ thousand	
	2020	2019
Income from sales of loans and credits (Note 7.1.1)	1,081	465
Income from interest on loans and credits (Note 7.1.1)	169,150	329,652
Income from sales of property investments (Note 5)	665,771	958,155
Income from sales of inventories	128,317	87,839
Income from rent (Note 6)	45,408	40,553
Income from remuneration of FABs (see Note 7.2.2)	703	1,193
Income from sale and liquidation of FABs (see Note 7.2.2)	1,413	103,078
Recovery of capital gains on loans and credits – <i>net of debt remission</i> (Note 7.1.1)	(70,035)	(90,778)
Total	941,808	1,430,157

All the Company's income has been obtained in Spain.

In 2020 and 2019, and as a result of the principle of application of the amounts recovered by Sareb from its borrowers, which is applied firstly to interest and then to capital, the figure for "Recovery of capital gains on loans and credits" is negative for the amount of €70,035 and 90,778 thousand, respectively. Nevertheless, the total income taking into account the figure for income from interest amounts to €99,115 and 238,874 thousand, respectively.

16.2 Cost of sales and changes in inventories

The composition of this caption of the accompanying income statement is as follows:

	€ thousand	
	2020	2019
Changes in inventories	(86,219)	(61,962)
Total changes in inventories	(86,219)	(61,962)
Cost of property investments (Note 5)	(664,486)	(861,711)
Sales costs of financial assets (Note 7.1.1)	(257)	(399)
Sales costs of the FABs (Note 7.2.2)	(2,235)	(95,885)
Total sales costs	(666,978)	(957,995)

16.3 Staff expense

The breakdown of staff expense for the years 2020 and 2019 is as follows:

	€ thousand	
	2020	2019
Salaries, wages and similar	29,480	33,300
Social Security	6,595	6,669
Total	36,075	39,969

The average number of people employed in 2020 and 2019, distributed per category, is as follows:

	Number of employees	
	2020	2019
Senior management	65	66
Managers and Technical staff	300	278
Administration and sales staff	28	44
Total	393	388

Similarly, the distribution according to gender, at 31 December 2020 and 2019, detailed per category, is as follows:

	2020			2019		
	Women	Men	Number of employees	Women	Men	Number of employees
Senior management	21	43	64	18	48	66
Managers and Technical staff	129	161	290	126	159	285
Administration and sales staff	22	3	25	35	8	43
Total	172	207	379	179	215	394

In 2020 and 2019 the Company employed two members of staff with a degree of disability that is 33% or higher.

16.4 External services

The breakdown of this item corresponding to 2020 and 2019 is as follows:

	€ thousand	
	2020	2019
Fees for management and marketing of "Íbero" (Note 1)	97,288	199,517
Other fees for management and marketing	26,918	-
Leases and ground rents	4,296	4,052
Repairs and conservation	110,376	96,013
Independent professional services	80,934	87,128
Insurance premiums	4,528	3,708
Advertising, publicity and public relations	592	3,419
Bank services	628	5,716
Supplies	18,979	22,238
Other services	3,881	6,046
Total external services	348,420	427,837

The caption "Repairs and conservation" in 2020 and 2019 mainly includes the expenses of homeowner's associations of the real estate assets, for the amount of €46,678 and 32,810 thousand, respectively. The caption "Taxes" mainly contains the cost for Property Tax (IBIs) relating to the Company's the real estate assets and the non-deductible VAT it has paid in 2020 and 2019. That non-deductible VAT is largely charged on procedures for foreclosure and dation concluded by the Company during 2020 and 2019 (see Note 5).

Fees charged by PricewaterhouseCoopers Auditores, S.L. for auditing the Company's separate annual accounts for 2020 and 2019 were €1,332 and 1,312 thousand, respectively. In 2020 and 2019, fees were charged for other services for the amounts of €50 and 20 thousand, respectively, for the issue of the annual report by the external expert in relation to the prevention of money laundering and financing of terrorism. Furthermore, in 2020 fees were charged for issuing the independent experts report on the Internal Control System on Financial Information (SCIIF).

16.5 Financial expense

	€ thousand	
	2020	2019
Interest from debentures and other negotiable securities (Note 13.2)	(427)	280
Interest from financial derivatives (Note 13.3)	509,789	545,648
Financial expense – Ineffective derivatives (Notes 4.9 and 13.3)	29,390	30,674
Other financial expense	12,357	12,093
Total	551,109	588,695

The caption "Other financial expense" mainly includes the finance cost arising from the funding granted by the investor of the FAB Bull 2013 for the amount of €78 and 238 thousand in 2020 and 2019, respectively, which has not been deconsolidated from the accompanying balance sheet (see Note 4.6.1). Furthermore, at 31 December 2020 and 2019, that caption includes €7,158 and 5,931 thousand, respectively, arising from the negative remuneration that the Company has obtained on its cash balances (see Note 10).

16.6 Financial income

Below is a breakdown of this caption of the income statement for the years 2020 and 2019:

	€ thousand	
	2020	2019
For remuneration from cash and other cash equivalents (Note 10)	71	18
For remuneration from "Other financial assets"	3,048	2,471
Other financial income – Rectification (Note 1)	24	1
Other financial income	48	670
Total	3,191	3,160

17. Transactions and balances with related parties and legal information relating to the Board of Directors

17.1 Transactions with related parties

The breakdown of the balances held and the transactions carried out by Sareb with related parties recognised in these annual accounts for the years 2020 and 2019 is as follows:

2020

	€ thousand				
	FROB and entities under FROB control	Significant shareholders (**)	Bank Assets Funds, Group companies and other related parties	Board of Directors (*)	Senior Management (*)
Assets:					
Credits and loans	-	-	35,632	-	-
Long-term investments in Group companies and associates (Note 7,2,1 and 4,6,1)	-	-	36,097	-	-
Short-term loans to Group companies and associates	-	-	3,167	-	-
Cash and other cash equivalents	14,595	-	-	-	-
Liabilities:					
Debentures and other long-term negotiable securities	20,150,000	-	-	-	-
Debentures and other short-term negotiable securities	-	-	-	-	-
Gains and Losses:					
Income from sales of property investments	-	-	-	-	-
Income from services rendered	-	-	171	-	-
Income from remuneration of FABs	-	-	703	-	-
Other operating expenses	-	-	-	(1,098)	(1,180)
Impairment of financial instruments	-	-	(2,235)	-	-
Financial income	-	-	-	-	-
Financial expense	(245)	-	-	-	-

Continue

Other transactions					
Purchase of property investments	-	-	-	-	-
Options commitments	-	-	-	-	-
Dividends	-	-	-	-	-
Contingent risks:					
Guarantees given	-	-	-	-	-

(*) Those amounts refer to the remuneration received by the Board of Directors and Senior Management of the Company at 31 December 2020. The remuneration received by the members of the Board of Directors and Senior Management during the whole of 2020 amounts to €1,223 and 2,024 thousand, respectively, as a result of adding the amounts received by and payable to people who did not belong to those two bodies at 31 December 2020 (€125 thousand in the case of the Board Members and €844 thousand in the case of Senior Management). (See Note 17.3).

(**) At 31 December 2020, no shareholders, except for the FROB, were considered to be significant as, individually, they could not exercise any control or significant influence on decision-making involving the Company's finances or operations.

2019

	€ thousand				
	FROB and entities under FROB control	Significant shareholders (**)	Bank Assets Funds, Group companies and other related parties	Board of Directors (*)	Senior Management (*)
Assets:					
Credits and loans	-	-	20,872	-	-
Long-term investments in Group companies and associates (Notes 7.2.1 and 4.6.1)	-	-	38,035	-	-
Short-term investments in Group companies and associates	-	-	4,138	-	-
Cash and other cash equivalents	1,200	-	-	-	-
Liabilities:					
Debentures and other long-term negotiable securities	20,305,100	-	-	-	-
Debentures and other short-term negotiable securities	-	-	-	-	-
Gains and Losses:					
Income from sales of property investments	-	-	165	-	-
Income from services rendered	-	-	-	-	-
Income from remuneration of FABs	-	-	1,193	-	-
Other operating expenses	-	-	1,147	(1,273)	(3,594)
Impairment of financial instruments	-	-	(2,203)	-	-

Continue

	€ thousand				
	FROB and entities under FROB control	Significant shareholders (**)	Bank Assets Funds, Group companies and other related parties	Board of Directors (*)	Senior Management (*)
Financial income	-	-	-	-	-
Financial expense	(160)	-	-	-	-
Other transactions					
Purchase of property investments	-	-	-	-	-
Options commitments	11,097	-	-	-	-
Dividends	-	-	190,618	-	-
Contingent risks:					
Guarantees given	-	-	-	-	-

(*) Those amounts refer to the remuneration received by the Board of Directors and Senior Management of the Company at 31 December 2019. The remuneration received by the members of the Board of Directors and Senior Management during the whole of 2019 amounts to €1,383 and 3,842 thousand respectively, as a result of adding the amounts received by and payable to people who did not belong to those two bodies at 31 December 2019 (€110 thousand in the case of the Board Members and €248 thousand in the case of Senior Management). (See Note 17.3).

(**) At 31 December 2019, no shareholders, except for the FROB, were considered to be significant as, individually, they could not exercise any control or significant influence on decision-making involving the Company's finances or operations.

The variation shown under the caption "Debentures and other negotiable securities" corresponds to the repayments of senior debt made by the Company during 2019 (see Note 13), while the variation undergone in the caption "Credits and loans" corresponds to sales and to cancellations as a result of the ordinary course of business of the Company.

17.2 Transparency in relation to the interests and activities of the members of the Board of Directors

In reference to any situations of conflict of interest, in accordance with the Regulations of the Board of Directors (article 22) and the Conflicts of Interests and Related Operations Policy, the Directors have to inform the Board of any situation of direct or indirect conflict between them and the Company's interests.

Once the Company has become aware of existing conflicts of interest, either on its own account or following notification from Directors, and in accordance with the procedure established in the Conflicts of Interests and Related Operations Policy, the Company shall not provide any information on that transaction to the Directors in question, and they shall not participate in the debate nor vote on the issue giving rise to the conflict of interest.

Under the obligation of preventing situations of conflict with the interest of the Company, during the year the directors who have held office on the Board of Directors have complied with the obligations provided for in article 228 of the Consolidated Text of the Capital Companies Act and in the Company's Conflicts of Interests and Related Operations Policy. Similarly, both they and any related persons have abstained from falling under any situation of conflict of interest set out in article 229 of that regulation.

17.3 Remuneration and other benefits paid to the Board of Directors and to Senior Management

For the purposes of preparing these annual accounts, Senior Management is taken to be 7 and 18 people at 31 December 2020 and 2019, respectively, of which 5 are men and 2 women (11 men and 7 women at 31 December 2019), who for those purposes are classified as key Sareb personnel. In this respect and in line with the provisions of Sareb's internal regulations, since 1 January 2020, the concept of Sareb's Senior Management has been assimilated to that of Executive Management, i.e. managers who are (i) directly dependent on an Executive Director; and at the same time (ii) members of the Management Committee.

At 31 December 2020 and 2019, the Board of Directors was made up of 15 people, respectively, of which 12 were men and 3 women (12 men and 3 women at 31 December 2019).

The amount for salaries, allowances and remunerations of any kind due to and received by the members of the management bodies and senior management of the Company at 31 December 2020 and 2019 totalled €2,278 and 4,867 thousand, respectively, although the total for salaries, allowances and remunerations of any kind due to and received by the members of the management bodies and senior management in 2020 would amount to €3,247 thousand (€5,225 in 2019), as a result of adding the amounts due to and received by people who were not members of those bodies at 31 December of both years to the €2,278 thousand for 2020 and to the €4,867 thousand for 2019, as shown in the following breakdown:

2020

	€ thousand		
	Board of Directors	Senior Management	Total
Fixed Remuneration	1,098 ⁽¹⁾	1,180 ⁽²⁾	2,278
Variable Remuneration	-	-	-
Total	1,098	1,180	2,278

(1) Includes the Fixed Remuneration at 31 December 2020 for the two Executive Directors of the Company, for the aggregate amount of €458 thousand. The fixed remuneration of one of the Executive Directors relates entirely to 3 months of the year as he was elected to that office by the Shareholders General Meeting held on 28 October 2020.

In addition to the Fixed Remuneration of the members of the Board of Directors at 31 December 2020 and not included in this sub-section, €125 thousand were paid to 2 directors who resigned in October 2020 for their services up until that date.

(2) This sub-section includes the aggregate information of the 7 members of Sareb Senior Management (Executive Management) at 31 December 2020. Four of the seven members of Senior Management took up office during their year, so their remuneration does not correspond to the whole year. In addition, and not included in this sub-section, the Managing Director was paid €204 thousand since his incorporation in February 2020 as a member of Senior Management until his election as Executive Director in October 2020.

In addition to the Fixed Remuneration of the members of Senior Management at 31 December 2020 and not included in this sub-section, €640 thousand were paid to 2 directors who resigned before the end of the year.

In March 2020, the Executive Directors and the Executive Management of Sareb waived the Variable Remuneration that might have corresponded to them for 2019 and 2020. They also waived the Variable Remuneration to which they might be entitled for the year 2021.

2019

	€ thousand		
	Board of Directors	Senior Management	Total
Fixed Remuneration	1,248 ⁽¹⁾	3,510 ⁽³⁾	4,758
Variable Remuneration	25 ⁽²⁾	84 ⁽⁴⁾	109
Total	1,273	3,594	4,867

- (1) Includes the fixed remuneration at 31 December 2019 for the Executive Director of the Company, for the amount of €385 thousand. In addition to the Fixed Remuneration of the members of the Board of Directors at 31 December 2019 and not included in this sub-section, €110 thousand were paid to 3 directors who resigned on 30 April 2019 for their services up until that date.
- (2) It includes the final third of the Variable Remuneration for 2017 (€25 thousand), received in January 2020. The Executive Director has not accrued, and therefore did not receive, any Variable Remuneration in 2018. Furthermore, the Executive Director has accrued the amount of €33 thousand as Variable Remuneration for 2019, corresponding to one third of the total Variable Remuneration for 2019 which will be paid in 2020 provided that there are no reasons for not paying it, to be assessed within the Board of Directors upon the proposal of the Remuneration and Appointments Committee.
- (3) This sub-section includes the aggregate information of the 18 members of Sareb Senior Management at 31 December 2019. In addition to the Fixed Remuneration of Senior Management at 31 December 2019 and not included in this sub-section, €248 thousand were paid to two members who resigned in 2019 before 31 December.
- (4) It only includes the last third of the Variable Remuneration for 2017, received in January 2020 by 5 of the 18 members of Senior Management (Sareb Executive Management). No members of the Senior Management accrued and therefore received Variable Remuneration for 2018.

The Company has taken out liability insurance for Directors and Senior Executives. Applying the criterion of the General Directorate of Taxation, the premium expense corresponding to each Director is not declared as remuneration in kind. The cost of that premium in 2020 and 2019 was €976 and 747 thousand respectively.

At 31 December 2020 and 2019, the Company had not given any guarantee or protection clauses in favour of the Executive Directors or members of Senior Management to cover the event of dismissal arising from changes of control in the company or from events depending totally or partially on the will of the member.

The Company has not entered into pension obligations with members of its Board of Directors or Senior Management.

The Company did not grant any advances, loans or guarantees to the members of the Board of Directors. It did not neither make any share-based payments to any members of the Board of Directors, or to Senior Management.

18. Third party guarantees and other contingent liabilities

At 31 December 2020 and 2019, the Company has given the following guarantees to third parties:

	€ thousand	
	2020	2019
For challenges to taxes and amounts levied	4,456	4,543
For amounts paid on account by customers	75	9,006
For outstanding liabilities on land, developments and others	13,854	16,536
Total	18,385	30,085

The Directors of the Company do not expect any additional liabilities to arise on account of those guarantees.

19. Subsequent events

The Company became aware of the decision of the European Eurostat agency to add the company to the scope of the public accounts through the communication made by State public sources. While this decision will have an impact on both the volume of Government bonds and the public deficit, it does not affect the company's activity nor the structure of its bond issues guaranteed by the State.

On 26 February 2021, the Company carried out a simultaneous partial repayment and novation of the maturity of the senior debt not paid during 2013 for the acquisition of assets in Group 1 (€ thousand).

Denomination	Opening balance 2021	Repayment	Novation	Outstanding amount	Maturity	Applicable rate in force	New ISIN novation
SAREB/VAR BO 20210228 2020-1	4,064,100	-	4,064,100	4,064,100	28/02/2022	E3M + 0,020	ES0352506325
SAREB/VAR BO 20210228 2019-2	5,414,000	8,400	5,405,600	5,405,600	28/02/2023	E3M + 0,060	ES0352506333
SAREB/VAR BO 20220228 2019-3	423,100	41,100	-	382,000	28/02/2022	E3M + 0,090	-
Total Group 2	9,901,200	49,500	9,469,700	9,851,700			

On 19 January 2021, the Company placed the deed of rectification with Caixabank (Banco de Valencia, S.A.) on public record for a total of €615 thousand. Under that deed a correction was made for an asset that had been corrected for the wrong amount in a previous rectification.

On 21 January 2021, the Company placed the deed of rectification with Bankia, S.A. on public record for a total of €4,743 thousand, through the return of financial assets amounting to €3,823 thousand and real-estate assets amounting to €920 thousand. Furthermore, that agreement includes the Company receiving €23,655 thousand for offsetting various charges that had been settled by the Company. In addition, the Company has paid Bankia, S.A. €2,105 thousand to acquire a credit right held by that bank against a Compensation Board in which the Company participates.

In return to the rectifications above, the assigning banks have handed Sareb part of the bonds issued in payment of the above-mentioned portfolios of transferred property for an amount equivalent to the assets returned, and also the cash equivalent of the coupons received by the banks corresponding to the bonds handed over. Furthermore, according to the transfer contract, the banks have applied a compensatory interest rate of 1% per year on the total amount of coupons paid by the Company, which were for €24 and 3 thousand in 2020 and 2019, respectively, in relation to the bonds returned.

The summary of the rectifications concluded in January 2021 is as follows:

2020

€ thousand	Real estate assets rectified (Note 5)	Financial assets rectified (Note 7)	Total rectifications	Bonds returned (Note 13.2)	Cash adjustment (*)
Bankia, S.A.	3,823	920	4,743	(4,200)	543
Caixabank, S.A. (B. de Valencia)	615	-	615	(300)	315
Total	4,438	920	5,358	(6,600)	858

(*) Corresponds to the difference, paid in cash, between the total amount of the rectification and the amount of the bonds returned.

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

Directors' Report for the year ended 31 December 2020

1. Significant aspects of the period

Previous years

The scale of the challenge facing Sareb from the outset at the end of 2012 was evident from the significance of the figures: €50,781 M of assets transferred in the form of nearly 200,000 real estate and financial assets, over 18,000 borrowers to which more than 400,000 properties as collateral for loans and credit must be added.

This challenge becomes even more evident if seen in relation with the necessary creation of a human and technical structure to overcome the difficulties arising from the technological and commercial dependence of the banks who have transferred the assets.

In 2013 the recently created Sareb launched an accelerated process of creating an internal structure from scratch (teams, processes, procedures) and a framework of relationships between its departments and the assigning banks that will enable it to tackle the orderly liquidation of the assets received on a continuous basis and in significant volume. This growth in the organisation was accompanied in 2014 by a number of measures aimed at having a better knowledge of the various assets transferred which will allow for more efficient systematic marketing, focussing the action (sales and maintenance) on the more mature and liquid assets. Those measures gave Sareb a more defined commercial momentum in which certain business lines would be built up and streamlined, and above all, it was consolidated as a relevant agent in the institutional market, making a marked contribution to the revitalisation of this sector.

The end of 2014 saw the launching of the Íbero Project with the aim of changing to a professional and vocational model of outsourced management with which the targets would be better identified and brought into line between the parties, concluding in subsequent years with the operational and commercial assignment and migration to four servicers. At the same time as the tender, and as part of the agreements concluded, Sareb has embarked on the re-engineering of its internal procedures with complex informative projects (Colabora-work flows, Medea-data repository, Alejandría-document manager and Carcasa- and later Mare, as a real-estate accounting system); these were developed in the following years to form the core of its current information and quasi transactional structure.

The 2015 year was marked internally by the operational migrations from the assigning banks to the new servicers, and it can be said that the complexity of the process (involving 14 migrations) was a challenge that was successfully resolved. It is true however that the implementation of this transition led to an inevitable reduction in business. To overcome this deficit, in terms of marketing, Sareb has undertaken a reorganisation matrix involving a double parameter of products (management and revitalisation by lines for all agents) and servicers (managing implementation in each of the business proposals and budgets).

A significant event occurred in October when Circular 5/2015 was published by the Bank of Spain. This instruction laid down the central lines of methodology in terms of which the accounting value of Sareb's assets is to be measured (but not comparable to that for management), the main points of which are set out in the report. Its primary application called for setting up a significant fund for the impairment of financial assets.

2016 saw the consolidation of the technological projects mentioned above and a gradual process of operational gearing with the servicers, which was concluded in 2017. It should also be noted that as a result of the requirements of Circular 5/2015, the Company has continued with the work begun the year before relating to the information and status of its assets (their legal situation, possession status, features, location, identification, etc.). That knowledge gained from making the valuation, which sets out the limitations and conditions of its assets, leads to different business lines based on the creation of value: developing works in progress received as a real estate asset, support for the termination of building work in properties received as collateral, planning development for land; residential and commercial property rentals and, most particularly, opening a line of residential promotion on land with greater marketing possibilities. These are the first steps that are promoted in subsequent years, to the point of being one of the pillars on which the future value of the company is built.

Towards the end of the year RDL 4/2016 was published. This Decree lays down that the impairment fund has to be noted as an equity adjustment rather than being set against the Income Statement. Its retroactive application gave rise to an aggregate re-establishment of shareholders' equity, which had been substantially reduced during the previous year.

In 2017, this change in regulations, while involving an evidently improved equity situation following the restoration of its Shareholders' Equity, also came with a distorting effect on the decision regarding the proposals received, as the book result for the operations will be that which matches the offer to the acquisition or transfer price, without any value adjustments; this considerably limits the company's scope of action, diminishing opportunities for business. To resolve it, commercial activity was intensified with a view to focussing on operations with greater margins so as to meet the Company's structural costs, recurring to competitive processes for groups of more liquid assets.

And as a reinforcement to the lines of value generation noted in previous years, in 2017 a specific Development, Promotion and Investment Area was formally set up, which reached its first milestones in the second half-year period with different developments in strategic locations and cities in the new housing market. It is also worth noting the REIT *Témpore Properties*, a vehicle created to channel rental properties, but also, and above all, to seek out sales alternatives and energise markets through collective investment schemes.

With all of this, the Company's activity reached the figures for volume and margins that enabled it to return to a positive operating margin, even if low.

In general terms, **2018** could be qualified as a year of transition and reflection. Transition because during a good part of the year, the basic lines of management are continued (balance between volume and margin generation) and reflection because in the second half-year period, emphasis is placed on defending the Company's value through the creation of value already aimed at the year before, and also by holding back on transactions that do not provide the margin expected from them.

The department for Development, Promotion and Investment is backed up by broadening the range of assets on which new developments can be built, meaning it can be considered as a separate activity under which they can be split up and subsequently sold. The *Témpore REIT*, for its part, after being listed on the Alternative Stock Market (MAB) in April, increased its scope with new incoming assets, with the opportunity of their placement with third parties. In 2019 76% of it was transferred.

2019

In 2019 the business coordinates of previous years were repeated: greater emphasis on its ideas for optimising the value of the company and protecting its increasingly more limited own resources.

This has brought about a reduction in turnover; that reduction was focussed on the sale of financial assets, the portfolio sustaining the greatest losses in prices and results. For that reason, it was decided to accelerate the conversion processes, focussing on those assets with the most liquidity for a future sale, after being included as Sareb-owned assets. The figures for asset conversion rose from 1,406 to 1,967, a pace that was intended not only to

be maintained but also to increase in the coming years. At the same time, it should be borne in mind that these transformed assets are precisely the ones that have a higher level of sales, to the point of reaching the level of assets that were property assets from the outset.

The property development business gave rise to the creation of the Arqura Homes Bank Asset Fund (FAB), with a volume of more than 800 million, of which Sareb is the majority shareholder with a 100% interest; its management was transferred to the specialist firm, Aelca, whose parent fund acquired the remaining 10% in 2020. This alliance with major managers and investors allows Sareb to open speedy divestment channels, but always from the perspective of reserving for itself a good part of the increased value that can result from property development.

With regard to the Esparta process, in 2019 many of the necessary tasks were planned and put into start mode, paving the way for a number of specialist suppliers. At the same time the activities that were being provided by Haya Real Estate, S.A. (referred to herein as Haya or HRE) were put out for tender once the contract expired at the end of the year; in the end, Haya itself was awarded the contract for a two-year term, but limiting its activity to the marketing and sale of assets.

This Esparta Project is backed by a major technological project which began in previous years, for the implementation of certain own applications for administrative and accounting management of the assets. Those applications, irrespective of whether they are operated by our servicers or the future suppliers, could facilitate a more flexible framework for Sareb with third parties, with regard to separating and assigning portfolios to specialised suppliers/servicers. Encompassed under the name of Ecuador, a series of applications were begun and continue to operate, enabling Sareb to have a certain autonomy regarding information and data.

2020

It had been planned that this year certain standard levels would be reached in the processes for conversion and creation of new product, which would allow for improved turnover. However, those targets were affected by the Covid-19 pandemic whose first significant milestone was the confinement of the population from March to May of that year, with a very significant effect on the macroeconomic variables and also the real estate market.

Faced with this situation, in April the Board of Directors approved an internal estimate of the main business variables for 2020 adapted to the new context, with the aim of achieving minimum income figures, but avoiding the damage that -given the lack of liquidity of the market- could have been caused to the value of the company portfolio had they attempted to reach the income level anticipated in the budget, due to having to sell with the discounts that would have been necessary to achieve those sales.

At the same time, the company took the opportunity to carry out an internal reorganisation with the incorporation of the figure of a Managing Director, who combines the operating and business functions, while the chairman remains in charge of the institutional and control functions.

It also made progress in improving the cycle for generating-putting on the market-selling, aimed at optimising the balance between liquidity and value creation.

In addition, and in relation, but also taking advantage of less activity due to the adverse scenario, the company embarked on a thorough procedure for reducing and streamlining its expenditure, designing and successfully implementing an ambitious Efficiency Plan.

Of special note is the progress made in the work for strategic segmentation of company assets, which had begun in previous years; its purpose was to establish a strategy for each asset in which both its natural course (sale, development, etc.) and also the degree of price elasticity for accommodating it to the demand in contexts of different product liquidity would be assigned. This gave rise to a matrix of assets with different management strategies in which the monitoring of their behaviour becomes a key element of their management. This segmentation thus becomes the beacon that guides the commercial activity of the managers and also the pace at which conversion takes place.

Special mention is also made of the significant sales efforts made during the last months of the year, once the first cycle of the pandemic had passed, in which a rebound in demand, mainly in residential properties, could be seen. The company has exceeded the estimate for revenue made by its Board of Directors in April.

In this situation, the activity regarding the company's own real estate assets has been the mainstay of the income earned during this period, compared to the income from

financial assets, to the point of beating the new estimate made when lockdown began. We have also observed, as already ventured in previous years, the weight of the portfolio of transformed assets over the assets originally transferred; the latter showing certain symptoms of commercial fatigue. The financial assets business, for its part, has dropped, not so much due to opportunity but rather because of the excessive discount put into practice on the market.

Faced with this scenario, Sareb places the emphasis on conversion, following the lines of strategic segmentation, in which it identifies assets that are considered advisable to hold. Accordingly, legal action is reinforced, and also the search for satisfactory agreements through dation with the companies in debt.

Beyond segmentation, we should also mention the new steps taken regarding the composition of the sales price, in order to bring it closer to the market. This project has a two-fold purpose, on the one hand, to reinforce the internal governance in approving transaction prices for assets, and on the other, for greater knowledge of the assets both within the company's structure, and in its sub-contractors.

The accounting valuation of the portfolio differs from the price composition process, as it takes place under the provisions established in the Bank of Spain Circular, based on the appraisal values of the real-estate assets (whether Sareb-owned, or as collateral for loans) to which certain future expectations for appreciation are added.

In the provision of data systems, the following advances are contained under Ecuador:

- Mare, an application for real estate assets: the migration of all the servicers following the closing of Servihabitat has concluded.
- Capri, an application for financial assets: all migrations have been completed except for Servihabitat, which will take place during the first six months of 2021.
- GMAO, for monitoring, maintenance and conditioning: leaving only Solvia to be included, which took place in February 2021.
- Prisma: as a platform for monitoring the stages of recovery and collection from transactions (lawyers, court representatives, document processing

agencies), deeply engrained with the conversion of assets through awards/dations. It is directly usable by HRE and large-scale borrowers, with the servicers informing via files, even though they do not access the platform.

As for the Efficiency Plan, the company has rationalised the number of technological projects under way and has begun to reflect on its investments in technology.

On an internal basis, the Compás project has been undertaken, which aims to unify under a single department all the company's information on management control; the purpose of this is to monitor all activity carried out in a single centre, separate from the actual areas where the activities are carried out.

An event of vital institutional importance that occurred in March 2020 was the publication of RDL 6/2020 which established that Sareb will not be subject to the provisions of articles 348 bis and 363.1 e) of the Capital Companies Act. This means the requirements for the restoration of shareholders' equity established for companies whose equity turned negative are not a requirement for Sareb's continuity. With this exemption, Sareb's continuity is guaranteed in a negative equity scenario, which would foreseeably occur with the accounts closed for the 2021 financial period, after having absorbed the subordinated debt that is still awaiting conversion at today's date.

This amendment of the law opens new directions in Sareb's present and future. In the future because it removes the uncertainty of its continuity considering its shareholders' equity situation and the grounds for dissolution established by law, even though its scale of debt repayment from its annual cash surpluses makes it highly unlikely that the company would become insolvent due to a shortage of funds with which to cover its obligations. And in the present because, while this year's results are less relevant as they are not conditioned to shareholders' equity, it breaks the course, or even the requirement, of acting on a group of assets that might have given a profit margin. Which is equivalent to the possibility of acting on all assets, reaching settlements for them based on their market value. This is a relevant factor as it allows the company to direct its activity toward streamlining of the value of the portfolio instead of optimising the accounting results, without losing sight of its target of meeting the senior debt payments, according to the last business plan approved.

Regarding the accounts corresponding to 2020 the following facts are worthy of mention:

Losses before taxes for the year stand at €1,073 M, compared to losses of 947 M in the previous year; as such, in both years the same rules for recognition of the impairment were applied. In any event, we would stress that 2020 was marked by the social and economic effects of the Covid-19 pandemic, which disrupts all sales plans and even the applicant base.

At 31 December 2020, in application of the method for measurement established by Bank of Spain Circular 5/2015, the Company set up an impairment fund for its financial assets and real estate assets units for the amount of €7,872 and 1,247 M, respectively; in 2019 those figures were €6,323 and 496 M. As there is no tax adjustment applicable, the provision for this fund is charged entirely against equity in a specific account for value change adjustments.

This upward variation of impairment is not so much the result of the fall in property values undergone in 2020 but rather of the worst expectations for the real estate market in the years to come (given the lengthy duration of the pandemic) which are a parameter having a prominent place in the composition of the accounting valuation.

With regard to Turnover, there has been a marked decrease from the €1,430 M of the previous year to the 942 M of the current year. For the purposes of management, the figure for gross income for this year was €1,422 M compared to the €2,308 for the previous year.

As the drop in both portfolios (financial assets and real estate assets), is remarkably asymmetric, in that the figure for property sales has gone up by more than 220 M, even taking into consideration the effects of the pandemic and the budget reassessment, while loan transactions have gone down by close to 400 million.

The following aspects are highlighted from the operating profit/(loss):

An operating loss of 524 M as against the 279 M of loss in the previous year. This downturn is justified on the one hand by the fact of less activity and income, and especially by the shrinking profit margins obtained in the different transactions, resulting from a portfolio of assets sold in 2020, nearer to the average profile of assets in the portfolio. Worthy of note is the positive performance

of operating expenses, which were reduced significantly both by the drop in activity and by the acceleration of the efficiency plans implemented during the course of the year.

Property sales amounted to €794 M compared to 1,046 M of the previous year, with a gross margin of €130 M (representing 16% of income, a decrease on the previous year).

Per activity, a positive margin was seen in rentals and new developments, compared to a loss for a similar figure in the sale of regular assets. That difference will show higher figures in the years to come.

And the residential line will take more prominence as the marketing objective, with land and commercial real estate losing relative weight, both because of less demand and for their greater price volatility in the context lived through in 2020. The trend of transactions taking place in assets awarded can also be confirmed, which supports the strategy for accelerated conversion.

As we already mentioned above, the financial assets segment of the business shows lower figures in all of its lines, both in income volume (€567 M compared to €946 of the previous year) and margins (€99 M as opposed to €239 in 2019).

The margin recorded in this business line for this year originates almost entirely from interest. Because the sale of loans, even with a similar turnover figure, already enters the stage of negative contribution to profit, while at the same time the universe of assets with capital gains that would generate it is being depleted.

Financial income for a total figure of €99 M (€239 M in 2019), of which €169 M (€330 M in 2019) related to accruals on loans and credits and €70 M of loss (€91 M also of loss in 2019) with recoveries by way of collecting the nominal amounts of loans and credit acquired at a discount. The order of priority of the amounts recovered has to be taken into account, as it is first allocated to unpaid interest, which has brought about the increase under that caption on the income statement, to the detriment of the line of "Margin of recovery of loans and credits".

The significant, but expected impact of the drop in interest taken to profit or loss using an accrual method based on the criteria of the effective interest rate is due to the twofold measure of reducing the group of financial assets by sale and conversion where the appraisal value

of their collateral properties allows for accrual to take place.

For their part, the expenses items show a path of containment even after absorbing the tax costs for the growing strategic business of assets conversion, and also for the holding of a growing Sareb-owned asset portfolio.

In this respect, the expenses items combine the effect of less activity, on the one hand (particularly from the aspect of sales commissions), and on the other, a notable effort for efficiency in the expenses for maintenance, amortisation/depreciation and structure of the Company, which stand at €684 M (€741 M in the previous year), as a result of the above-mentioned Efficiency Plan.

In any case, except for tax costs, all the lines have performed with the addition of a further reduction to that derived from their levels of activity, as a result of the ambitious efficiency plan in cost-savings that Sareb put into effect in 2020.

From the aspect of cash generation, in its eighth year of existence the Company has managed to generate a small cash surplus to pay off senior debt. But in any case, it should be highlighted that in a year that is as special as 2020, shaken by the health crisis that has led to a deep economic crisis, Sareb has been able to cover its corporate structure expenses, asset maintenance expenses and the management and marketing expenses and, particularly, the amount of more than €551 million of finance charges associated to the senior debt and its

hedging derivatives, in addition to generating a small excess to repay debt. The Company estimates that, after this atypical year, it should be able to return to the path of repaying debt that was followed in previous years, as the forecast is that in the coming years its revenue and cash generation will be increased.

Considering that rectifications were made in 2020 with the assigning banks amounting to €7 M, the Company has reduced the volume of senior debt issued by €352 M, which, added to the €15,372 M from previous years, brings the amount of reduction to €15,724 M, i.e. 31% of the volume of original debt, a percentage that would increase to 32% if we take into consideration the amortisation of 50 M made in February 2021, financed from the funds generated in the previous year.

Lastly, it is worth mentioning that the average payment period to suppliers in 2020 was 33 days, as described in Note 14. Payments to suppliers made in a period in excess of 30 days correspond to invoices paid within the periods arranged with those suppliers, and do not exceed 60 days, as established by Act 11/2013 in amendment of the Late Payment Act (Act 3/2004 of 29 December). In some specific cases, that period was surpassed as a result of the administrative tasks of validating and registering them. In those cases, the Company gives priority to payment once the invoices have been booked.

2. Social action taken during 2020

Social Housing

During the course of the year, five public administrations have acquired properties from the company, which they had already been using under temporary assignment agreements with Sareb.

In 2020 the company negotiated with nearly a hundred local public administrations and, within the framework of its plans, it has entered into temporary assignment agreements for social purposes with 15 Town Councils and one Autonomous Region. A total of 550 properties were placed at the disposal of the administrations.

Between 2013 and 2020, Sareb has signed agreements for the temporary assignment of properties with 13 Autonomous Regions and 27 Town Councils, to whom it had assigned a total of 3,032 properties. Of these, 2,836 properties are currently committed to the administrations - from which 11,344 people can benefit.

Furthermore, before the temporary assignment agreements expire, Sareb offers the public administrations the possibility of acquiring those properties so that they can become part of their pool of properties. During 2020, 4 Autonomous Regions and 1 Town Council purchased 199 properties from Sareb for inclusion in their social housing programmes.

Parallel to the initiatives of collaboration with public institutions, Sareb makes its own arrangements with families who are socially vulnerable.

Creation of jobs with social value

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

In 2020, a new edition of the programme "Building future: jobs with social value", was implemented, run by the Integra Foundation. This programme makes available the social and employment tools that people benefiting from the social housing programme need for being able to enter the employment market through sessions of technical and motivational training. In 2020, 12 employees took part in this programme as volunteers. Of the 12 beneficiaries of the programme, three have already found jobs.

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

This initiative was conceived with the aim of making younger people more aware of how the company operates and its *raison d'être*, its values and the commitments undertaken by Sareb for contributing to the growth of the financial and real estate sector in Spain.

To do so, the company has a group of employees who voluntarily give these talks in different education centres around Spain.

During the 2019/2020 academic year, 43 talks were given to 1,728 students. During the course of 2020/2021, as classes are only being taught online, 2 talks have been given, attended by 50 students.

3. Main business risks, risk management and use of financial instruments

In addition to the factors of financial risk and risk management described in Note 7 of the accompanying Report, the Company has in principle identified the following risk factors that might adversely affect our ability to achieve our targets:

The prolonging of the Covid-19 pandemic which would lead to even deeper economic adjustments at national level and therefore in the value of the assets. We are faced with a situation of uncertainty both in terms of time and how recovery might take place.

A crisis in the property market in the short and medium term that cannot be ruled out (prices, occupation levels, non-payment). A forecast of even more pronounced declines than in 2020, now closed, truncating the path to recovery that was being followed in 2017 to 2019.

Financial and liquidity crisis, which might affect potential buyers of the Company's assets. This risk is mitigated by a certain improvement in the Spanish economy on a macroeconomic level although the effects on potential buyers are not yet clear. At Sareb, faint signs of a possible rise in interest rates are perceived, though more in the medium term than in the short term.

Effects of possible changes in fiscal/legal legislation. In this report, and particularly in last year's report, we have pointed out the effects of Royal Decrees 6/2020 in the institutional aspect, which entails not only removing the uncertainty as to its future but also opening up all of its assets for sale; this is done by managing them exclusively under the pattern of maximising their recoverable value.

It cannot be ruled out that regional regulations will extend to the real estate assets that can be sold by Sareb, regarding both their availability and any additional taxes and levies associated to owning them, all of which following Constitutional Court judgements handed down in the past.

Once the Íbero process had concluded (migration, taking control) with the servicers, the risks of operational malfunction had gone down noticeably in the past years. Conversely, for 2020 and the following years the Esparta Project opened important operating migration processes (both in respect of information and providers managed directly by Sareb) which in the short term could have an adverse effect on generating business.

As mentioned in the report as regards the use of financial instruments for the purpose of interest rate risk hedging, in the 2020 financial year the hedging system that was implemented in 2013 was maintained, the aim of which is to reduce the possible negative impact of a rise in interest rates which might even put the viability of the Company at risk

4. Foreseeable evolution of the Company 2021

The hopes originally expressed for an early solution to the Covid-19 pandemic, and for the idea that 2021 would be the year of major recovery, seem to be delayed. It should be recalled that before the pandemic, our country was already showing certain symptoms of deceleration in the real estate market, which were exacerbated by the health crisis.

Although in certain moments the economic operators had heralded a moderate optimism (or at least less pessimism) and that this was encouraging certain players in the real estate market to wager for a rapid recovery in the medium term.

2020 has been a year for both lower numbers of transactions and lower prices in the real estate market compared to 2019, with a lesser effect in residential units as opposed to heavier falls in commercial and industrial units. And the market is to a certain extent expectant as to the course that will be taken by the real estate business. The question is open as to whether or not there will be a run on prices in 2021 that possibly was not completed the year before. While it is true that there seems to be a certain consensus stating that the price levels of 2019 which are acting as the peak will not be repeated until 2023 or 2024, and there are discrepancies as to the form that cycle will take.

All of this is marked by an effective return to real activity which is taking place with the advance of the medical solution to the pandemic, by the performance of the real job market, with the elimination or reduction of the aid provided through the Temporary Redundancy Schemes (ERTE), and the performance of bank financing available for funding property purchases. To the extent that such concerns can be dispelled, it is anticipated that there will be a reactivation in the crucial block of final domestic buyers, which will have to be accompanied by a reactivation in mortgages, this being a key aspect of any stable growth.

In this scenario of uncertainty Sareb continues looking to optimise its operational and commercial roadmap, which it began during the year now closed, consolidating the levers built and setting itself an ambitious target for generating business which encompasses all the possibilities allowed

to it by the evolution of the country in finding a solution to the pandemic and reactivating the economy.

This foreseeable price instability will have a greater or lesser effect depending on the segment of the demand. We appear to be facing a greater fragmentation of the real estate market on the basis of several criteria. On the one hand, between new properties and resales, where prices have diverged more in favour of the former, which explains the good performance of new construction projects, even during the phase of pandemic. There are also hints of an incipient trend in favour of larger areas as opposed to specific locations, brought about by teleworking. This is generating movements to the outer city perimeters, although the pre-existing property pool does not really respond to this trend; the result is that companies who are accommodating those requirements are gaining prominence. And not forgetting geographical fragmentation, in which a number of sub-markets (certain municipalities in the provinces of Madrid and Barcelona or the provinces on the Mediterranean coast comprising homes), have been functioning as the driving force behind the escalation of transactions and prices of the last quarters, although it is true that some symptoms of exhaustion are being seen, apart from not having the same drive in the rest of the country, and not even in the same provinces.

The pandemic has also brought about a significant change in the market for office space in which, not so much due to a possible loss of jobs, but to the new direction taken toward teleworking, companies are forced to relocate their headquarters. This is generating major pools of unoccupied offices, and with no possibility of occupation in the short term, which is having more effect in the peripheral locations where Sareb participates than in the prime areas, although the latter are beginning to find themselves under considerable pressure in terms of prices, and also in the need for space.

This situation of changes in the market, due to certain circumstances at present but with a view to becoming structural, are conditioning Sareb's strategy that seeks to find a solution through commercial segmentation and also to its price adjustment policy for each sub-market. Taking

the optimisation of value as a point of reference including that future evolution and the short and medium term expectations for asset liquidity in the equation. Any assets that are considered to have limited or zero evolution will be subject to an aggressive marketing campaign to alleviate the carrying costs of keeping them on hold for better times.

In any event, and mentioned as aspects to be taken into account, there is the behaviour of Sareb's competitors, where the Banks may move towards a more aggressive approach in selling their stocks of NPAs and the Funds can opt for various strategies depending on their purchase values and their undergoing negotiations with their financiers.

As regards lines of work, the company will opt for finding an orderly outlet for its non-productive portfolios or those with scarce expectations. It will be orderly insofar as it will be organised in stages, and especially because it will be done within a clear market-value framework including greater or lesser liquidity. In this way, sales of financial assets will be resumed which, although they might generate negative accounting margins, it is necessary to dispose of them in those cases where their possible conversion processes do not generate any better results than would be obtained if they were transferred to a third party; regardless of the extent to which these might include their reasonable discounts as remuneration for their risk and management.

In the real estate asset market, the same framework for value improvement (not equivalent to value creation) is repeated: choosing the retain/wait alternative which is most suited to the company value itself.

In the land segment this dichotomy will be experienced more intensely among those plots that Sareb retains for future development (either land or serviced development land) and those whose sale is more sensitive to price reductions, always within the market interval.

To summarise, while a complex situation exists, we have to consider that the commercial organisation based on segmentation of assets, channels and media, the strong operational capacity of our retail sale channels, the improved information on our assets, all allow us to predict a framework of greater possibilities for optimising the Company's value in the medium term. This clear organisational and sales approach is defensible from an evident programme of segmentation of our portfolio into different blocks of activity and specialisation in the management of each one.

The figures for the book results, which might worsen as the portfolios showing a negative book result against their sale value will be divested, must be measured considering the time-frame of Sareb's mandate for management, in terms of to what extent, and at what cost to the Company is the large amount of damaged stock that was transferred to it being sold.

And, of course, in any case, without renouncing our status as one of, if not the principal, stakeholder in the Spanish real estate market and, most particularly, in the retail segment.

Finally, the company has already begun a period of deep reflection on its future management structure, taking into account the expiry of the most significant management contracts during the course of 2022. Although years ago the Esparta project was put forward as the best alternative to a general servicers model, the company might reconsider such a structure and move towards other scenarios in which it might decide against direct operational management and rely on outsourcing systems to a lesser or greater extent. That reflection may determine not so much its turnover in the short term, although it is true in the long term, but rather the day-to-day operations of the company. This reflection links in with the concepts of sub-portfolios/asset groups covered by segmentation, and they will have to be provided with more specialised management which includes servicers specialising in each field. And now, and this should be stressed, without the obstacles of accounting results, but rather considering the result in terms of greater value.

This requirement to improve and to permanently adapt to the environment is at all times planned as a way to strictly control the costs incurred, both as regards the holding of assets and especially in relation to the operations where payments can be reduced. This effort to reduce costs over recent years has persisted and has been accentuated, eliminating service layers with low added value, optimising critical processes and reducing the level of investment in IT systems. This is an exercise of austerity which is adjusted periodically by evaluating situations where budget reduction might be disrupting operability.

5. Non-financial information

Sareb has numerous policies and procedures in place governing the company's performance in order to act with due control, amongst which those related to social, environmental and compliance matters.

- **Governance model:** With the aim of fulfilling its commitments to ethics, integrity and transparency and to prevent any possible risks which might have to be faced in this regard, Sareb has a robust compliance and governance model. Furthermore, the singularity of its corporate purpose and the public interest associated to Sareb's activity mean it is also subject to supervision by the Bank of Spain, the Spanish National Securities Market Commission (CNMV) and the Monitoring Committee (Ministry for Economic Affairs and Digital Transformation -General Secretariat for Public Treasury and International Financing-, Ministry of Finance, Bank of Spain and CNMV). The governance of the company takes place through two main bodies: the Shareholders General Meeting and the Board of Directors. The Shareholders General Meeting is composed of Sareb shareholders, it discusses and makes decisions on matters within its competence, according to the articles of association and the Capital Companies Act. The functioning of the Board is backed up by the Audit Committee, the Remuneration and Appointments Committee and the Management Committee.
- **Internal control system:** The company has an Internal Control System on Ethical Standards (SCISNE) that includes all policies, manuals and procedures which contribute to making it possible for its activities to be carried out not only in compliance with current legislation but also in an ethical and upright manner. The Compliance Department is in charge of monitoring compliance with ethical standards aimed at crime prevention, data protection and the detection of other risks, amongst other issues. Central to this system is the Code of Conduct, which is complemented by a broad set of policies that cover areas that include, among others, criminal liability, the prevention of money laundering and financing of terrorism, data protection and relations with third parties. These also apply to servicers and the main suppliers.

In parallel to this, the company also has an Internal control system on governance and strategic processes (SCEG), an Internal control system on processes for managing business risks (SCIR) and an Internal control system on financial information (SCIIF).

- **The Code of Conduct,** approved by the Board of Directors in 2013 and last updated on 30 April 2019, expressly includes the commitments and behaviour guidelines that must be observed and followed by the people included in its scope of application. The behaviour of its employees must be governed by this framework from the moment they join Sareb. For this reason, new employees receive a copy of the Code of Conduct along with their employment contract, and express and signed acceptance of the Code of Conduct is requested as a contractual obligation.

The ethical standards upon which the company's Code of Conduct is based, which are compulsory for all employees and suppliers to comply with, include respect for human rights. In addition, the company has an Ethics Committee, the collegiate body with the responsibility, on the one hand, to reinforce the values which constitute the company's identity and on the other, to facilitate the fundamental principles and criteria needed to guide the conduct of participants when carrying out their daily activities, in addition to promoting ethical and responsible behaviour.

- **Complaints Mailbox:** Sareb has a Complaints Mailbox, run by the Compliance Department, to facilitate the communication of irregularities and other ethically questionable behaviour. That Mailbox is available both to its own employees and third parties related to the company, specifically servicers and suppliers. The Complaints Mailbox is managed by an independent third party with expertise in this field.. Complaints can be submitted confidentially -known only to the external company- or, since 2019, anonymously, so that neither the third party will know the identity of the complainant. This mechanism also makes it possible to receive and respond to queries on specific aspects and doubts related to the company's Code of Conduct.

Sareb implements different initiatives for making the existence of the Mailbox known to its employees and the servicers. These include on-site and online information sessions, informative posters in areas where Sareb's asset management is performed, and the publication of news on the intranet. Along with the Mailbox, Sareb has a Procedure for Management and Investigation of Complaints, which is the result of the company's commitment to dealing with and analysing any situations which might be considered a breach of the Code of Conduct.

- **Environment:** Sareb takes on board the commitment to make its business activities compatible with the maximum respect for the environment. The company has implemented an Environmental Management, Quality and Occupational Hazard Prevention Policy which brings together the principles and key aspects to be developed by the company for preserving and protecting the environment.
- **Staff Management:** the company has a People Management Policy whose basic principles are behaving with integrity, vocation for collaboration and best practices. This policy aims at aligning the objectives of all Sareb employees and also at boosting their loyalty and motivation. At the end of 2020 the number of Sareb employees totalled 379, of which 172 were women and 207 men (Note 16.3). In 2020 the Company employed two members of staff with a degree of disability that is 33% or higher.
- **Equality, diversity and conciliation:** Sareb has an Equality, Diversity and Conciliation Plan for promoting an inclusive environment and also to guarantee that its actions are governed by the principle of equal treatment and opportunities and non-discrimination based on birth, gender, religion, opinion, disability or any other personal or social condition or circumstance. The Plan, implemented in 2018 and which is currently known as 'Sareb Contigo', has allowed the company to diagnose the company's situation in these matters and comply with the Law. After Royal Decree 901/2020, of 13 December, came into force, which regulates equality plans, in 2021 Sareb has been working on drawing up a plan adapted to the specific requirements of the new Regulation. Once this document has been approved and is in force, the Plan Monitoring Committee will annually evaluate how its implementation is advancing and how the objectives are being achieved. Parallel to implementing initiatives to promote equality, Sareb employees are able to anonymously inform of any discriminatory attitude through the use of the Complaints Mailbox, on which more information is provided in the chapter on Ethics, Integrity and Transparency.

6. Acquisition of own shares

In 2020 the Company had neither carried out transactions with its own shares nor held any at 31 December 2020.

7. Information on related parties

Note 17 of these annual accounts describes the transactions carried out with related parties. Most of these arise from financing agreements and their corresponding financial expenses and from fees for management and sales commissions accrued during the year with the banks that were entrusted with the management and marketing of the Company's assets.

8. Subsequent events

There are no subsequent events that could affect the financial information other than those stated in the corresponding note of the Report.

Furthermore, and without having any effect on the financial information, it should be noted that in 2021, the company has taken another step forward in its social commitment by signing a protocol with the Ministry of Transport, Mobility and Urban Agenda under which it expands the number of properties to be mobilised for those purposes to 15,000 units.

The signing of the protocol was presided by the Prime Minister, Mr Pedro Sánchez, and the agreement was initialled by the Minister of Transport, Mobility and Urban Agenda, Mr José Luis Ábalos, the Minister for Economic Affairs and Digital Transformation, Ms Nadia Calviño, and the Chairman of Sareb, Mr Jaime Echegoyen.

Under this agreement, the company will place 5,000 properties at the disposal of the local and regional public administrations in the short term so that they can use them for affordable renting, and a further 5,000 in the medium term.

The Ministry of Transport, Mobility and Urban Agenda will partially assume the expenses of assigning them and the refurbishment and reconditioning work necessary for ensuring the properties are habitable, and they will then be rented at a reduced rate to people with limited income and demonstrated to be in a situation of vulnerability by the Autonomous Regions and local institutions.

Sareb's pool of social housing is completed with a further 5,000 properties, most of which have already been assigned by the company to Autonomous Regions and town councils or made available to people in a vulnerable situation, after signing affordable lease agreements.

9. Research and Development

No significant investments in research and development were made in 2020 due to the nature of the Company's business.

Mr. Jaime Echegoyen Enríquez de la Orden

Chairman

Mr. Javier García del Río

CEO

Ms. Idoya María Arteagabeitia González

Director

Mr. Jaime Rodríguez Andrade

Director

Mr. Javier Torres Riesco

Director

Mr. Jorge Mondéjar López

Director

Mr. Juan Ignacio Ruiz de Alda Moreno

Director

Ms. María del Carmen Motellón García

Director

FROB (Representado por Ms. Paula Conthe)

Director

Mr. Francisco Javier Bartolomé Delicado

Director

Mr. Alberto Valdivielso Cañas

Director

Mr. Eduardo Aguilar Fernández-Hontoria

Director

Mr. Francisco Javier García-Carranza Benjumea

Director

Mr. Iñaki Goikoetxea González

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Mr. Enric Rovira Masachs

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