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Spain: Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria (SAREB)[1]

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Abstract

In the wake of the Global Financial Crisis, the Spanish real estate market struggled to recover, which posed significant issues for savings banks that had an outsized exposure to the real estate sector. The Spanish government created Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria (SAREB) in 2012 to buy impaired real estate assets from troubled banks and sell them over a 15-year period using funds from an up to €100 billion ($123 billion) loan from the European Financial Stability Facility. Its mandate was "to help clean up the Spanish financial sector and, in particular, the banks that became financially distressed as a result of their excessive exposure to the real estate sector." SAREB was 55% owned by private interests and expected to turn a profit. Using state-guaranteed debt, SAREB acquired 200,000 assets valued by SAREB at €50.8 billion from troubled banks at a substantial discount to book value. Banks that sold assets to SAREB were either nationalized or supported with government capital injections. To assist in the divestment process, SAREB first hired the banks and later, third-party servicers. Spain's slow economic recovery hampered asset disposition efforts. As of 2019, SAREB had disposed of €18.1 billion of the €50.8 billion worth of assets it had originally acquired and had failed to achieve the expected returns for private investors.

Keywords: Asset management company, Bank of Spain, Global Financial Crisis, SAREB, Spain, broad-based asset management

[1] This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering broad-based asset management company programs.

Cases are available from the *Journal of Financial Crises* at https://elischolar.library.yale.edu/journal-of-financial-crises/.

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Spain: SAREB

At a Glance

By the middle of 2012, it had become apparent to the Spanish government that dramatic action needed to be taken in response to the deteriorating state of the nation's troubled banking system. Spain's real estate sector was plagued by a high rate of nonperforming loans (NPLs) and other problematic assets. Because many banks held these assets on their balance sheets, they faced elevated borrowing costs with counterparties hesitant to lend. On July 20, 2012, European authorities and the Spanish government signed a Memorandum of Understanding (MoU) that granted el Fondo de Reestructuración Ordenada Bancaria (FROB)—known in English as the Fund for Orderly Bank Restructuring—State aid in the form of a European Financial Stability Facility (EFSF) loan of up to €100 billion ($123 billion) for its goals of restructuring troubled banks.[4] Most notably, the MoU provided for the creation of the Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, or Asset Management Company for Assets Arising from Bank Restructuring, better known by the Spanish abbreviation SAREB (European Commission 2012).

Summary of Key Terms	
Purpose: "to help clean up the Spanish financial sector and, in particular, the banks that became financially distressed as a result of their excessive exposure to the real estate sector" (SAREB 2021)	
Launch dates	Announcement: July 20, 2012 Operational: November 28, 2012 First transfer: December 31, 2012
Wind-down dates	None; second (and likely final) transfer completed February 28, 2013
Size and type of NPL problem	€167 billion worth of bad real estate loans on banks' balance sheets
Program size	Not specified at outset
Eligible institutions	Participation was mandatory for banks that had failed stress tests or had been either nationalized or forced to accept government capital; 9 banks participated
Usage	Approx. 200,000 assets valued by SAREB at €50.8 billion were acquired
Outcomes	€18.1 billion of €50.8 billion disposed of for a total loss of €4 billion as of 2018
Ownership structure	Mixed public-private ownership
Notable features	Use of banks themselves to dispose of former assets before conflict of interest concerns prompted a shift to servicers

The task for SAREB was to clean up Spanish bank balance sheets by buying impaired real estate assets and then divesting them over a 15-year period (FROB 2012). SAREB was majority private, allowing for operational autonomy, a for-profit motive in addition to its restructuring mandate, and its liabilities to not be considered part of the national debt by Eurostat (European Commission 2013). Using government-guaranteed debt, SAREB acquired its assets from banks that had failed stress tests (FROB 2012; SAREB 2013). The

[4] Per Yahoo Finance, $1.23 = €1 on July 20, 2012.

prices of transferred assets were determined by FROB with reference to a pre-existing consulting firm Oliver Wyman report that estimated the "real economic value" of the assets. SAREB maintained its own staff but hired first the banks, and later, following performance and conflict of interest concerns, third-party servicers, to assist in the divestment process.

Summary Evaluation

SAREB ultimately acquired approximately 200,000 assets valued by Oliver Wyman at €50.8 billion (SAREB 2021). As of 2019, it had disposed of €18.1 billion of these assets. Considerable and sustained losses have hampered SAREB's portfolio since its creation. Despite projecting investment returns of at least 14% (European Commission 2013), SAREB suffered sustained losses in the first six years of its existence (see Figure 1). Nevertheless, SAREB's proponents argue that despite early struggles, SAREB's ultimate performance remains undetermined. They also argue that, even if it never achieves profitability, SAREB has already proven to be successful in its broader goal of supporting the financial sector. As of the time of writing of this case, there has been limited scholarship about the effectiveness of SAREB, not least because SAREB is an ongoing program.

SAREB : Spain Context	
GDP (SAAR, Nominal GDP in LCU converted to USD)	$1.326 trillion in 2012 $1.355 trillion in 2013
GDP per capita (SAAR, Nominal GDP in LCU converted to USD)	$28,324 in 2012 $29,060 in 2013
Sovereign credit rating (5-year senior debt)	Data for 2012: Moody's: Baa3 S&P: BBB– Fitch: BBB Data for 2013: Moody's: Baa3 S&P: BBB– Fitch: BBB
Size of banking system	$2.577 trillion in 2012 $2.518 trillion in 2013
Size of banking system as a percentage of GDP	194.34% in 2012 185.80% in 2013
Size of banking system as a percentage of financial system	Data not available for 2012 Data not available for 2013
5-bank concentration of banking system	70% in 2012 77% in 2013
Foreign involvement in banking system	2% in 2012 0% in 2013
Government ownership of banking system	Data not available for 2012 Data not available for 2013
Existence of deposit insurance	100% insurance on deposits up to $133,333 in 2010 100% insurance on deposits up to $137,830 in 2013
Sources: Bloomberg; World Bank Global Financial Development Database; World Bank Deposit Insurance Dataset.	

I. Overview

Background

In the lead-up to the Global Financial Crisis, savings banks (*cajas de ahorros*) in Spain increased their exposure to the housing and construction sectors, leaving them significantly vulnerable to the bursting of the real estate bubble in 2008 (Cas and Peresa 2016). Lending from savings banks to the real estate sector increased 266% from 2000 to 2007. Savings banks accounted for 49% of total credit volume in 2007. Unlike commercial banks, savings banks in Spain did not have access to high-quality capital, except for capitalizing their profits; equity units in savings banks did not include voting rights, making them unattractive to investors. As savings banks expanded, relaxing credit standards and ignoring sector concentration risks, they increasingly financed their business with wholesale funding, such as covered bonds or asset securitizations (Bank of Spain 2017).

As the Global Financial Crisis spread, wholesale funding markets locked up, causing savings banks in Spain to rapidly slow their provision of credit, while commercial banks continued to grow at a moderate pace. In 2008, nonperforming loans (NPLs) held by savings banks increased by 366% from the previous year, from €7.4 billion to almost €35 billion. Savings banks had higher NPL ratios than commercial banks. The NPL ratio in the real estate and construction sector reached 20% in 2011 and made up 45% of the total volume of NPLs (Bank of Spain 2017).

As a result of the NPL pile-up, the savings bank sector contracted through mergers and takeovers from 45 groups in 2010 to 15 in 2011. However, this downsizing did not alleviate the pressures facing the sector, as the euro zone faced another slowdown in economic growth in 2012. The slowdown led to a further tightening in Spanish wholesale markets, causing one of the newly merged savings bank groups, BFA-Bankia, to request recapitalization from the Spanish government in May 2012 (Bank of Spain 2017).

By the middle of 2012, it had become apparent to the Spanish government that dramatic action needed to be taken in response to the deteriorating state of Spain's troubled savings banks. Because many savings banks held these assets on their balance sheets, and in part because they were already undercapitalized, they faced elevated borrowing costs (European Commission 2012). Spanish banks had become highly dependent on secured Eurosystem refinancing, so their borrowing capacity had been severely limited by the impact of ratings downgrades on commonly used collateral. Spanish authorities appealed to European authorities on June 25, 2012, for external financial assistance to support their ongoing efforts to restructure and recapitalize the banking sector. The Spanish government specifically appealed to a program called the Financial Assistance Programme for the Recapitalization of Financial Institutions, administered by the European Financial Stability

Facility (EFSF)[5] (European Commission 2012). The EFSF and the Spanish government subsequently signed a Memorandum of Understanding (MoU) on July 20, 2012. The MoU granted el Fondo de Reestructuración Ordenada Bancaria (FROB), known in English as the Fund for Orderly Bank Restructuring,[6] up to €100 billion in State aid in the form of an EFSF loan. Most notably, it provided for the creation of the Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria or the Asset Management Company for Assets Arising from Bank Restructuring. The company is better known by the Spanish abbreviation SAREB. The aid also came with a number of conditions (European Commission 2012).

The presence of NPLs and other impaired real estate assets created an environment in which the full extent of losses had not yet been realized for the banks that retained them. As long as this was the case, European authorities reasoned, Spanish banks would still be viewed by the broader market as a credit risk (European Commission 2012). The solution was SAREB, an asset management company, sometimes referred to as a "bad bank."

Program Description

The groundwork was laid for SAREB's creation with the passing of Spanish Royal Decree-Law 24/2012 on August 31, 2012 (BOE 2012a), but it wasn't until mid-November that it was formally created and reinforced by Royal Decree 1559/2012 and Law 9/2012 (BOE 2012b; BOE 2012c). As SAREB itself states, "Our company was founded in November 2012 to help clean up the Spanish financial sector and, in particular, the banks that became financially distressed as a result of their excessive exposure to the real estate sector" (SAREB 2021). Spanish banks identified by authorities as being in need of significant restructuring were required to promptly transfer the riskiest and most distressed real estate assets to SAREB. It was SAREB's role, in turn, to "carry out an orderly divestment of the distressed assets" over a 15-year period (SAREB 2021).

For a number of reasons, including the need to facilitate operational and organizational autonomy, SAREB had a public-private ownership structure. Approximately 45% of SAREB's equity was owned by FROB and therefore, indirectly, by taxpayers. Approximately 55% of SAREB, meanwhile, was owned by private investors, mainly banks and insurance companies. Of the 21 private investors in SAREB, 14 were Spanish banks, two were foreign banks (Deutsche Bank and Barclays), four were insurers (three Spanish and one French), and one was a Spanish electric company (Iberdrola) (see Appendix A for a full list of investors and the capital provisioned) (SAREB 2012). The majority private ownership structure meant that SAREB was not legally considered "state owned" and its liabilities were not considered to be part of the Spanish national debt by Eurostat (ECB 2013).

[5] Established in June 2010, EFSF was a "temporary crisis resolution mechanism" that also provided assistance to Ireland, Portugal, and Greece. It has subsequently been replaced the European Stability Mechanism (European Stability Mechanism 2019).
[6] Established in 2009, and operating under the legal regime of Law 11/2015 of June 18, 2015, FROB describes itself as the Spanish Executive Resolution Authority, focused on the "recovery and resolution of credit institutions and investment firms" (FROB 2019).

In setting up and managing the program, SAREB administrators often relied on a considerable amount of preexisting administrative infrastructure. For example, to determine which institutions would transfer assets, SAREB administrators utilized bank groupings created by FROB based on government-contracted stress tests conducted by consulting firm Oliver Wyman. These stress tests, and subsequently submitted recapitalization plans, resulted in the creation of four groups based on capital shortfalls and viable restructuring strategies, only two of which transferred assets to SAREB (European Commission 2012; SAREB 2013).

SAREB also set a number of eligibility requirements for the specific assets it would assume. SAREB would acquire foreclosed real estate assets with an individual minimum asset size of €100,000, all loans to real estate developers with a minimum borrower exposure of €250,000, and ownership interests in select real estate companies (FROB 2012).

The transfer value, or price at which SAREB would buy assets from banks, was based on two components. The first was the "real economic value," or REV, of a particular asset or class of assets (European Commission 2012). The REV had been determined by the Bank of Spain, using the Oliver Wyman exercise as a reference. Second, an additional discount was applied to defray management, administrative, and other costs, and to compensate for the timing of divestment (SAREB 2013). Ultimately, on average, the haircuts represented approximately 53% of the book value of the assets (Bank of Spain 2017).

FROB designed a provisional business plan for SAREB with a 15-year time horizon (FROB 2012). SAREB managed to raise initial capital of €3.6 billion in subordinated debt and €1.2 billion in equity, of which €540 million was from FROB (IMF 2017). This capital was not intended for acquiring assets. Instead, SAREB was to issue its own bonds, guaranteed by the Spanish government, "as consideration for assets transferred" (FROB 2012). This senior debt was to be subscribed to by the participating banks, and the banks could then use it as collateral to better access Eurosystem refinancing (see Appendix B).

Initially, SAREB employed the very banks that had previously owned the assets to sell them, reasoning that these banks had the most knowledge of the assets in SAREB's portfolio (SAREB 2014b). Furthermore, SAREB chose to package and sell its assets in bulk, in an attempt to raise revenue quickly to service its growing debt burden. In December 2014, in the face of persistent losses, however, SAREB awarded contracts to four loan "servicers." SAREB initiated this change to receive better servicing, as the banks did not prioritize the disposal of SAREB's assets. At the same time, in the intervening years since SAREB was established, several of the participating banks had sold their loan platforms, which had helped to create a burgeoning new industry in loan servicing (SAREB 2014b). Additionally, SAREB's management agreements were set to expire in December 2014. The need to renegotiate management agreements coupled with a different market outlook and conflict of interest concerns gave SAREB the opportunity to shift to the new servicers. The arrival of the new servicers was coupled with a change in asset disposal strategy. Rather than sell assets in bulk, SAREB embraced a sales approach that was smaller and more open to customer preference (SAREB 2014b).

Outcomes

SAREB ultimately acquired approximately 200,000 assets valued by SAREB at €50.8 billion. About 80% of these assets were real estate developer loans and the remaining 20% were real estate assets (SAREB 2021). This €50.8 billion was discounted substantially from a gross book value of €106.9 billion (SAREB 2013).

SAREB's NPL purchases represented about 60% of the total €167 billion in bad loans in the market as a whole, according to one estimate (Louven 2017). There are several possible explanations. For one, some banks were ineligible. Banks that had not failed stress tests did not receive access to SAREB assistance (SAREB 2013). Furthermore, because of asset eligibility standards, SAREB did not acquire real estate assets valued at less than €100,000 or loans to real estate developers of less than €250,000 (FROB 2012).

The acquisition and transfer of assets from troubled banks to SAREB occurred in two phases. In the first phase on December 31, 2012, SAREB acquired 145,125 assets valued at €36.7 billion from Banco de Valencia, Banco Gallego, BFA-Bankia, Catalunya Banc, and NCG Banco, the five Group 1 institutions that had failed stress tests and were subsequently nationalized under FROB (Ortiz Risueno 2015) (see Appendix C).

Then on February 28, 2013, a further 52,349 assets valued at €14.1 billion were transferred to SAREB from the four Group 2 banks—Banco CEISS, BMN, Caja3, and Liberbank—institutions that had failed stress tests and received government capital injections through FROB in separate operations (Ortiz Risueno 2015) (see Appendix C).

Since its founding in late 2012, SAREB has faced recurring issues surrounding its operations. The pace of sales declined noticeably in late 2014 as SAREB dramatically transformed its sales operations. SAREB initially relied on the very banks that had transferred the assets to help SAREB dispose of them. In response to poor performance and concerns about potential conflicts of interest, SAREB decided to change its sales approach. In late 2014, SAREB formally hired four third-party servicing companies to assist in selling its assets. These servicers specialize in recovering value from distressed loans and real estate holdings. During the process of hiring the new servicers, the pace of sales declined precipitously as the servicers took time to take stock of the broad new inventory that they were responsible for disposing of. The pace of sales has subsequently picked up (SAREB 2015).

Further hampering the pace of sales was the implementation of updated rules for SAREB's valuation of assets, which were released in October 2015. As Cas and Peresa (2016) explain:

> The new rules require the assessment of all [SAREB's] assets individually to reflect changes in market prices by end-2016. This resulted in additional impairment provisions of EUR 2.04 billion, of which 90% was applied retroactively to the 2014 and 2015 accounts. For this purpose, SAREB exhausted the buffer provided by its original shareholder equity and in addition had to convert EUR 2.17 billion of its subordinated debt into equity. Following the conversion, it had EUR 0.95 billion in

> equity and EUR 1.43 billion in subordinated debt. The new valuation standards have implications on its disposal business too, as they require SAREB to focus on operations where the sale price of the asset is above the valuation price to generate profits, causing a temporary slowdown in the disposal of its assets.

By the end of 2019, SAREB had sold €18.1 billion worth of assets, or about 36% of its portfolio. Furthermore, it has repaid only €15.7 billion, or 31%, of its debt. At the end of 2019, SAREB still retained €32.7 billion of its assets against an outstanding debt of €35.1 billion (SAREB 2019).

In 2017, SAREB created Témpore Properties, which specializes in residential property rentals. Témpore Properties is a so-called SOCIMI (short for Sociedades Cotizadas de Inversión en el Mercado Inmobiliario, which is basically a Spanish REIT). It officially listed on the Alternative Stock Exchange (MAB) in April 2017 (SAREB 2018b). A portfolio of 1,554 assets (of which 1,383 were residential properties), valued at €175 million, was transferred from SAREB to Témpore Properties (SAREB 2018e). In its first six months of existence, Témpore Properties managed to raise the occupancy rate of the properties it manages from 84% to 89% while lowering the rate of unpaid rents from 5.5% to 5% (SAREB 2018d). SAREB sold 75% of its shares in Témpore Properties in 2019 to TPG Real Estate Partners (SAREB 2019).

Considerable and sustained losses have hampered SAREB's portfolio since its creation. Despite projecting investment returns of at least 14% (European Commission 2013), In fact, SAREB suffered sustained losses every year of its first seven years of existence. Figure 1 documents SAREB's net loss in every year since its founding.

Figure 1: SAREB's net losses by year

Year	**Profit/Loss (€ millions)**
2013	–261
2014	–585
2015	–103
2016	–663
2017	–565
2018	–878
2019	–947
Total	–4,002

Sources: SAREB 2014b; SAREB 2016; SAREB 2018e; SAREB 2019.

These sizeable losses were partially driven by a set of interest rate swaps conducted in 2013. Since SAREB was funded primarily by debt indexed to floating interest rates, SAREB arranged interest rate swaps to protect itself against rising interest rates. It arranged nine consecutive one-year swaps, ending in February 2023. The swaps converted the floating interest rates to fixed rates of between 0.491% and 3.145% and covered €42 billion in senior debt, about 80% of SAREB's issued senior debt (SAREB 2015). But rates declined to historic lows after SAREB arranged the swaps. The swaps ended up costing SAREB €546 million in 2019 and €571 million in 2018, or more than half of its net losses. Of the remaining issued senior debt, the interest rate swaps cover 42% until 2023 (SAREB 2019).

The extent of SAREB's losses in its first seven years of existence may lead to deeper problems. SAREB's initial capital was ultimately exhausted to pay down SAREB's obligations as the bonds reached maturity, even as SAREB failed to turn a profit (Cas and Peresa 2016). Despite the fact that SAREB was majority held by private investors, there was speculation from market players that SAREB's continued losses might precipitate a downgrade in the credit rating of the entire Spanish government. These concerns were predicated upon SAREB's funding structure. SAREB had issued government-guaranteed senior bonds to banks to acquire their bad assets, representing almost 5% of Spanish GDP at the time (Cas and Peresa 2016). While these concerns ultimately did not come to fruition at the time, their existence reflects an underlying market concern with SAREB's continued struggles.

In recent years, SAREB has positioned itself more as a real estate company than as a bank managing nonperforming loans. In pursuit of that goal, SAREB focused on transforming its balance sheet towards property rather than developer loans. In its own view, this process allows SAREB to better capture the value of its assets: it can sell property at market values, whereas it would have to sell loans on the institutional market at heavy discounts. Loans accounted for as much as 80% of SAREB's assets in earlier years but steadily declined to less than 60% by the end of 2019 (SAREB 2019).

II. Key Design Decisions

1. Part of a package: The creation of SAREB was an essential component of Spain's banking sector reform and restructuring, which also included nationalization and recapitalization.

The creation of SAREB was a precondition of a broader aid package from European authorities to the Spanish government. In the middle of 2012, in the face of a deteriorating banking sector, Spanish authorities appealed to a European program called the Financial Assistance Programme for the Recapitalization of Financial Institutions administered by the European Financial Stability Facility (EFSF). On July 20, 2012, the Spanish government and the EFSF signed a Memorandum of Understanding, which mandated the creation of an asset management company as one of the preconditions for receiving an EFSF loan of as much as €100 billion (European Commission 2012). The Kingdom of Spain eventually received about €41.3 billion from this facility (European Stability Mechanism 2014).

The EFSF argued that an asset management company (AMC) was an indispensable component of FROB's broader banking sector reform and restructuring mandate. The AMC would allow financial institutions that were struggling to borrow to clean up their balance sheets and lower their borrowing costs (European Commission 2012).

In addition to SAREB, Spanish authorities engaged in a number of initiatives. These included efforts to "[clean] up banks' balance sheets; [increase] minimum capital requirements; [restructure] the savings bank sector; and significantly [increase] the provisioning requirements for loans related to real estate development and foreclosed assets" (FROB 2012).

2. Legal authority: To provide legal authority for SAREB, the Spanish government passed Royal Decree-Law 24/2012 of August 31, 2012, Law 9/2012 of November 14, 2012, and Royal Decree 1559/2012 of November 15, 2012, which developed Law 9/2012 still further.

On August 31, 2012, the Spanish government passed Royal Decree-Law 24/2012 on the restructuring and resolution of credit institutions, which among other conditions, provided "the necessary legal authority to ensure the AMC is operational by December this year" (Bank of Spain 2012).

Law 9/2012 of November 14, 2012, provided more authority and greater clarity over the rules of SAREB. Indispensable to the operations of SAREB, Law 9/2012 granted FROB the power to make a credit institution transfer to an AMC certain impaired assets or assets that were considered potentially harmful to the institution if they remain on its balance sheet. The AMC would then have the responsibility to remove those assets from the balance sheet and allow them to be managed separately (BOE 2012b). This law gave FROB the authority to compel banks to transfer their distressed assets to SAREB.

Last, Royal Decree 1559/2012 of November 15, 2012, implemented and formalized the legal regime required for Spain to establish an asset management company and included regulations specific to SAREB (BOE 2012c). In essence, while Royal Decree-Law 24/2012 had laid the groundwork for SAREB, Royal Decree 1559/2012 formally created it.

3. Legal authority: On November 14, 2012, the Spanish Secretary of State for Economic Affairs and Business Support requested an opinion from the European Central Bank (ECB) on the draft of Royal Decree 1559/2012 that would authorize AMCs (and SAREB in particular). On December 14, 2012, the ECB published the opinion.

On November 14, 2012, the Spanish Secretary of State for Economic Affairs and Business Support requested an opinion from the ECB on the draft of Royal Decree 1559/2012 that would authorize AMCs (and SAREB in particular). Published on December 14, 2012, and signed by Vitor Constancio, the Vice President of the ECB, the report was largely favorable to the proposed Spanish legislation. In this report, the ECB (2012) concisely summarized the two primary purposes of SAREB, namely supporting and normalizing the banking system and recovering the value of distressed assets. It reads:

> More generally, by facilitating the transfer of nonperforming assets into a separate institution, asset removal schemes such as the SAREB assist participating banks in restructuring their balance sheets, which should, in turn, improve their financial soundness. By facilitating banking sector restructuring and recovery, albeit by

> transferring risk from the banking sector to the State, such schemes should positively contribute to banks' ability to extend credit and support economic recovery. In addition, the value of the distressed assets may be better recovered when consolidated and managed by independent specialists.

However, the report also raised a number of concerns about potential conflicts of interest arising from Spanish credit institutions taking ownership stakes in SAREB. It also pushed for a prohibition on public debt monetization and limitations on dividend payments (ECB 2012).

4. Special powers: Officials did not seem to provide any special powers to SAREB.

It does not appear that SAREB was granted any notable special powers to pursue its mandate.

5. Mandate: SAREB intended to clean up the financial sector's distressed assets, mostly related to real estate, while attempting to realize the full value of those assets.

The Memorandum of Understanding with the European Commission that detailed the plans for the creation of SAREB noted that the rapid removal of problematic assets from the balance sheets of banks was vital for the overall health of the banking sector. It continued, "[SAREB] will manage the assets with the goal of realising their long-term value" (European Commission 2012).

According to Article 3 of Royal Decree 1559/2012, which establish SAREB, the five objectives of SAREB were:

- "contribute to the cleaning up of the financial sector by acquiring assets for an effective transfer of their risk,
- "minimise public financial support,
- "service its debt and bonds issued,
- "minimise possible market distortions that could be caused by its actions, and
- "dispose of received assets optimising their value, in the required time frame" (Cas and Peresa 2016).

6. Communication: SAREB engages in regular communication with investors, foreign institutions, and the public.

SAREB regularly issues press releases on its website reporting on its financial performance and promoting new sales initiatives. SAREB also maintains several independent platforms on its website that market loan portfolios to institutional investors and real estate development companies and advertise individual properties to citizens. SAREB staff have also shared their experiences and knowledge formally with a number of delegations from other countries hoping to gain insight into how to address their own NPL troubles. Among these, SAREB has shared its expertise with representatives from Kazakhstan, the State Bank of Vietnam, DUTB (Slovenia's bank asset management company), and the Central Bank of Mongolia (SAREB 2017a; SAREB 2017b; SAREB 2018a; SAREB 2018c).

7. Ownership structure: SAREB had a mixed public-private ownership structure and capitalized itself in part with subordinated debt, which would later be converted to common equity.

SAREB was, by design, majority privately held. Approximately 55% of SAREB was held primarily by banks and insurance companies, while approximately 45% was owned by the taxpayers through FROB. Of the 21 private investors in SAREB, 14 were Spanish banks, two were foreign banks (Deutsche Bank and Barclays) four were insurers (three Spanish and one French), and one was a Spanish electric company (Iberdrola) (see Appendix A for a full list of investors and the capital provisioned) (SAREB 2012). This ownership structure afforded SAREB a number of benefits from a legal, perception-based, and operational efficiency standpoint.

The approach by which SAREB went about soliciting private investment has been criticized, however. Some suggested that the government engaged in some arm-twisting. Aristóbulo de Juan, formerly General Manager at the Bank of Spain and senior financial adviser at the World Bank, has written that these private investors were "'invited' to acquire stakes by the Spanish government in an exercise in moral suasion" (De Juan 2019).

On March 26, 2013, Eurostat issued a letter in response to several letters that had been exchanged between Eurostat and Spain's National Statistics Institute in late 2012 and early 2013. At issue was "the correct ESA95 accounting treatment of the classification of [SAREB]" (European Commission 2013).[7] The letter concluded that because of a number of features of SAREB, including its decision-making autonomy, majority private ownership, and finite lifespan, SAREB "should be classified outside the general government sector" (European Commission 2013). This was essential because it allowed the debt issued by SAREB (and guaranteed by the Spanish government) to not appear as a liability for the Spanish government on its books, even as SAREB was receiving considerable state support both in the form of a minority equity stake held by FROB and lowered borrowing costs thanks to the state guarantee of SAREB's debt (ECB 2013).

Furthermore, SAREB could be classified as a for-profit institution with the stated purpose of delivering a profit to private shareholders and taxpayers, even in the face of its mandate to assist in the restructuring and resolution of the banking system (European Commission 2013).

[7] The European system of national and regional accounts, known as ESA95, established accounting norms among member states of the European Union that "made it possible to describe the total economy of a […] country […] and its relation to other total economies." ESA95 was replaced by ESA2010 in September 2014 (European Commission 2017).

To fund its asset purchases, SAREB issued €50.8 billion worth of government-guaranteed senior bonds to be used "as consideration for assets transferred" (FROB 2012). At the same time, SAREB received an initial capitalization of €4.8 billion, of which €3.6 billion was convertible subordinated debt.[8] After the 2015 revaluation exercise revealed SAREB to be experiencing an equity shortfall, the subordinated debt was converted into equity in keeping with its original deeds of issue. As SAREB's 2015 Annual Report describes, "The deed of issue of this debt states that it is contingently convertible in the event of an equity deficit: (i) when accumulated losses are greater than or equal to the sum of the Company's share capital and its reserves or (ii) when the Company is in a situation of mandatory dissolution because accumulated losses have reduced the Company's equity to less than one half of the share capital" (SAREB 2015).

In spite of the conversion of subordinated debt to equity, or perhaps because of the losses that precipitated it, some observers began to worry that the Spanish government, as guarantor of SAREB's senior debt, might ultimately be responsible for the mounting losses that accrued to SAREB in its first seven years of existence. Spain had guaranteed €50.8 billion worth of senior debt issued by SAREB, totaling almost 5% of Spanish GDP at the time (Cas and Peresa 2016). If SAREB defaulted on its debt repayments, the burden would revert to the Spanish government.

Despite the efforts by the Spanish government to keep SAREB's liabilities out of public debt calculations, Eurostat decided in February 2021 that SAREB should be reclassified within the general government sector (Eurostat 2021). This would shift the liabilities of SAREB into Spain's total public debt, increasing the debt-to-GDP ratio from 117% to 120% (Reuters 2021). Eurostat determined that the consistent annual losses that SAREB posted and the government guarantee of the entire senior debt of SAREB constituted the behavior and characteristics of a public entity (Eurostat 2021).

8. Governance/administration: SAREB maintains a small but experienced staff and has ultimately made use of third-party servicers as well.

In December 2012, SAREB's first month of operation, it had only four employees. Over its first full year, its workforce swelled such that by the end of 2013, SAREB had 207 employees (SAREB 2013). In its second full year, SAREB hired more than 100 new employees and by the end of 2014, it employed 314 employees (SAREB 2014b). As of the end of 2019, SAREB reported that it employed 394 employees (SAREB 2019). By SAREB's own admission, this remains an insufficiently small staff. "As we did not have enough employees to manage the size of our asset portfolio on their own, we assigned the management and administration of our properties to four external servicers (Altamira Asset Management, Haya Real Estate, Servihabitat, and Solvia), who also operate across Spain" (SAREB 2021).

[8] The remaining €1.2 billion was common equity. See Appendix B for a snapshot of SAREB's initial balance sheet.

9. Governance/administration: SAREB's governance bodies are the General Meeting and the Board of Directors. SAREB is overseen by a Monitoring Committee, which includes the Bank of Spain and is overseen by the ECB.

As laid out in the 2014 Annual Report, "SAREB's governance bodies are the General Meeting, composed of the shareholders of the Company, and the Board of Directors, which […] comprised 15 members" (SAREB 2014b). Five of these 15 members are independent, a further eight are described as "proprietary directors" who represent the main shareholders of the company, and the remaining two are the Chairman and the CEO.

The Bank of Spain oversees SAREB's compliance with its objectives and obligations as an AMC as well as regulations pertaining to governance and transparency. In addition, SAREB is also supervised by the National Securities Markets Commission (CNMV), in matters relating to business activity as "an issuer of fixed-income securities" (SAREB 2013). SAREB submits publicly available half-year and annual reports to its Monitoring Committee, which, "in accordance with Act 9/2012 […] was set up for the purposes of overseeing compliance with SAREB's general objectives" (SAREB 2013). The Monitoring Committee is chaired by the Ministry of Economy, Industry and Competition and includes the Bank of Spain, the Ministry of Taxes and Public Authorities, and CNMV. An ECB representative also attends meetings as an observer.

FROB is a major stakeholder in SAREB, owning nearly half of its original common equity and frequently coordinating with it in bank recapitalization and restructuring efforts. FROB, in turn, is governed and administered by an 11-member Governing Committee, which includes FROB's Chairman, four representatives from the Bank of Spain including the Deputy Governor, three representatives from the Ministry of Economy and Business, the Vice Chairman of the CNMV, and two representatives from the Ministry of Finance. FROB valued its majority stake in SAREB at zero in 2019, after recognizing SAREB's losses gradually for years (Eurostat 2021).

10. Size: SAREB had no specified limitation in size.

SAREB ultimately acquired approximately 200,000 assets valued by SAREB at €50.8 billion (SAREB 2021). This €50.8 billion was discounted substantially from a gross book value of €106.9 billion (SAREB 2013). About 80% of these assets were real estate developer loans and the remaining 20% were real estate assets[9] (SAREB 2021). The loans contained more than 300,000 in collateral assets, of which the size was not known by SAREB until 2014 (SAREB 2015).

11. Funding source: SAREB had a mix of public and private funding, but issued government-guaranteed bonds to acquire the transferred assets.

The sooner an asset management company became active, SAREB's proponents argued, the faster markets would calm. As assets are isolated and removed from banks' balance sheets to SAREB, the theory goes, market participants should grow less concerned about the

[9] These assets comprised both commercial and residential real estate, but primarily residential.

underlying solvency of financial institutions. There was in 2012, therefore, quite a bit of urgency to make SAREB operational (Louven 2017).

Under the terms of the MoU with the European Commission, SAREB agreed to issue new government-guaranteed debt to participating banks as payment for the bad assets it would acquire. With such urgency, some have suggested that buying assets with newly issued government guaranteed debt seemed the optimal strategy. SAREB did not need to wait around either for reluctant private investors to be convinced to invest in SAREB's senior debt, or for policymakers to approve potentially politically unpopular and bureaucracy-laden fiscal expenditures. This approach also allowed SAREB to replace bad assets on bank balance sheets with very good assets—namely SAREB's government-guaranteed senior debt, thereby strengthening bank balance sheets. While the debt posed a potential threat to the government in the event of a default, if all went according to plan, the profits from the disposition of assets could be used in part to pay back the debt that had initially been used to acquire the assets in the first place (Louven 2017).

The government securities that SAREB issued to fund its purchase of portfolios were indexed to floating interest rates. To hedge against higher interest rates as the global economy recovered from the Global Financial Crisis, SAREB conducted interest rate swaps in August 2013 that covered an initial notional amount of about €42 billion. However, interest rates steadily declined to historic lows in the aftermath of the interest rate swaps, which were only partially covered. For the period from 2019–2023, the fixed interest rate on the SAREB bonds falls in the range of 2.48% to 3.15%, which produces significant losses to SAREB. In both 2018 and 2019, SAREB paid over €500 million in interest expenses related to this swap contract, over half of the losses in that period (SAREB 2019).

12. Eligible institutions: SAREB acquired only assets from banks that had failed stress tests and that had either previously been nationalized or were being forced to accept government capital.

In late May 2012, the consulting firm Oliver Wyman was contracted by the Bank of Spain (the Spanish central bank) to perform an evaluation of the Spanish banking sector. This evaluation, published on June 21, 2012, was titled "Bank of Spain Stress Testing Exercise" and is sometimes referred to as "the Oliver Wyman stress tests" (Oliver Wyman 2012a). Following the release of this report, Oliver Wyman was "commissioned to perform a bottom-up stress test analysis of the fourteen most significant financial groups in Spain" (Oliver Wyman 2012b). This second report, published on September 28, 2012, is sometimes referred to as the "bottom-up Oliver Wyman exercise." As part of this second evaluation, Oliver Wyman projected that in an adverse scenario (which the firm defined as a GDP decline of 6.5% and in which they anticipated capital ratio requirements would be reduced to 6%), seven of the 14 banks they looked at would exhaust their loss absorption capacity.[10]

[10] Four of these, BFA-Bankia, Catalunya Banc, NCG Banco and Banco de Valencia were already majority-owned by FROB and would sell assets to SAREB in Group 1 (European Commission 2012). The additional three banking groups that failed the test were Banco Popular, BMN, and a group comprised of the planned

In the Bank of Spain report on the Oliver Wyman stress tests, published on September 28, 2012, the banks were sorted into four groups. Group 1 banks were the four that were already majority owned by FROB because they had previously failed stress tests and required restructuring. Group 0 banks were those that had passed the Oliver Wyman Stress Tests and had been found to have no capital shortfalls. These seven represented “62% in terms of the analyzed portion of the sector’s credit portfolio” (Ministerio de Economia y Competitividad 2012). Banks that had failed the Oliver Wyman stress tests were required to submit recapitalization plans. The constituency of Groups 2 and 3 was to be determined at a later date after the as yet un-submitted recapitalization plans had been scrutinized (European Commission 2012). Group 3 would be made up of those banks for which FROB deemed their recapitalization plans to be effective, while Group 2 was reserved for banks that had failed the Oliver Wyman stress tests and had subsequently submitted ineffective recapitalization plans. Banks in Group 1 and Group 2 would be compelled to transfer assets to SAREB, while SAREB would be inaccessible to Banks in Groups 0 and 3 (SAREB 2013).

Ultimately, nine banks sold assets to SAREB—five from Group 1, and four from Group 2 (se Appendix C). Four of the five banks in Group 1 had failed the Oliver Wyman stress tests, and all four of the banks in Group 2 failed the tests as well (Oliver Wyman tested Liberbank and Caja 3 as a group, which explains the discrepancy between the number of banks that failed the stress tests and the number of banks that sold assets to SAREB).

13. Eligible assets: SAREB acquired only foreclosed real estate assets with an individual minimum asset size of at least €100,000 and loans to real estate developers with a minimum borrower exposure of €250,000.

In addition to limiting the eligibility of institutions that could transfer their assets to SAREB, SAREB acquired only foreclosed real estate assets with an individual minimum asset size of at least €100,000 and loans to real estate developers with a minimum borrower exposure of €250,000. SAREB also took direct ownership stakes in a select number of distressed real estate companies (FROB 2012).

There were no individual participation limits on assets that Spanish credit institutions transferred to SAREB.

14. Acquisition mechanics: SAREB acquired assets in two distinct phases, split by classification of bank health and stability.

SAREB planned to acquire nonperforming assets in two phases. The Group 1 banks would transfer their assets to SAREB in the initial phase, while applicable assets from Group 2 and 3 banks would follow thereafter (FROB 2012). Under Law 9/2012, institutions in Groups 1 and 2 were obliged to transfer eligible assets to SAREB (SAREB 2013).

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merger of Ibercaja, Liberbank and Caja 3. They would be required to submit recapitalization plans and, depending on the result, either go into Group 2 (participating in SAREB) or Group 3. Seven banks, meanwhile, would maintain adequate capital ratios even in an adverse scenario. These seven were Santander, BBVA, CaixaBank, Kutxabank, Banco Sabadell, Bankinter, and Unicaja-CEISS, the proposed merger of Unicaja and Banco CEISS (Oliver Wyman 2012b).

In the first phase on December 31, 2012, SAREB acquired 145,125 assets valued at €36.7 billion from Banco de Valencia, Banco Gallego, BFA-Bankia, Catalunya Banc, and NCG Banco, the five institutions that had failed stress tests and were subsequently nationalized under FROB (Ortiz Risueno 2015) (see Appendix C).

Then, on February 28, 2013, a further 52,349 assets valued at €14.1 billion were transferred to SAREB from Banco CEISS, BMN, Caja3, and Liberbank, institutions that had failed subsequent stress tests and, as a result, had received support in the form of capital injections from the State through FROB (Ortiz Risueno 2015) (see Appendix C).

15. Acquisition pricing: SAREB used the results of the Oliver Wyman stress tests and a further discount to determine the price at which assets would be transferred to SAREB.

In general, if the transfer price at which AMCs acquire assets exceeds market price at the time of transfer, the operation implies the use of State aid. However, as Cas and Peresa (2016) explain, the operation, "can be declared compatible if the transfer price of the assets is not higher than the real economic value [REV] (or underlying long-term economic value) of the assets. […] The difference between the transfer price and the market price of the assets represents State aid."

In Spain's case, the transfer value, or price at which SAREB would buy assets from banks, was to be based on two components. SAREB used the results of Oliver Wyman's bank stress tests to inform their REV determination. Second, after the REV was arrived at, an additional discount (or haircut, as the government sometimes referred to it) was applied to defray management and administrative costs as well as allow SAREB room to make a profit when divesting (SAREB 2013). SAREB did not have any input into the valuation of the assets and paid the price they were told to pay by Oliver Wyman and the Bank of Spain.

The most extensive explanation of the subsequent discount, and for that matter, of the government's valuation approach in general occurs in the SAREB blueprint published by FROB on November 16, 2012. In it, the government writes, "the starting point for determining the price for transferring loans and real estate under ownership to SAREB is thus the base scenario from the Oliver Wyman Stress Test completed at the end of September 2012." However, the government noted that its own valuation results might vary meaningfully from Oliver Wyman's because of "major conceptual differences" between its own processes and those of Oliver Wyman (FROB 2012).

To rationalize the additional discount, the blueprint listed a number of SAREB-specific considerations, including "the operating costs associated with owning both loans and real estate assets, the costs of funding the portfolio while it is being held for sale, the fact that the sale to SAREB by each participating bank will be a major single portfolio sale, the overheads of SAREB, the costs of enforcement, the recovery costs of impaired loans." The government argued that "these factors alone justify a significant haircut in respect of the estimated economic value of the assets" (FROB 2012). The government refrained from explaining how it planned to quantify these considerations.

SAREB's valuation process was carefully supervised by European Commission officials. As Cas and Peresa (2016) explain, "the Commission closely monitored the methodology for measuring the value of the impaired assets transferred to Sareb at end-2012 and 2013 under the EU financial assistance programme. The Commission, assisted by external experts, found the asset transfer in line with State aid rules."

SAREB itself did not perform the valuation of portfolios, did not see the results, and had to purchase the portfolios at the valuation provided to them.

The average haircut came out to about 53% on the book value (Bank of Spain 2017; Cas and Peresa 2016).

16. Disposal: Initially, the Spanish government relied on the very banks from whom they had acquired assets for help in disposing of those assets before ultimately hiring servicers to neutralize potential conflicts of interest.

Initially, the Spanish government relied on the very banks that they had acquired assets from to help dispose of those assets, reasoning that the banks themselves had the best grasp on the nature of the assets they had once held, as well as an established sales force and the infrastructure to support real estate sales and financing. However, at the same time that the banks were being tasked with aiding the government in unloading SAREB's distressed assets, they were also attempting to unload those distressed assets that remained on their own balance sheets (SAREB 2014b).

By December 2014, in the face of persistent losses, the government concluded that this conflict of interest was presenting enough of a hurdle to require a change of strategy. SAREB awarded contracts to four loan servicers: Altamira, Haya Real Estate, Servihabitat, and Solvia. SAREB hoped these companies would streamline efficiency and increase profitability (SAREB 2014b). SAREB did not split individual portfolios to account for specific servicer skillsets and experience. Instead, SAREB moved entire portfolios from the banks to the servicers, with the exception of one portfolio that SAREB divided into loans and real estate assets. At first, sales slowed as the servicers spent time figuring out what exactly they were now responsible for selling, and SAREB executives focused on the tens of thousands of distinct property assets and millions of pieces of data that needed to be transferred to the servicers (SAREB 2015).

17. Disposal: The hiring of loan servicers brought with it a change in sale strategy from a bulk offload to a tailor-made approach.

A new sales strategy was also implemented with the arrival of the new servicers. Under the old approach, assets had been packaged and sold in large portfolios in an attempt to shed assets quickly and service SAREB's debt burden. In remarks to SAREB shareholders in 2014, SAREB's then-president Belén Romana reiterated that SAREB's primary goal was to pay off the debt that it issued to purchase its assets. She stated, "the Company's main commitment is the amortisation of debt, and we are all working towards meeting this objective." (SAREB 2014a). While the old strategy was narrowly successful at raising revenue, the bulk sale approach also helped contribute to net losses of €261 million in 2013 and €585 million in 2014 (see Figure 1).

Under the new strategy, sales were smaller and more open to customer preference. SAREB and the servicers hoped that the personal touch would lead to higher individual sales prices even as it would cut into overall revenue in the short run (SAREB 2014b).

Cas and Peresa (2016) write of this transition in sales approach, "SAREB [switched] from a 'warehouse' to a 'factory' business model. Thus, SAREB transitioned from being an asset liquidator focused on selling at the best prices and with more dependence on the economic cycle, to an asset manager focusing more on creating value added, so that the return from the transaction increases when sold."

In recent years, SAREB has embarked on a new business strategy that focuses on converting its loan portfolio into real estate assets. To achieve this, SAREB utilizes dation in payments and foreclosures on nonperforming loans to acquire the property used as collateral in the loans. These real estate assets are more liquid than loans, which face significant discounts on the financial markets. In its 2019 annual report, SAREB estimated that it would add almost 100,000 properties worth about €8.8 billion to its portfolio from 2020 to 2022. In 2019, SAREB received the majority of its income from real estate assets for the first time. In the pursuit of this balance sheet transformation, SAREB has reduced its financial asset portfolio by 51% since its creation (SAREB 2019).

18. Timeframe: SAREB was conceived of as an AMC that would dispose of its assets over a 15-year time horizon.

There was no formal asset purchase window, with acquisition and transfer of assets occurring over the two distinct phases described previously. SAREB was designed to dispose of its assets over a 15-year period before expiring (FROB 2012).

On March 10, 2020, Royal Decree-Law 6/2020 permitted SAREB to continue operations despite the exhaustion of its equity, allowing it to carry on with the disposal of its portfolio (BOE 2020). SAREB is still an ongoing program in 2021.

III. Evaluation

As of the time of writing of this case in 2021, there has been very limited examination of the effectiveness of SAREB, not least because SAREB is an ongoing program and so any scholarly evaluation will necessarily be incomplete. That said, an examination of SAREB's performance and effect on the broader economy was conducted by Stephanie Medina Cas and Irena Peresa in a discussion paper published in 2016 by the European Commission (Cas and Peresa 2016). In the paper, the two authors compare SAREB with the National Asset Management Agency (NAMA) and FMS Wertmanagement, an Irish and German AMC, respectively. Cas and Peresa conclude that the two most important aspects of successful asset disposals are the type of assets that the AMC decides to assume and the broader macroeconomic environment. They also suggest that other factors such as "clean asset documentation and a solid valuation process, a strong legal framework, efficient asset servicing, and skilled staff" play an important but perhaps not decisive role in the performance of an AMC (6). The paper ultimately concludes that SAREB has contributed to "banking sector stabilization" but that "the financial backing of the authorities […] has however come at a fiscal cost."

Some of SAREB's proponents contest the notion that SAREB's losses indict it as an institution (Louven 2017). For example, they note that despite early struggles, SAREB's ultimate performance remains undetermined. The Spanish real estate market was still in the midst of recovery in its early years, which hampered the performance of SAREB's disposal efforts. SAREB also transitioned its sales operations to servicers. Regardless of the state of the Spanish real estate market, it is possible that servicers might improve SAREB's overall performance (Cas and Peresa 2016; Louven 2017).

Furthermore, even if it never achieves profitability, SAREB may yet prove to be successful in its broader goal of supporting the financial sector. Already, there is some evidence that SAREB's presence may have helped to revive the Spanish credit system. SAREB acquired about 10% of Spanish credit institutions' total real estate–related assets as a component of a larger set of restructuring and recapitalization efforts. The participating banks that drafted restructuring plans have fared well since transferring their assets to SAREB; all participating Spanish banks became profitable in 2013, and capital ratios were well above regulatory requirements for all banks concerned. The Spanish real estate market, too, seemed to slowly be recovering. The NPL ratio for real estate loans in Spain was declining by the mid-2010s, though it was still at almost 28% at the end of 2015. Unfortunately, even in the face of this positive economic news, the banks were slow to resume their lending activities because of continued deleveraging in the banking sector (Cas and Peresa 2016).

While the urgent approach was later pointed to as a reason for losses, SAREB's proponents argue, even today, that the urgency had positive elements. "It was hard, but it helped," said a SAREB spokesperson, arguing that the urgency helped jumpstart SAREB's operations. Yet the speed of implementation may have caused SAREB managers to overpay. "We bought at a high price," a SAREB spokesperson conceded, "today our assets are worth €3 billion less than we paid for them" (Louven 2017). SAREB had to write off the losses as a result of the downward revaluation exercise, which consumed their already thin capital base. Consequently, SAREB converted subordinated debt into equity simply to remain functioning (Cas and Peresa 2016). This raises questions about the reliance on the models used to calculate such valuations provided by external such consulting firms as Oliver Wyman.

Some observers have been more critical of SAREB. For example, Aristobulo de Juan, a former General Manager at the Bank of Spain and former senior financial adviser at the World Bank is deeply critical of various aspects of SAREB's structure and performance. He criticizes the process by which SAREB gathered private investment, writing that private investors were "'invited' to acquire stakes by the Spanish government in an exercise in moral suasion" (De Juan 2019). He also criticizes SAREB's accounting treatment. "SAREB therefore applies unique accounting rules, which allow it not to recognize losses on its assets at the end of each year, but to treat them as offset by the theoretical underlying gains on other assets […] the new accounting rules allowed SAREB significantly to increase the book value of its assets, but this makes their sale even more difficult" (De Juan 2019).

Last, he criticizes SAREB's sales approach, positing that the one-fourth of assets sold by late 2017 were probably the best, leaving the worst among remaining assets (De Juan 2019). Ultimately, he concludes, "the losses that are likely to arise under the guarantees granted to back all of the SAREB bond issues, which currently total some €40.93 billion, could also result in a considerable cost for the public purse" (De Juan 2019).

In a speech titled "The Spanish Financial Sector Assistance programme: 7 years later" delivered by Rolf Strauch, Chief Economist at the European Stability Mechanism, in July 2019, Strauch was generally positive on the effect that SAREB had had. He states, "banks stabilized profitability and reduced their stock of NPLs and foreclosed assets, as well as their exposure to the real estate sector thanks to disposals and the transfer of bad assets to SAREB. Bank capital increased thanks to a reduction in risk-weighted assets and to capital injections." At the same time, Strauch cautioned, "several legacy problems also remain in the banking sector. These include larger and more persistent than expected losses to SAREB, which pose a contingent liability to the state." Ultimately, however, Strauch seems to suggest that SAREB was something of a mixed bag, arguing, "SAREB worked well to carve out impaired assets from banks and build financial stability but some complexities, such as the eventual sale price of assets and funding strategy, were underestimated in its creation" (Strauch 2019).

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V. Key Program Documents

Implementation Documents

Memorandum of Understanding on Financial Sector Policy Conditionality (European Commission 2012)
European Commission document detailing the overview of SAREB and its operations. https://ypfs.som.yale.edu/node/3683.

Formal Ex Ante Consultation on the Classification of the Sociedad de Activos de Reestructuración (SAREB) (European Commission 2013)
European Commission report on the correct accounting treatment of the classification of

SAREB.
https://ypfs.som.yale.edu/library/formal-ex-ante-consultation-classification-sociedad-de-activos-de-restructuracion-sareb.

Sector Classification of the Sociedad de Activos de Reestructuración (SAREB) (Eurostat 2021)
Eurostat letter reclassifying SAREB debt as public debt.
https://ypfs.som.yale.edu/library/sector-classification-sociedad-de-activos-de-restructuracion-sareb.

Asset Management Company for Assets Arising from Bank Restructuring: Blueprint (Fondo de Reestructuración Ordenada Bancaria 2012)
FROB Blueprint of SAREB including key objectives, details on mechanics of SAREB and more.
https://ypfs.som.yale.edu/index.php/node/3684.

Bank of Spain Stress Testing Exercise (Oliver Wyman 2012a)
One of the stress test exercises in what were called the "Oliver Wyman stress tests."
https://ypfs.som.yale.edu/index.php/node/4472.

Asset Quality Review and Bottom-Up Stress Test Exercise (Oliver Wyman 2012b)
One of the stress test exercises in what was called the "bottom-up Oliver Wyman exercise."
https://ypfs.som.yale.edu/index.php/node/4473.

Conflicts of Interest Policy and Related-Party Transactions (Spanish) (SAREB 2013b)
SAREB's policies related to conflicts of interest and related-party transactions in Spanish.
https://ypfs.som.yale.edu/library/conflicts-interest-policy-and-related-party-transactions-spanish.

Legal/Regulatory Guidance

Real Decreto-Ley 24/2012, de 31 de Agosto, de Reestructuración y Resolución de Entidades de Crédito (BOE 2012a)
Law that established the foundation of SAREB (written in Spanish).
https://ypfs.som.yale.edu/library/real-decreto-ley-242012-de-31-de-agosto-de-reestructuracion-y-resolucion-de-entidades-de.

Ley 9/2012, de 14 de Noviembre, de Reestructuración y Resolución de Entidades de Crédito (BOE 2012b)
Law 9/2012 of November 14, 2012, which established the legal framework necessary for SAREB's creation (written in Spanish).
https://ypfs.som.yale.edu/library/ley-92012-de-14-de-noviembre-de-reestructuracion-y-resolucion-de-entidades-de-credito.

Real Decreto 1559/2012, de 15 de Noviembre, Por El Que Se Establece El Régimen Jurídico de Las Sociedades de Gestión de Activos (BOE 2012c)
Law establishing regulations specific to SAREB (written in Spanish).

https://ypfs.som.yale.edu/library/real-decreto-15592012-de-15-de-noviembre-por-el-que-se-establece-el-regimen-juridico-de-las.

Real Decreto-Ley 6/2020 (BOE 2020)
Law allowing SAREB to continue operations despite losses (written in Spanish).
https://ypfs.som.yale.edu/library/real-decreto-ley-62020.

Press Releases/Announcements

The Model Bad Bank (Louven 2017)
Article detailing the structure of SAREB and its successes.
https://ypfs.som.yale.edu/node/4487.

REFILE-Spain Assumes Bad Bank SAREB's Liabilities, Debt-to-GDP Rises to 120% (Reuters 2021)
Article detailing the 2021 Eurostat decision.
https://ypfs.som.yale.edu/library/refile-spain-assumes-bad-bank-sarebs-liabilities-debt-gdp-rises-120-0.

Sareb Completes Its Third Capital Increase by Receiving Two New Investors (SAREB 2012)
Press release announcing two new investors in SAREB.
https://ypfs.som.yale.edu/node/4481.

Sareb Amortises €1.4 Billion in 2014 (SAREB 2014a)
Press release announcing that SAREB amortized €14 billion in 2014.
https://ypfs.som.yale.edu/node/4460.

Sareb Shares Its Experience with the State Bank of Vietnam (SAREB 2017a)
Press release detailing SAREB's interaction with and advice to the State Bank of Vietnam.
https://ypfs.som.yale.edu/index.php/node/4478.

Sareb Shares Its Experience with Representatives from Slovenia (SAREB 2017b)
Press release detailing SAREB's interaction with and advice to Slovenia.
https://ypfs.som.yale.edu/index.php/node/4477.

Sareb Meets with Delegation from Mongolia to Explain Its Business Model (SAREB 2018a)
Press release detailing SAREB's interaction with and advice to Mongolia.
https://ypfs.som.yale.edu/index.php/node/4475.

Sareb Secures All-Time Record Sale of 19,000 Properties in 2017 (SAREB 2018b)
Press release providing information on SAREB's property sales in 2017.
https://ypfs.som.yale.edu/node/4476.

Sareb Explains in Kazakhstan on How to Manage NPLs (SAREB 2018c)
Press release detailing SAREB's interaction with and advice to Kazakhstan.
https://ypfs.som.yale.edu/index.php/node/4474.

About Us (SAREB 2021)
About Us section of the SAREB website.
https://ypfs.som.yale.edu/library/about-us.

Reports/Assessments

Briefing Note on Royal Decree-Law 24/2012 on Restructuring and Resolution of Credit Institutions (Bank of Spain 2012)
Explanation of Royal Decree-Law 24/2012.
https://ypfs.som.yale.edu/index.php/node/4454.

Report on the Financial and Banking Crisis in Spain, 2008-2014 (Bank of Spain 2017)
Detailed report on the causes and solutions to the Global Financial Crisis in Spain.
https://ypfs.som.yale.edu/library/report-financial-and-banking-crisis-spain-2008-2014-1.

What Makes a Good "Bad Bank"? The Irish, Spanish, and German Experience (Cas and Peresa 2016)
Report analyzing the results of SAREB's performance as of 2016.
https://ypfs.som.yale.edu/node/3681.

From Good to Bad Bankers: Lessons Learned from a 50-Year Career in Banking (De Juan 2019)
Article critical of SAREB, specifically highlighting the moral suasion involved in private investment.
https://ypfs.som.yale.edu/library/good-bad-bankers-lessons-learned-50-year-career-banking.

Financial Stability Review (European Central Bank 2013)
Review in 2013 of financial stability in the euro zone.
https://ypfs.som.yale.edu/library/financial-stability-review.

Spain: Financial Sector Assessment Program-Technical Note-Impaired Assets and Nonperforming Loans (IMF 2017)
IMF review of impaired assets and nonperforming loans in Spain.
https://ypfs.som.yale.edu/library/spain-financial-sector-assessment-program-technical-note-impaired-assets-and-nonperforming.

Bank Recapitalization and Restructuring Process: Results of the Independent Evaluation of the Spanish Banking Sector (Ministerio de Economia y Competitividad 2012)
Evaluation of the bank recapitalization and restructuring process.
https://ypfs.som.yale.edu/node/4458.

Sociedad de Gestión de Activos Procedentes de La Reestructuración Bancaria (Ortiz Risueno 2015)
Article on SAREB's operations.
https://ypfs.som.yale.edu/library/sociedad-de-gestion-de-activos-procedentes-de-la-reestructuracion-bancaria.

SAREB Annual Report 2013 (SAREB 2013)
Annual Report from 2013 by SAREB.
https://ypfs.som.yale.edu/node/4483.

Annual Report 2014 (SAREB 2014b)
Annual Report from 2014 by SAREB.
https://ypfs.som.yale.edu/node/4464.

Annual Report 2015 (SAREB 2015)
Annual Report from 2015 by SAREB.
https://ypfs.som.yale.edu/node/4461.

Annual Activity Report 2016 (SAREB 2016)
Annual Report from 2016 by SAREB.
https://ypfs.som.yale.edu/node/4465.

Activity Report H1 2018 (SAREB 2018d)
Report on SAREB's activities in the first half of 2018.
https://ypfs.som.yale.edu/node/4479.

Annual Activity Report 2018 (SAREB 2018e)
Annual Report from 2018 by SAREB.
https://ypfs.som.yale.edu/node/4484.

Annual Activity Report 2019 (SAREB 2019)
Annual Report from 2019 by SAREB.
https://ypfs.som.yale.edu/library/2019-annual-activity-report.

Activity Report First Half Year 2020 (SAREB 2020)
Report on SAREB's activities in the first half of 2020.
https://ypfs.som.yale.edu/library/activity-report-first-half-year-2020.

The Spanish Financial Sector Assistance Programme: 7 Years Later (Strauch 2019)
Speech by the Chief Economist of the European Stability Mechanism on the evaluation of the Spanish Financial Sector Assistance program.
https://ypfs.som.yale.edu/node/4488.

VI. Appendixes

Appendix A: SAREB investors

Company	Sector	Country	Capital Provision (€ millions)
FROB	Public	Spain	540.0
Santander	Bank	Spain	207.4
CaixaBank	Bank	Spain	149.3
Banco Sabadell	Bank	Spain	83.2
Popular	Bank	Spain	71.7
Kutxabank	Bank	Spain	31.5
Ibercaja	Bank	Spain	17.7
Bankinter	Bank	Spain	17.0
Unicaja	Bank	Spain	15.8
Caja Mar	Bank	Spain	15.0
Mapfre	Insurance	Spain	10.0
Caja Laboral	Bank	Spain	7.4
Mutua Madrileña	Insurance	Spain	6.0
Banca March	Bank	Spain	4.9
Ceca Bank	Bank	Spain	4.2
Banco Cooperativo	Bank	Spain	3.9
Deutsche Bank	Bank	Germany	3.7
Barclays	Bank	England	3.0
Catalana Occidente	Insurance	Spain	3.0
Iberdrola	Electricity	Spain	2.5
Axa	Insurance	France	2.0
Banco Caminos	Bank	Spain	0.8
Total			**1,200**

Source: SAREB 2012.

Appendix B: SAREB's initial balance sheet

Assets	(€ billions)	**Liabilities**	(€ billions)
Cash	4.8	Senior bonds	50.7
Loans	39.4	Sub. debt	3.6
Real estate owned	11.3	Equity	1.2
		FROB	0.5
		Private	0.7
Total Assets	55.5	**Total Liabilities**	55.5

Source: IMF 2017.

Appendix C: Assets acquired by SAREB

Group 1	**No. of Assets**	**Value (€ millions)**	**Date of Transfer**
Bankia	89,814	22,317	12/31/2012
Catalunya Banc	29,425	6,708	12/31/2012
NCG	17,887	5,097	12/31/2012
Banco Valencia	6,723	1,962	12/31/2012
Banco Gallego	1,276	610	12/31/2012
Group 2			
Banco CEISS	18,115	3,137	02/04/2013
BMN	16,138	5,820	02/13/2013
Liberbank	14,120	2,918	02/13/2013
Caja3	3,976	2,212	02/13/2013
Total	**197,474**	**50,781**	

Sources: Ortiz Risueno 2015; SAREB 2013.