

Mr. Killian Bourke
Caseworker to Andrew Duff
Liberal Democrat MEP for the East of England

From: Antonio Flores

30th of January 2014

Ref: Equity Release in Spain

Dear Killian,

It was good to talk to you yesterday in connection to the matter of the Spanish Equity Release Schemes (SERS) sold to mostly Spain-based British retirees on the basis of a lawful inheritance tax mitigation proposition. In very broad terms, we can summarize the SERS as follows:

NUMBER OF AFFECTED PERSONS and VALUE OF THE SERS

It is believed that approximately between **800 and 900 contracts** have been signed in Spain. Each contract has an average value of €450,000.

It is therefore estimated that the **sums involved could exceed €350,000,000.**

THE SERS BRIEFLY EXPLAINED

Invariably, the SERS is composed of a first-charge mortgage loan on a unencumbered Spanish property, signed before a Spanish qualified Notary Public, and a suitable investment vehicle (i.e. investment portfolio, insurance policy or unit-linked policy) through which the proceeds of the loan are invested. Often, both participants (lender and the investment service provider) are the same entity but on many other instances, they are separate companies that may be totally separate or, as the case may be, be partly or fully owned (or controlled) by one another.

In all instances, the lender retains an interest and/or control over the investment by using one, or all, of the following systems:

- Retaining vetting powers over the choice of the investment provider and ultimately, granting authorization for their involvement in the SERS.
- Retaining a security interest, in the form of a legal pledge, over the investment in case of default by the client/borrower.

AIMS OF THE ERS

First aim: the promoters of the SERS (Banks, Investment Institutions and agents thereof) openly sold these in the open market in Spain as a means to avoid the -as was put to them- **horrific impact of Spanish Inheritance Taxes on the inheritors** (generally their children) of British owners of Spanish unencumbered properties.

The Spanish Tax Office has ruled out the possibility of lawfully reducing the value of the property with a mortgage loan that was not used in the purchase of the property, indicating that it would deem such scheme as tax fraud.

According to extensive sales and promotional literature, with this product it was possible to reduce a potentially lethal Spanish Inheritance Tax *of up to 81%* of the value of the property to zero (*Rothschild dixit*).

Second aim: the promoters of the SERS indicated that this product would allow them to **receive an income to supplement their often insufficient pensions**. This would be achieved by investing the proceeds of the mortgage loan in an investment vehicle that was expected to return enough to pay the interest of the loan, management fees and leave a surplus to the client. As it happened, this was of improbable or impossible achievement.

LENDERS, BANKS and FINANCIAL INSTITUTIONS INVOLVED

ABN AMRO Gibraltar, now SGPB Hambros Gibraltar (est. 20 contracts)

Barclays Bank PLC (est. 20 contracts)

Danske Bank International S.A. (est. 30 contracts)

Jyske Bank (est. 50 contracts)

Landsbanki Luxembourg in liquidation (est. 400 contracts)

Nordea Bank S.A. Luxembourg (est. 100 contracts)

N.M. Rothschild & Sons (est. 130 contracts) and **International Property Finance Limited** (est. 15 contracts)

Nykredit (REALKREDIT) A/S and Sydbank (Schweiz) AG (est. 5 contracts)

The Premier Group (Isle of Man) Ltd. and **Surrenda Link Mortgage Funding Number 1** (est. 100 contracts).

Some of the above of had not obtained authorization to operate in Spain.

None of the above had obtained clearance by the Bank of Spain in respect to the publicity of the product (mandatory requirement).

None of the IFAs employed by the banks were regulated to operate in the financial services markets, and some were already blacklisted when they were selected by the banks to sell the SERS.

None of the above had sought to obtain clearance from the Spanish Tax Office in respect of the viability of the SERS.

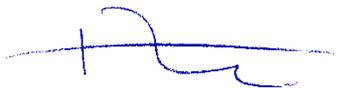
Where tax fraud is involved, money laundering is an automatic juridical consequence.

SPANISH OFFICIAL BODIES THAT SHOULD HAVE AN INTEREST IN THIS MATTER

- Spanish Tax Office (*Agencia Estatal de Administración Tributaria*)
- Spanish State Prosecutor (*Fiscalía General del Estado*)
 - Spanish State Prosecutor specialized in the protection and defence of the elderly (*Fiscalía Especializada en Materia de Protección y Defensa de las Personas Mayores*)
 - Spanish State Prosecutor specialized in economic crimes (*Fiscalía Especial para la Represión de Delitos Económicos*)

More information can be obtained by going to the site www.erva.es

I am happy to provide you any further information you may require.



Yours sincerely
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