Sareb

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

Half Year Report. H1 2013

The contents of this report include information on the company's activities to 30 June 2013 (and, in some cases, information from after this date). The figures shown in this report are not necessarily definitively shown in the financial statements.

Contenido

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Executive summary

Few companies over the first few months of operation are faced with the challenges that have confronted the Management Company for Assets Arising from the Banking Sector Reorganisation (Sareb), when it was created on 28 November 2012 to dispose of assets transferred from Spanish banks that had received public assistance. On 1 January, the first day of the period covered by this report, Sareb had just received its first transfer of assets. This meant that one of the main objectives of the Memorandum of Understanding had been met, namely that of creating a company to manage assets transferred from restructured banks before 31 December 2012.

Six months later, the picture offered by Sareb is very different: it is now a fully operational company with a well-defined portfolio of assets and a robust body of shareholders.

Sareb's highly qualified and committed workforce is focused on its mandate to liquidate assets, the task that will represent the company's raison d'être for the next 15 years.

Over this intense period, Sareb has worked simultaneously on two fronts: on the one hand it has been building its own internal structure, creating teams and forging procedures that will allow it to proceed with the disposal process, while at the same time taking care of its principal mission, which is that of successfully managing the properties, loans and credits it has acquired.

The sheer challenge faced by Sareb is clear from the size of the portfolio it has acquired: **50,781 million euros in the form of around 200,000 real estate and financial assets, plus more than 400,000 buildings as security for loans and credit lines.** 60% of the portfolio was transferred on 31 December 2012, while the remaining 40% was transferred on 28 February of this year. The complexity and breadth of the portfolio meant that a detailed analysis of the assets transferred needed to be carried out. To this end, Sareb began a wide-ranging due diligence process that would allow it to design the commercial strategies that would be best suited to each asset.

At the same time, with a view to ensuring an orderly transfer of the assets, management agreements were signed with the banks that it had received the financial and real estate assets from (Bankia, Catalunya Banc, NCG Banco, Banco Gallego, Banco de Valencia, Liberbank, BMN, CEISS and Caja 3). Under these agreements, the banks listed have managed the majority of the company's retail sales business over the first six months of the year.

At the same time, Sareb has been working on opening up two additional sales channels: a direct channel, through which the company sells special assets directly, and a wholesale channel, for the sale of portfolios of assets to institutional investors via competitive tendering processes.

This first half-year also saw the completion of the company's capital structure. Sareb has a diversified shareholder structure that mainly comprises private shareholders. The Fund for the Orderly Restructuring of the Banking Sector (FROB) holds 45% of the share capital, with around twenty private institutions, some of them foreign, owning the remaining 55%.

Other priorities during the first six months of the year included building the management team and Board, providing the company with an organisational structure and implementing all the commercial and operational policies that will allow the assets to be managed in an efficient and profitable way.

Over this period, **a variety of internal policies were established with a view to meeting the requirements for transparency, ethical behaviour and integrity demanded of an institution of this kind. Together with the Integrity Pledge and the Code of Conduct** to which all the company's employees signed up, other policies were launched with the aim of extending these commitments, such as the model for relations with suppliers and the controls to prevent money-laundering.

From a macroeconomic point of view, after two years of recession, the first half of 2013 saw the emergence of the first signs that the **Spanish economy might be exiting its period of slow business activity**. For its part, the real estate sector has experienced a period of sharp price corrections and a fall in the number of transactions. As a consequence of the recovery in business activity, some of the demand indicators for residential assets have already begun to show a correction, such as the housing costs over disposable income ratio and the monthly financial effort of households.

The results obtained by Sareb over the first six months show a favourable trend. The total cash flow figure as of 30 June amounted to 842 million euros.

In this context it is crucial to ensure that Sareb correctly identifies the sectors and geographical areas in which the recovery of market liquidity and prices will begin.

The results obtained by Sareb over the first six months show a favourable trend. The total cash flow figure as of 30 June amounted to 842 million euros, of which 674 million euros (80%) came from the management of financial assets, with 168 million euros coming from real estate assets (20%). Second quarter results were up on the figures achieved in the first quarter in all areas, both with regard to financial assets (amortisations, interest and sales) and in respect of real estate assets (sales and rented assets). As a result, 60% of all cash flow was obtained between the months of April and June.

This improvement was mainly due to the impact of commercial initiatives. As far as the management of real estate assets was concerned, sales in the retail sector in June were double those of the preceding five months, and strategies were launched in order to boost the income obtained from rented assets. In the wholesale sector, progress was made in the preparation of operations that will, for the most part, be completed during the second half of the year. As far as financial assets are concerned, which mainly refer to credits and loans to developers with mortgage guarantees, the approach varied, depending on the type of asset, and both the direct sale and wholesale methods were consolidated as alternative channels for disinvestment.

2

Introduction

2.1

Background. Establishment of the Management Company for Assets Arising from the Banking Sector Reorganisation (Sareb)

Sareb was created against the backdrop of Spain's request for and receipt of credit line from the European Financial Stability Facility for up to a maximum of a hundred billion euros, to be allocated exclusively to servicing the recapitalisation requirements of the financial sector.

The signing by the Spanish and international authorities of the so-called "Memorandum of Understanding on Financial-Sector Policy Conditionality" (MoU) on 23 June 2012, the text of which was published in Spain's Official State Journal on 10 December 2012, involved certain commitments relating to the regulation of the banking sector and other aspects of financial policy, all of which acted as conditioning factors on the requested credit facility.

One of the conditions included in the MoU was that any credit institution that obtained public financial assistance was obliged to transfer its more problematic assets (in particular, though not exclusively, real estate assets handed over in lieu of payment of debts and credits in the property development sector) to an asset management company that was to be created to this end before the end of November 2012. The specific selection of the assets to be transferred would be the duty of the Fund for the Orderly Restructuring of the Banking Sector (FROB). This decision by the FROB, which would be classified as an administrative act, would mean an obligation to transfer on the part of the institution in question.

The Seventh Additional Provision of Royal Legislative Decree 24 of 31 August 2012 (currently Act 9 of 14 November 2012, on the restructuring and dissolution of credit institutions, "Act 9/2012") entrusted the FROB with the duty of creating an asset management institution (namely Sareb) to fulfill the commitment made in the MoU. The sole purpose of this institution would be *"the holding, management and administration, both direct and indirect, and the acquisition and disposal, of the assets transferred to it by credit institutions"*. The company was to be formed for a limited period of time, which was set at 15 years in Royal Decree 1,559 of 15 November 2012, which governed Sareb's operation and legal regulation ("Royal Decree 1,559/2012").

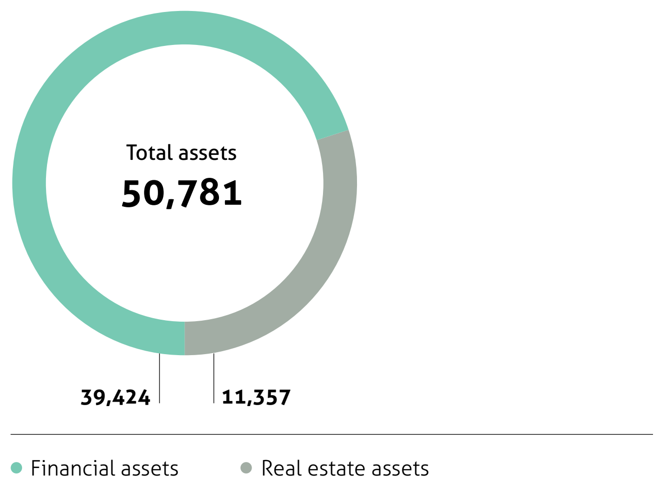
Once the foregoing actions had been taken, the following details were defined:

- The duty imposed on the FROB to go ahead with the creation of Sareb, a duty which the FROB fulfilled with the establishment of Sareb on 28 November 2012.
- The group of credit institutions that would be obliged to transfer assets, which extended to all those institutions which, on the entry into force of Royal Decree-Law 24 of 31 August 2012, were majority owned by the FROB or which, in the Bank of Spain's opinion, would require a restructuring process or dissolution under the terms set out in Act 9/2012, following an independent evaluation of capital requirements and asset quality in the Spanish financial system, carried out under the terms of the MoU.
- All of the assets to be transferred, as determined under Article 48 of Royal Decree 1,559/2012 and specified for each of the contributing banks in a decision by the FROB.
- The transfer price, which under Article 36.2 of Act 9/2012 and Article 48, Section 4 of Royal Decree 1,559/2012, was specifically determined in accordance with the criteria and haircuts set for each institution and group of assets by the Bank of Spain.

In implementation of the above, on 31 December 2012, Sareb took receipt of all the assets that fell within the transfer parameters and were owned by the institutions classified as Group 1 banks, in which the FROB was the majority shareholder: BFA-Bankia, Catalunya Banc (CX), Novagalicia Banco, Banco Gallego and Banco de Valencia. The asset transfer was completed on 28 February 2013, with the handover to Sareb of the assets belonging to the institutions classified as Group 2, which comprised banks in which the FROB had not taken a holding on the reference date, but which were nevertheless going to require public assistance: Banco Mare Nostrum (BMN), Liberbank, Banco Caja 3 and Banco de Caja España de Inversiones, Salamanca and Soria (Banco CEISS).

In total this involved 50,781 million euros in real estate and financial assets that Sareb has been managing since the respective transfer dates.

Sareb Portfolio
Transfer value, in millions of euros.



2.2
Sareb's mission, vision and values

Sareb was designed as an instrument for the management and orderly divestment of assets transferred from financial institutions that were receiving public assistance. It therefore forms part of the restructuring process of the Spanish financial system. From its creation, Sareb assumed the responsibility of being both viable in business terms and effective in successfully tackling the challenges faced. Under Royal Decree 1,559/2012, which established the legal regulations governing asset management companies, Sareb's aims are as follows:

- Contributing to the restructuring of the financial system, acquiring the relevant assets in such a way that, from the moment of their handover, the risk attached to these assets is effectively transferred.
- Minimising public financial support.
- Paying any debts or obligations that are incurred during the course of its operations.
- Minimising any potential market distortions that may arise from its activities.
- Disposing of the assets received and optimising their value within the lifetime of the assets in question.

The special nature of its business model and corporate purpose mean that Sareb is an organisation that is particularly committed to the recovery of the Spanish economy. The duties with which it is entrusted require its corporate strategy to be imbued with the highest ethical standards, both domestically and internationally.

Sareb therefore understood from the outset that its activities would require it to make commitments to all of the stakeholders with which it was connected: **the real estate and financial sectors**, its shareholders and bond holders, all of its suppliers, its employees, Spanish society as a whole and public institutions both in Spain and abroad.

Commitments to stakeholders

Real estate and financial sector

- Negotiation with creditors: Seeking negotiated solutions that optimise the value of their assets.
- Respect for the free market: Prices are set by the market.
- Boosting sales: Sareb is reaching agreements with financial institutions in order to facilitate access obligation to inform by which it is bound.

Board of Directors

Creation of a framework that prevents conflicts of interest, restricting access to information and participation in to financing by individuals.

Suppliers

Sareb's business depends substantially on the services provided by third parties. Relations with suppliers are discussions and voting.

General public

Sareb works responsibly in order to maximise the value of the public investment and to avoid having to turn seek assistance from the government.

Employees

Sareb has implemented a strict ethical code that prevents conflicts of interest and prevents the use of privileged information for governed by the principles of competition, transparency and rotation.

Spanish and European Supervisors

Sareb performs its duties in accordance with the strictest criteria of transparency that go beyond the personal gain.

Sareb's corporate culture is directly linked to its commitment to act as a key element in achieving the return to a healthy and sustainable operation of the Spanish economy. Its Mission, Vision and Values are designed to instil the guiding principles that will allow it to successfully complete the tasks with which it has been entrusted.

Mission

Sareb's mission is to dispose of the assets over a period of 15 years, optimising their value.

Sareb is a key tool in the process to restructure the Spanish banking sector. It is committed, during the course of the allotted timeframe, to dispose of the financial and real estate assets it receives at the highest possible price, and repaying the debts that have been underwritten by the Spanish government. Sareb must ensure its own viability as a business in order to meet the commitments made with shareholders, investors and society at large.

Vision

Sareb is comprised of **a team of professionals who are committed to seeking the necessary solutions and who manage the assets efficiently, dynamically, rigorously and ethically.**

Sareb is a private entity that has implemented a business project that is unique in Spain, and it benefits from a team of highly qualified people who work with both transparency and commitment.

Values

The **Values** by which Sareb's day-to-day business is governed are **Integrity**, **Transparency** and **Social Commitment**.

Integrity

This means ensuring that the actions of all of Sareb's employees and the way that they behave comply with the ethical rules and standards that inform the company's business culture.

Transparency

This means that Sareb will provide information on all of its policies and procedures, in the knowledge that it is acting under the attentive gaze of society as a whole.

Social Commitment

Performing the duties with which it has been entrusted in accordance with ethical and socially responsible standards.

2.3
Governing Bodies

Sareb is governed by the bodies established for incorporated companies in the Consolidated Text of the Spanish Capital Companies Act, as approved by Royal Legislative Decree 1 of 2 July 2010, with the special conditions contained in Royal Decree 1,559/2012.

The company's governing bodies are, therefore, the General Meeting of Shareholders and the Board of Directors.

The General Meeting of Shareholders includes all of Sareb's shareholders and it meets to discuss and adopt resolutions on all the matters that fall within its purview. Two General Meetings were held during the first six months of 2013, on 13 February and 29 May, and resolutions were adopted on issues for which the shareholders were deemed competent under the terms of the applicable legislation and Sareb's own articles of association.

The Board of Directors is comprised of 15 members, five of whom are independent directors. A further eight represent the interests of the company's main shareholders and there are two executive directors. Details of the current composition of the Board of Directors can be found on the company's website (www.sareb.es).

A further two committees have been formed from members of the Board: the Audit Committee and the Appointments and Remuneration Committee. Each of these has 9 members, all of whom are non-executive members and the majority Independent Directors. Both Committees are chaired by Independent Directors. The structure, rules of operation and main duties of the Board of Directors, the Audit Committee and the Appointments and Remuneration Committees are set out in their respective Operational Regulations, which can also be found on the company's website (www.sareb.es).

During the first six months of 2013, the Board of Directors met 8 times, the Audit Committee 4 times and the Appointments and Remuneration Committee 5 times.

In addition to the above bodies, the company also has a number of **Support Committees, formed by members of Sareb's management team and representatives of the company's shareholders. The main duty of these committees is to provide assistance to the Board of Directors.**
Details of the Support Committees and their main duties can be found in Royal Decree 1,559/2012, and they are as follows:

- Management Committee: assists with the company's financial and operational management and the duties of budgetary and management reporting.
- Risk Committee: oversees and proposes contingent action to respond to situations or activities that may lead to excessive levels of risk.
- Investments Committee: evaluates and proposes strategies or actions for investment and disinvestment.
- Assets and Liabilities Committee: advises on any circumstance that could affect the company's balance sheet and, in particular, matters relating to capital structure, financing and liquidity.

2.4
Supervisory framework

As indicated in Royal Decree 1,559/2012, Sareb was formed as an incorporated company with a number of special characteristics that resulted from its singular corporate purpose and the public interest issues associated with its business activities. Its purpose is defined by the receipt, management and disposal of the assets transferred by the banks, which have assigned these assets within the framework of the process to restructure and clean up the Spanish banking sector. These are the duties with which Sareb was entrusted under the terms of the MoU.

As a consequence of its special characteristics, Sareb must at all times act with transparency and professionalism, and it is subject to a comprehensive monitoring regime.

On the one hand, there is supervision from the Bank of Spain and the Spanish Stock Market Commission. Under the terms of Act 9/2012, the Bank of Spain is responsible for the following:

- Overseeing compliance with Sareb´s sole purpose, with a view to identifying any deviations from this purpose that may endanger the pursuit of the general objectives set down in law for Sareb.
- Overseeing compliance with the specific requirements governing the assets and, where applicable, liabilities that are to be transferred to the asset management company.
- Overseeing compliance with the regulations relating to transparency and the establishment and composition of the Corporate Governance and Monitoring Bodies provided for in its regulatory provisions, along with the regulations relating to the requirement for commercial and professional honesty among the members of Sareb's Board of Directors.

For its part, the Spanish Stock Market Commission ("CNMV"), will supervise Sareb in matters relating to its business as an issuer of fixed-income securities. In addition, the CNMV is responsible for creating a register of Banking Asset Funds (FABs) and ensuring that the companies that manage them comply with the organisational and operational requirements imposed by the regulations and rules for transparency imposed on FABs.

In accordance with Act 9/2012, a Monitoring Committee was set up for the purposes of overseeing compliance with Sareb's general objectives. Its duties include analysing the company's business plan and any potential deviations, as well as examining the plans for disinvestment and amortisation of the debt being underwritten. The company provides the Monitoring Committee with quarterly reports detailing its asset liquidation activities, the management and quality of the assets remaining in its portfolio and the evolution of the main accounting figures.

The Monitoring Committee comprises four members, one who is appointed by the Ministry for the Economy and Competition and who chairs the Committee with a casting vote, a second who is appointed by the Ministry of Taxes and Public Authorities, a third appointed by the Bank of Spain (who also acts as Secretary) and a fourth appointed by the Spanish Stock Market Commission. A representative from the European Central Bank also attends meetings in the capacity of observer.

The company must prepare a six-monthly report on its activities. In addition, it must submit to a Compliance Report prepared by an independent expert. This independent expert will be selected on the basis of criteria set down by the Bank of Spain, and his/her report will contain an external analysis of the suitability of the business activities and strategies employed by Sareb in its performance of the duties with which it has been legally entrusted.

Pursuant to Article 26 of Royal Decree 1,559/2012, the Six-Monthly Business Report must be submitted to the Bank of Spain and the Monitoring Committee, who may require it to be supplemented with any additional information they consider necessary. The report must be made publicly available via Sareb's corporate website (www.sareb.es).

Structure of Banking Asset Funds (FABs)

Banking Asset Funds (FABs) are exclusive investment vehicles created for Sareb under Act 9/2012. They are bundles of assets and liabilities formed as separate entities that have no individual legal status, though they may become the owners of rights and obligations.

The management and representation of FABs is necessarily entrusted, exclusively and with reserved status, to a securitised asset fund management company.

The assets held by FABs are assets that are transferred directly or indirectly by Sareb, along with other assets acquired by subrogation or the transformation of such transferred assets, plus the cash, instant asset accounts and term deposit accounts held by credit institutions and fixed-income securities listed for trading on official secondary markets.

The liabilities held by FABs include the liabilities transferred to them by Sareb, the securities of all kinds issued, loans and credits of all categories, contributions from institutional investors (who have the right to any remainder that is left, where applicable, when the fund is liquidated, once the credit rights of all other creditors have been paid off) and any liabilities generated as a result of the normal business of the FABs themselves.

The securities issued by FABs may be admitted for trading and may only be distributed among professional investors. The minimum unitary par value is €100,000.

FABs are established in a public deed which must be registered with the Spanish Stock Market Commission.

FABs have a wide-ranging obligation to inform. In addition to filing their accounts with the Spanish Stock Market Commission, the FAB's management company must publish a six-monthly report, an annual report, an audit of its accounts and any other significant information relating to the rules governing the transfer of assets and liabilities, and all this information must be made available on the management company's website.

There are also special tax rules for FABs, which pay Company Tax at a rate of 1% and are governed by the tax regulations that apply to Collective Investment Institutions (CIIs). The following tax rules apply to unit holders and investors in FABs:

- Taxpayers who pay Company Tax and have a permanent establishment in Spain are governed by the regulations that apply to partners in CIIs, as is anyone who pays tax under the individual income tax (IRPF) rules.
- Taxpayers who pay Non-Residents' Income Tax and do not have a permanent establishment in Spain are exempt.

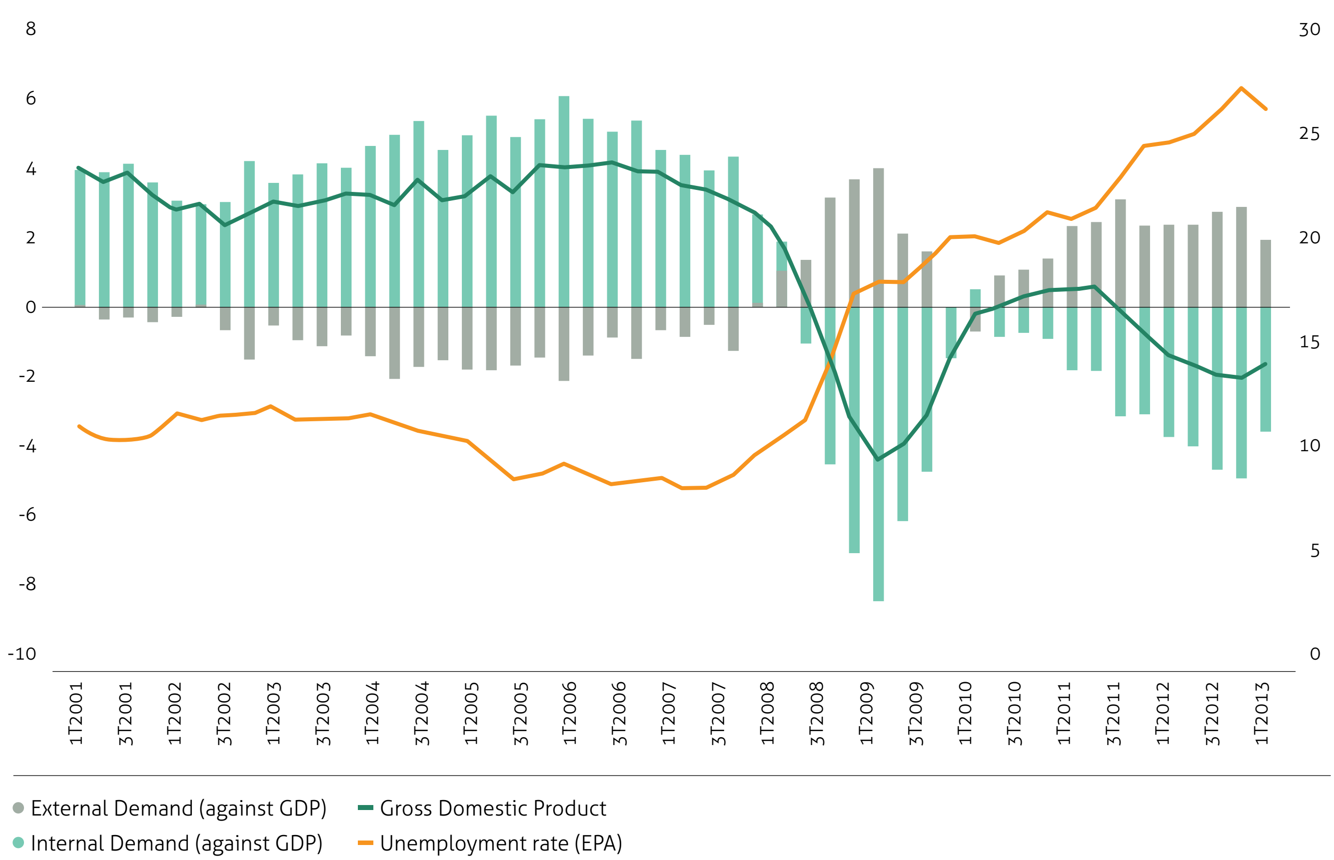
3
Economic situation and market overview

3.1
Economic Situation

Principal figures

The reverses experienced by the Spanish economy eased slightly over the first six months of the year. During the first two quarters of 2013, the year-on-year fall in GDP decreased to -1.6%.
Performance over the second quarter showed a relative improvement, with GDP falling by just 0.1%, indicating that the technical period of recession is nearing its end.

Growth in GDP and the unemployment rate



Source: Ministry of the Economy, INE.

The reasons for this improvement are due, in the first place, to a significant slowdown in the fall in internal demand. The main components in this group have all experienced this slowdown. The quarterly fall in consumption also slowed to -0.1 %, which is consistent with the consumer confidence data gathered by the CIS, which showed an improvement of 27 points over the last 12 months1. Consumer behaviour can, therefore, be attributed to a certain level of improvement in expectations regarding the economy, along with the more stable employment situation.

GDP. Demand Indicators	2012				2013	
	Q1	Q2	Q3	Q4	Q1	Q2
Gross Domestic Product (market prices)	-1.2	-1.6	-1.7	-2.1	-2.0	-1.6
Private consumption	-1.8	-3.1	-2.8	-3.6	-4.3	-3.2
Public sector consumption	-4.9	-4.4	-4.9	-5.0	-3.3	-2.4
Gross Fixed Capital Composition	-6.0	-6.9	-7.5	-7.7	-7.5	-6.4
- Tangible Fixed Assets	-6.8	-7.6	-8.6	-8.3	-8.2	-6.7
- Construction	-8.6	-9.3	-10.9	-10.0	-10.2	-10.5
- Capital Goods and others	-2.9	-4.3	-3.8	-4.8	-4.1	0.4
- Intangible Fixed Assets	3.6	2.6	4.8	0.4	-0.1	-2.4
- Changes in stock levels (against GDP)	-0.1	0.0	0.0	0.1	0.0	0.0
Domestic Demand (against GDP)	-3.4	-4.2	-4.2	-4.7	-4.6	-3.6
Exports	0.1	0.5	3.3	4.4	3.6	9.2
Imports	-6.9	-7.7	-4.6	-3.5	-4.8	3.1

Source: INE. Year-on-year changes.

The fall in investments also slowed. The most important news is that overall investment in capital goods is now showing year-on-year growth of 0.4%, with quarterly growth at 2.9%. This has been helped both by the fall in long-term interest rates (with the 10-year treasury bond reference rate at more than 100 basis points lower than it was last year), and by the upturn in business confidence, with the qualitative indicator rising by 5.7 points over the second quarter of the year.

The foreign sector has been the main sustaining factor for Spanish economic activity during this recession. In contrast to the way that Spanish businesses have traditionally reacted when faced with a fall in the domestic market, the improvement shown by this sector has substantially stronger foundations, with penetration into new markets that has led to diversification in demand for Spanish exports (37.2% to non-EU countries), greater quality and added value in Spanish exports and competitive prices, on top of a significant reduction of 1.4% in unit labour costs during the first half of 2013.

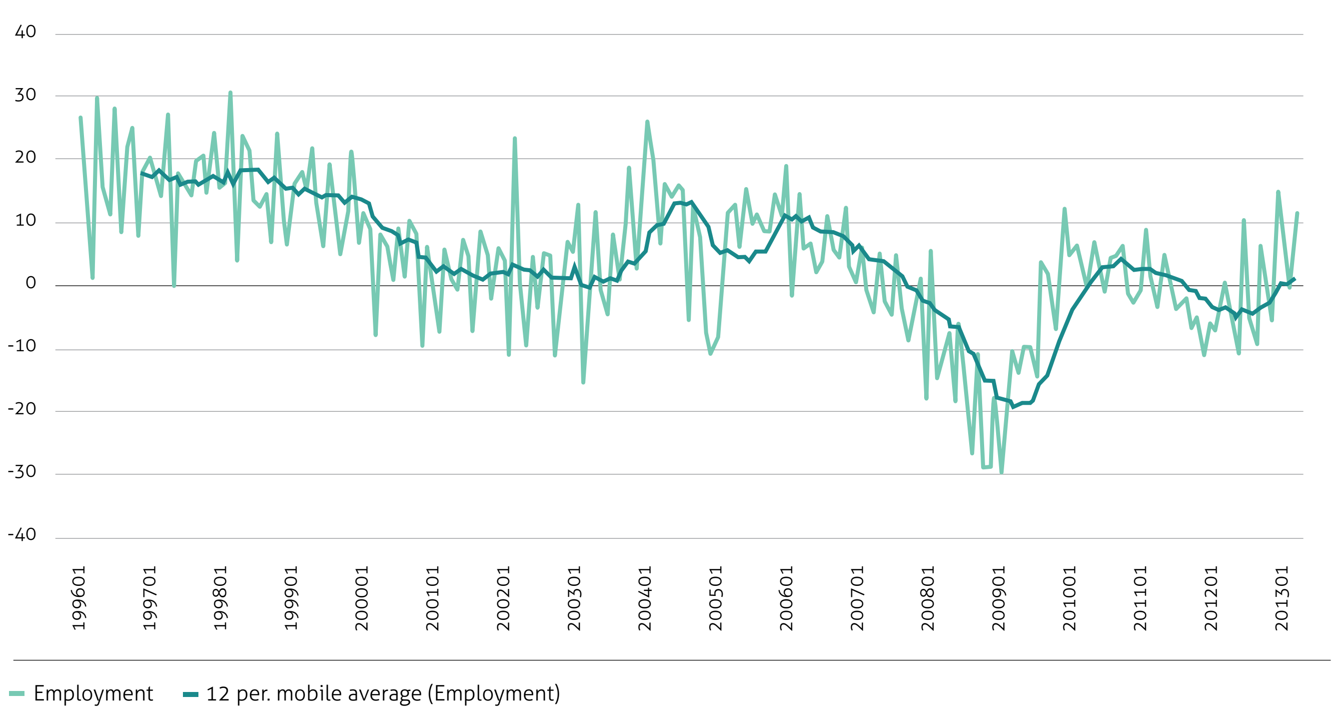
1. The Consumer Confidence Index is rated on a scale from 0 (minimal confidence) to 200 (maximum confidence).

On the supply side there was a lower fall in growth in all the production sectors over the first six months of 2013 as compared with 2012.
The construction sector is the one that is still experiencing the greatest downturn, given that it is suffering from the combined effect of the large amount of accumulated housing stock (the number of residential properties continued to increase during 2012, reaching 25.3 million due to inertia in the sector) and a surplus of supply, which is estimated at 640,000 unsold units of new housing.

Consistent with the negative dynamics within the sector, there was no pressure on prices that, according to the CPI, showed year-on-year growth of 1.5%.

However, the jobs figure was a different story, with low levels of positive growth in the number of employment contracts registered since February. This is an important development if it can be maintained for the rest of 2013, given the potential effects both at a macroeconomic level and in terms of the real estate market. The possible causes include the reduction in salary costs, the gradual introduction of flexibility in the labour markets and, in part, the knock-on effect of the growth in the export and tourism sectors

Growth in employment %



Source: Ministry of the Economy, INE.

Most relevant regulatory changes

Over the first six months of 2013, perhaps the most palpable effects of regulatory reform can be found in the modest changes to the employment figures. Despite the fact that structural reform dates back to the beginning of 2012, we had to wait for a more favourable economic context in order to confirm the potential for substantial improvement in the flexibility of the jobs market in relation to growth in GDP. This was not the only change that resulted from the introduction of labour reforms, as the fall in unit labour costs has strengthened the competitive pricing of Spanish exports and the attractiveness of Spain as a target for Direct Foreign Investment.

Another significant macroeconomic development was the progress achieved in the restructuring of the Spanish financial sector, a process that included the creation of Sareb itself.

This process, which was aimed at dispelling any uncertainty regarding institutions that had been recapitalised and had handed over assets, also sought to restore full access to external financing by the Spanish economy (a net financing capacity amounting to 1% of GDP). The index that was most closely watched was the difference between the country's debt risk premium and that of Germany's 10-year bond, which fell from an average of 430 points in 2012 to 335 points during the first six months of 2013, and which has subsequently continued to fall, reaching a figure of 240 basis points in December. This rate not only affects the financing of the Spanish state but also has an influence on the entire rate curve, acting as a highly positive factor on both investment and the consumption of durable goods.

Future prospects

In line with the indicators that have shown an easing of the recession over the last two quarters, the main institutions publishing macroeconomic indicators have all pointed to positive growth in Spanish GDP, supported by the almost neutral internal demand figures and the maintenance of a significantly positive contribution from net external demand.

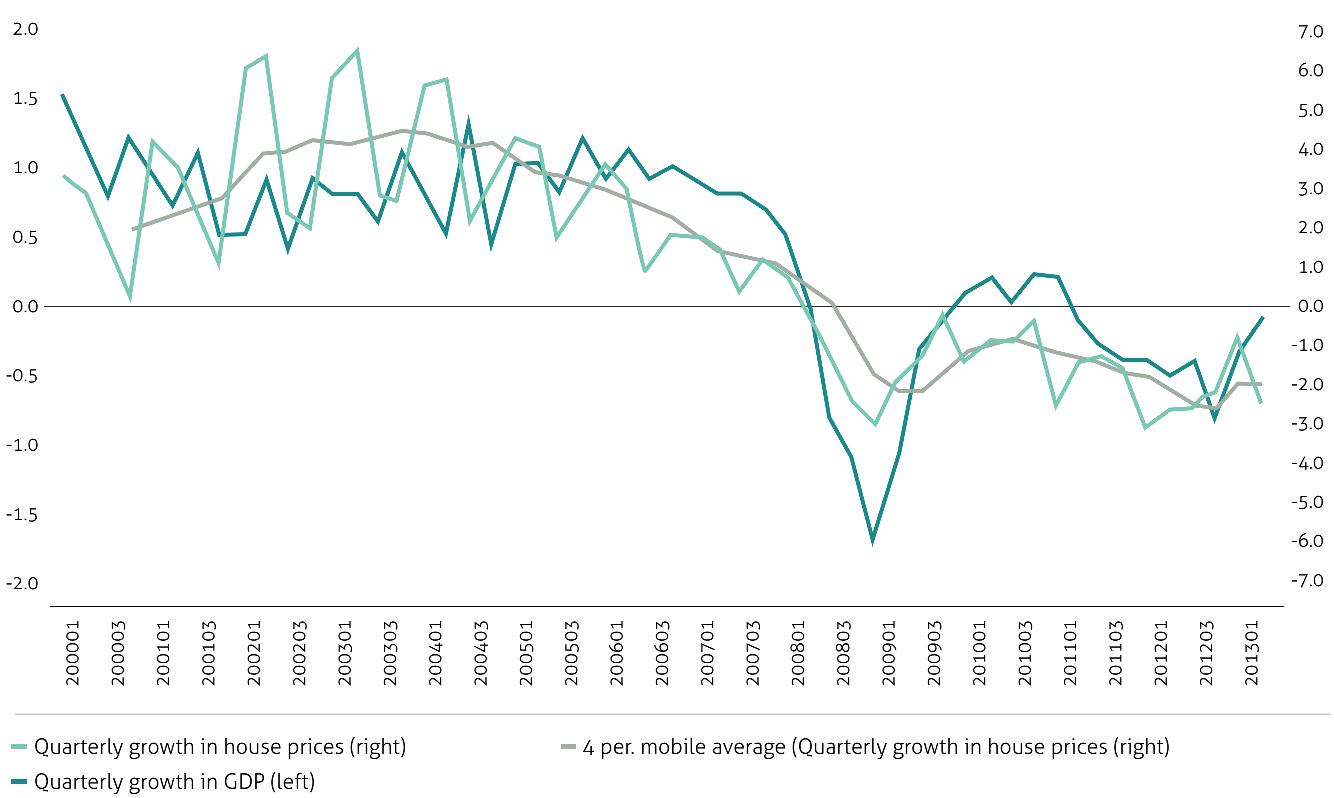
Macroeconomic projections	IMF		CEM		Commission		OECD	
	2013	2014	2013	2014	2013	2014	2013	2014
GDP	-1.3	0.2	-1.3	0.7	-1.5	0.9	-1.7	0.4
Domestic Demand (against GDP)	-3.5	-1.3	-3.2	-0.4	-4.0	-0.4	-4.3	-1.7
External sector (against GDP)	2.2	1.5	1.9	1.2	2.6	1.3	2.6	2.0
CPI	1.8	1.5	1.3	1.5	1.5	0.8	1.5	0.4
Unit labour costs	-1.2	0.1	-1.6	-0.6	-0.6	-0.8	--	--
Employment	-3.9	-0.7	-3.4	-0.2	-3.4	0.0	--	--
Unemployment rate	26.9	26.7	26.6	25.9	27.0	26.4	27.3	28.0
External Capital Financing Req. (% GDP)	1.4	2.6	2.3	3.4	2.2	3.5	2.1	3.5
Public Sector Cap. Fin. Req. (% GDP)	-6.7	-5.8	-6.5	-5.8	-6.5	-7.0	-6.9	-6.4
Public Sector Borrowings (% GDP)	91.8	97.6	91.4	96.2	91.3	96.8	91.4	97.0

Source: Ministry of the Economy. IMF. European Commission. OECD. Updated on 14/10/2013

3.2
Evolution of Prices and Transactions

Until the end of the first quarter of 2013, house prices in Spain had suffered a sharp downward correction from their peak at the end of 2007 and the beginning of 2008. The accumulated drop in the price of an average residential property reached 28.8%, a figure that is further accentuated if one takes account of quality-adjusted data or simply ignores state-subsidised housing, which maintains a more stable price. In this case, the average drop in residential housing prices would be 29.5%, according to the Spanish Development Ministry.

Growth in house prices and GDP %



Source: INE and Spanish Development Industry.

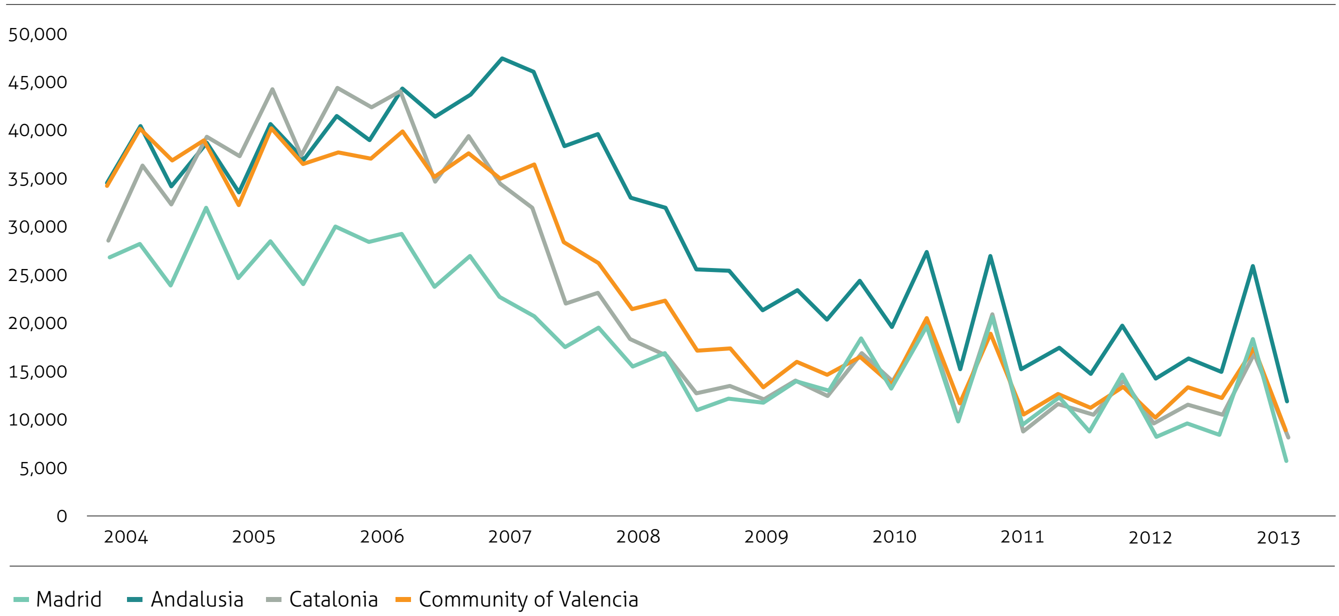
This sharp fall in prices has served to reverse much of the growth observed during the preceding period, which extended to the beginning of 2008. It is important to stress that the quarterly fall in prices did respond to the improved business growth figures emerging during the first two quarters of 2013. This response will not, however, be sufficient to reverse the fall in average prices in the short term, given the recessionary economic situation relating to disposable income and unemployment, though the improvements that the main institutions predict for the first of these two indicators could have a future effect on both prices and the number of transactions in the real estate sector.

The potential effect that coming out of technical recession will have on prices will be uneven and will depend on the quality of the assets up for sale and their location. A strong recovery of the willingness to buy among foreigners, who are not affected by the cyclical nature of the Spanish economy but who merely make price comparisons between the kinds of property on offer and the alternatives available in other countries, could be a significant fact, particularly in coastal locations.

Evolution of house prices

The dynamics of residential property prices have been highly dependent upon their division into sub-sectors based on geographical location. Taking the four Autonomous Communities in which Sareb holds the majority of its portfolio as a point of reference, one can see how the growth in the house price bubble to 2008 for Madrid and Catalonia was substantially different from that of the Community of Valencia and Andalusia. It should not be surprising, therefore, that the latter pairing has shown a more gentle correction. The common denominator for all four of these Autonomous Communities is that they currently show a greater level of liquidity in the markets, as we shall observe at a later point in this report, which is clearly a positive sign for Sareb's future disinvestment prospects.

Residential property transactions



Source: INE and Spanish Development Industry

Expectations of future economic prospects are improving, along with the perception of a marketplace with tighter pricing in which opportunities are beginning to emerge.

Evolution of residential property transactions

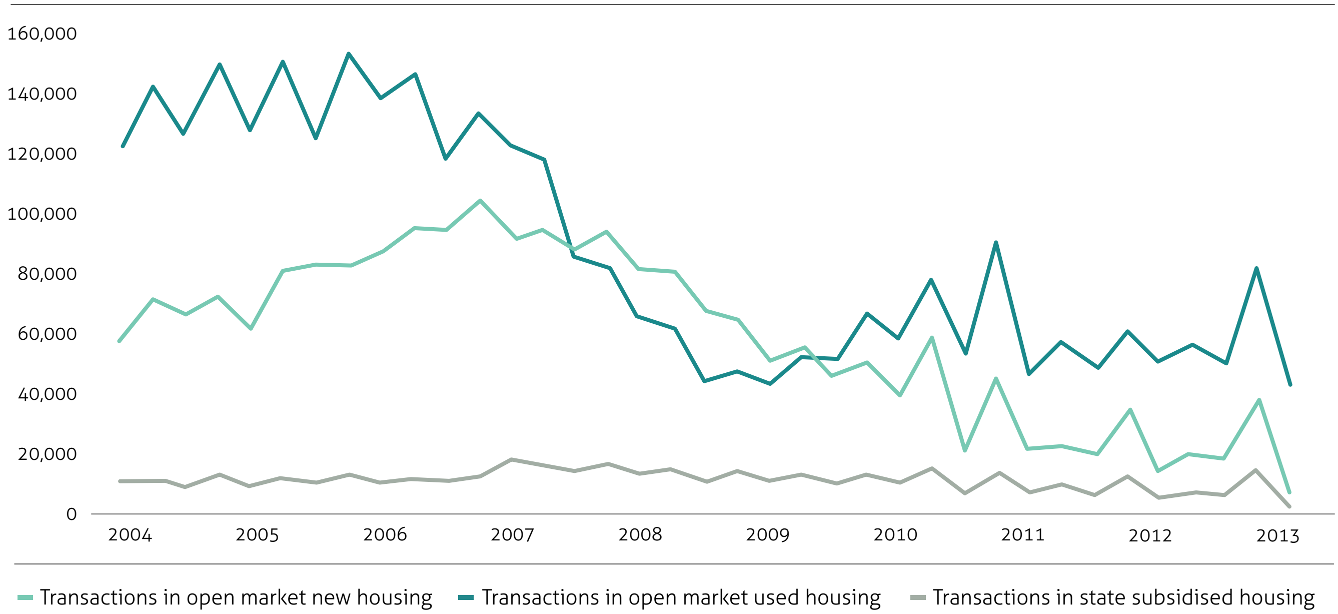
The situation described above is reflected in the number of transactions recorded in the real estate sector, which fell significantly from a high in 2006-2007, when the figure was around 900,000 transactions per year, to 360,000 in 2012. Some sub-sectors have ended up losing all their liquidity. The sharp drop in prices, which disincentivises the supply side, combines with expectations of further falls which also act as a brake on demand. Nevertheless, this vicious circle would seem to have slowed to the point of stabilising in the case of residential property transactions over the last year, a development that could be linked to the improvement in expectations regarding the future of the economy and the perception of a marketplace with tighter pricing in which potential opportunities are beginning to emerge.

This stabilisation in residential property transactions has not affected transactions involving unoccupied new-build properties, though one should bear in mind that the sharp fall in new residential building has meant that this sector (< 2 years) is gradually forming a smaller proportion of the residential property available. In the case of state subsidised housing, the trend is slightly downward.

Residential property and land transactions

Source: Spanish Development Industry

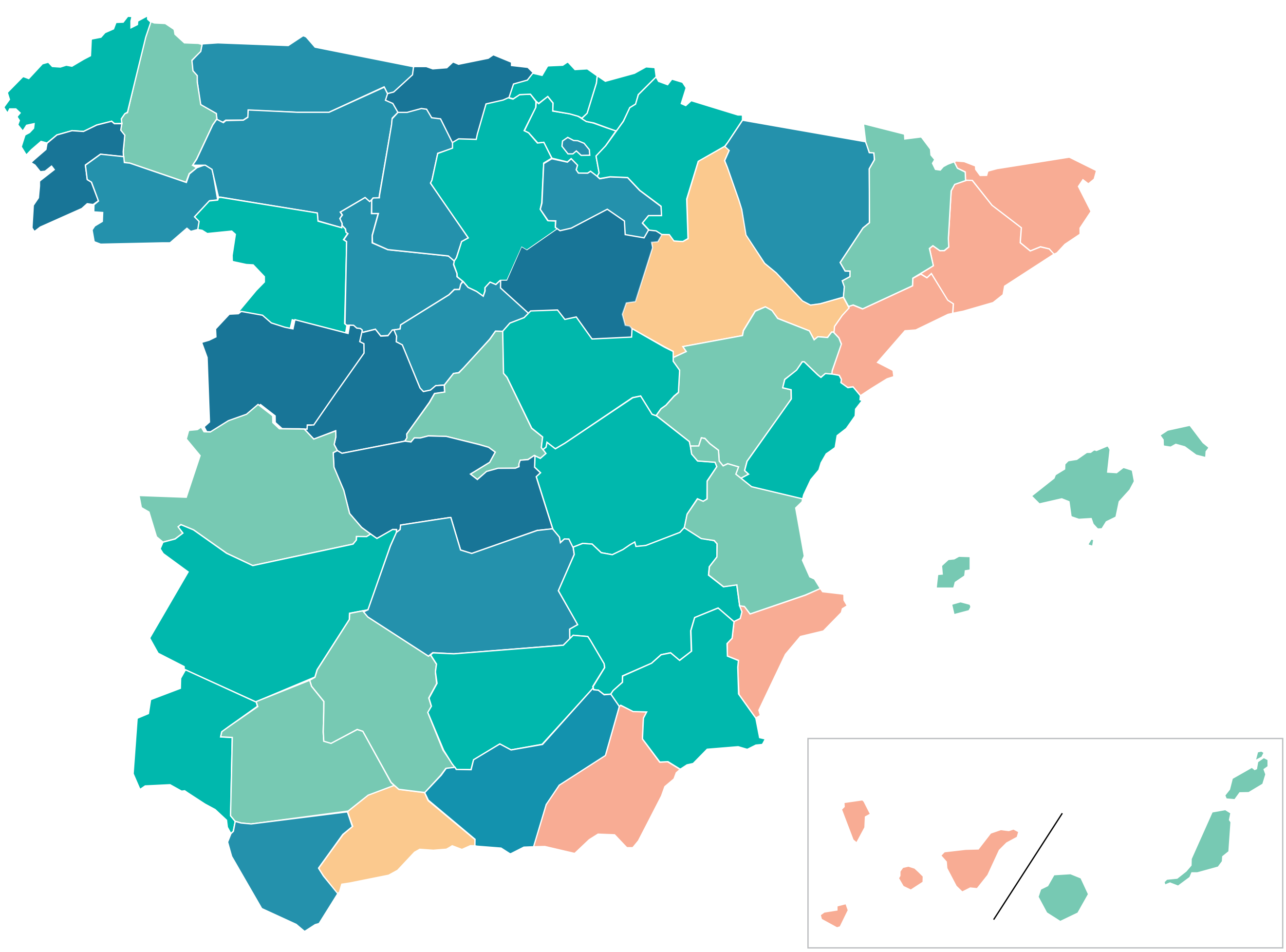
Residential property transactions



Source: Spanish Development Industry

At a geographical level, one can see that the most liquid areas of Madrid, Barcelona, Tarragona, Girona and Valencia are the least affected by the fall in the number of transactions (< 55%), which offers further positive expectation with regard to Sareb's portfolio.

Fall in no. of transactions Q1 2008 - Q1 2013



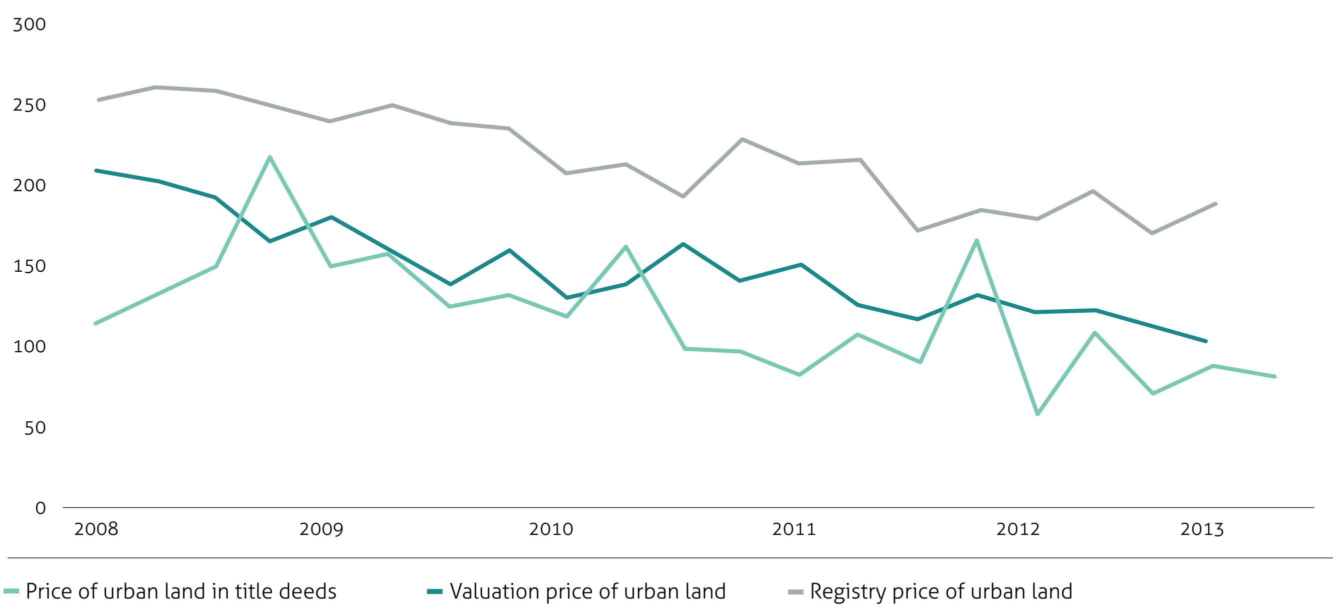
- Fall > 80%
- Fall 75%-80%
- Fall 70%-75%
- Fall 65%-70%
- Fall 60%-65%
- Fall 55%-60%
- Fall < 55%

Similarly, it is worth pointing out that if one takes the area formed by the Mediterranean coast, Madrid, Catalonia and Andalusia as a whole, the number of transactions increased last year by 2.6%, in contrast to the average for the whole of Spain which fell by more than 4%. This is an important factor for Sareb, given that its real estate assets and the collateral for its financial assets are heavily concentrated within this area.

Evolution of land prices and transactions

Given that information relating to the evolution of land prices is scarcer and less detailed, any analyses or conclusions in this regard will inevitably be less precise. However, all of the information sources we have consulted agree that the price of urban land has fallen since the beginning of the recession, both in terms of valuations and in respect of the prices recorded both in sale and purchase deeds and at the Land Registry.

Average land prices in Spain € / m²

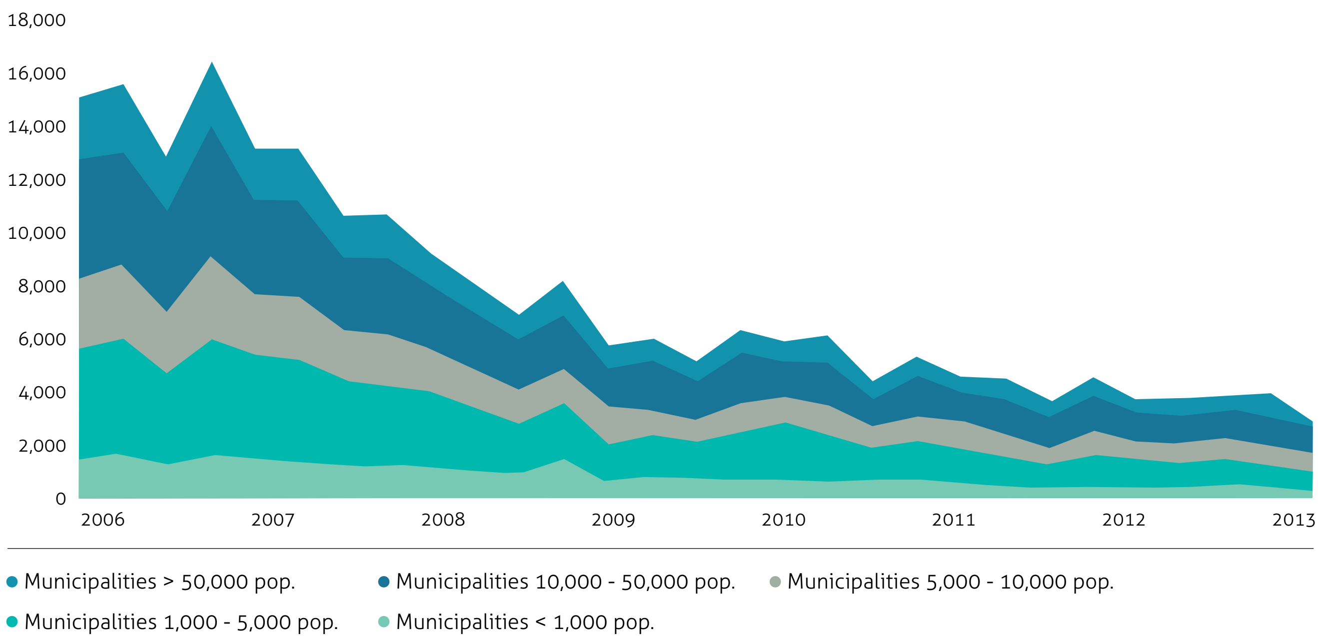


Source: Spanish Development Industry, Spanish Council of Notaries Public, Bank of Spain.

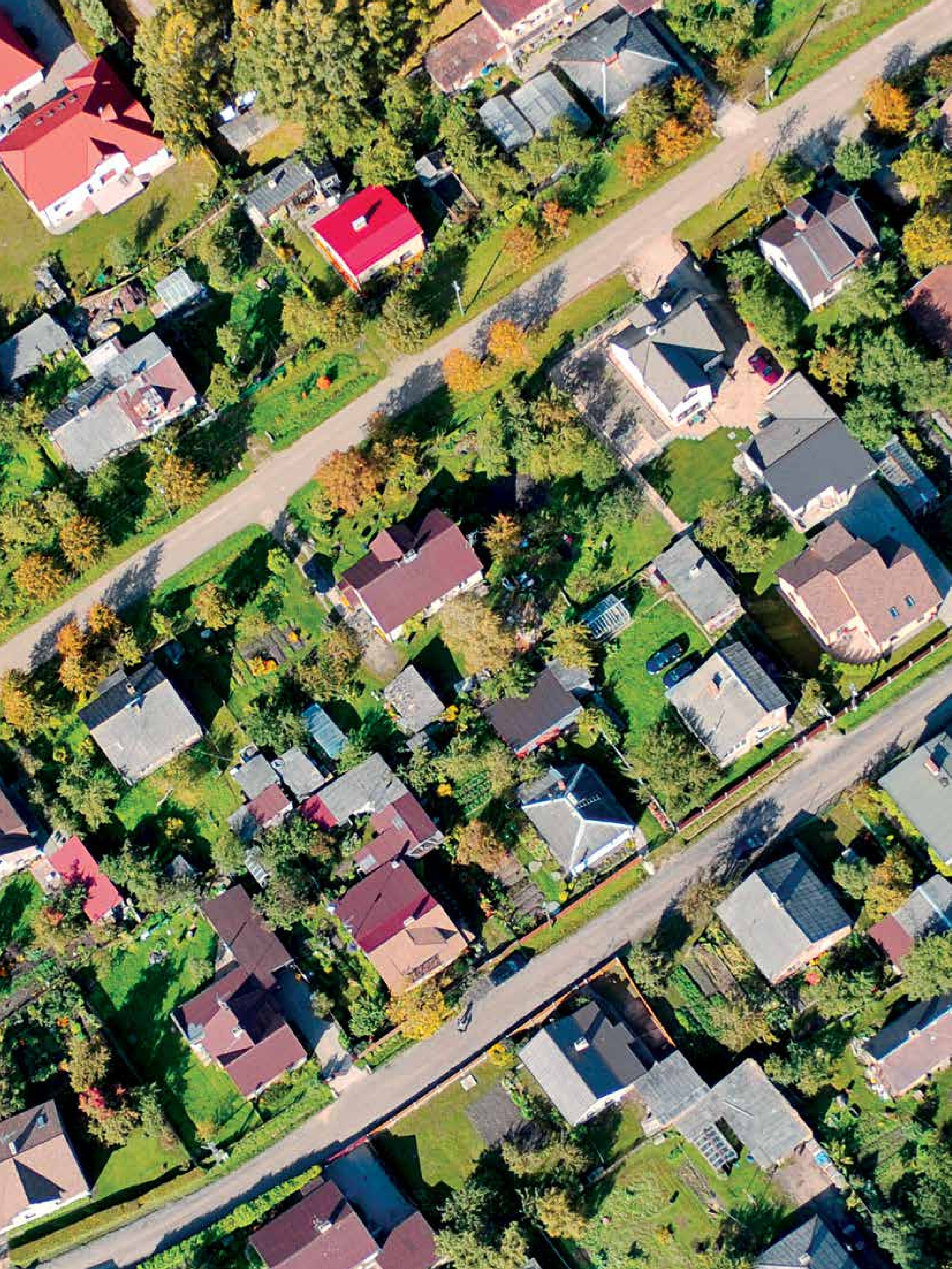
It is not the fall in prices, but the huge fall in the number of transactions that is crucial to an understanding of the evolution of the land sector. The total number of operations has fallen to a fifth of the figure recorded at its peak (from more than 80,000 a year in 2006 to fewer than 20,000 a year since 2008).

Given the characteristics of this market sector (which is less liquid and has, on occasion, completely stagnated in certain geographical areas), it is expected to recover more slowly. The average transaction cost has also fallen substantially, standing at €177,000 during the first quarter of 2013. In this context, it is encouraging to note that Sareb's land portfolio falls within the range of unit values showing most liquidity in the marketplace.

Average land prices in Spain € /sq m



Source: Spanish Development Industry.

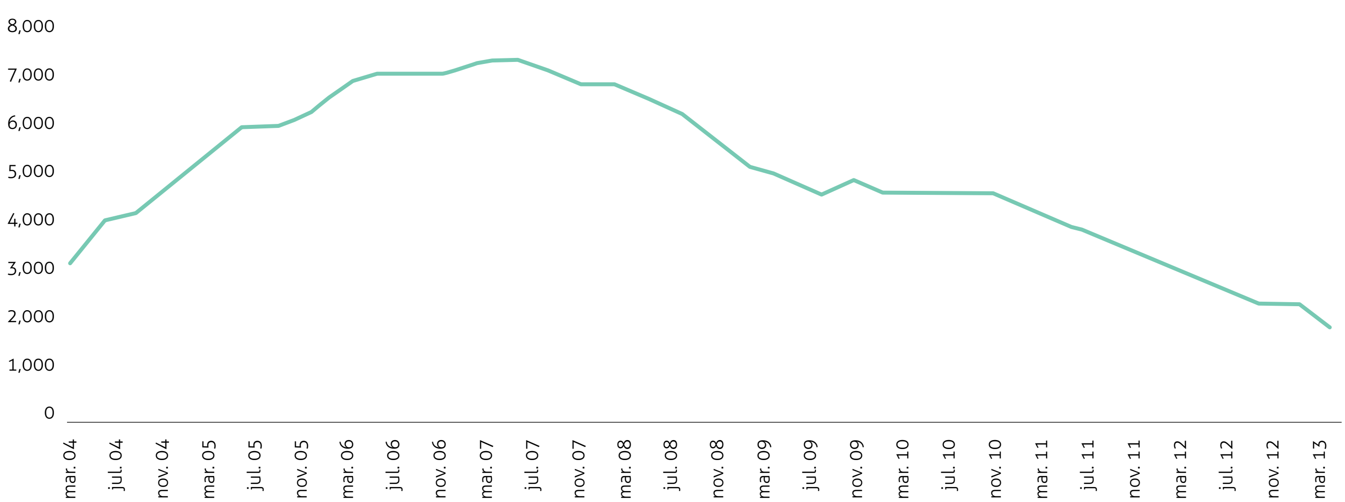


3.3
Conditioning factors

Mortgage loan conditions and accessibility indicators

Price corrections have led to a substantial improvement in some of the indicators relating to access to housing. The ratio of house prices to gross disposable income, for example, fell from a factor of 7.7 at its peak to the current level of 5.7.

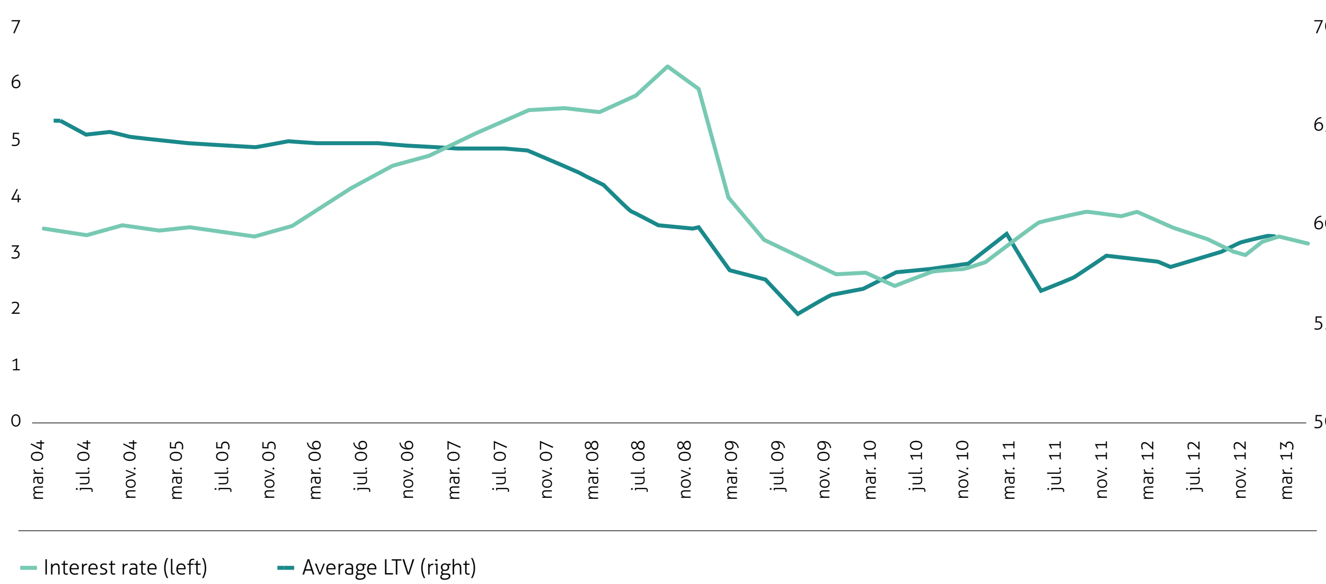
House prices / Disposable income



Source: Bank of Spain.

On the other hand, the last few months have seen slight improvements in medium-term conditions, average *Loan to Value*[2] figures and average interest rates, though this last indicator remains a long way from the tighter differentials with the Euribor that were seen towards the end of surge in this sector.

Interest rates and average LTV for new mortgage loans



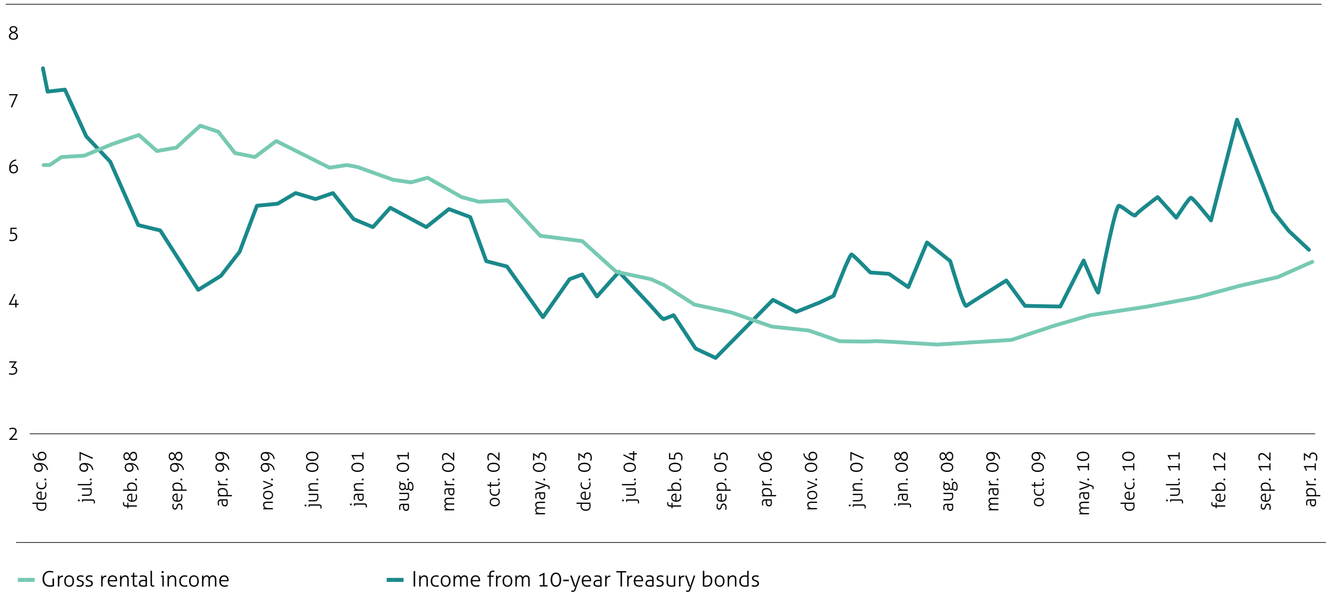
Source: Bank of Spain

2. *Loan to Value*. Ratio between the loan and the value of the property used as security.

Profitability of residential properties as an investment

The way that real estate assets have evolved in terms of their profitability as an investment is consistent with the signs that the property market may be reaching the final stages of its correction process. Gross income from renting, which offers an alternative to fixed income securities for both individual and institutional investors, has gradually improved since 2009 and currently offers a return that is comparable to 10-year Treasury Bonds and better than that offered by other financial products, such as high-rate deposits.

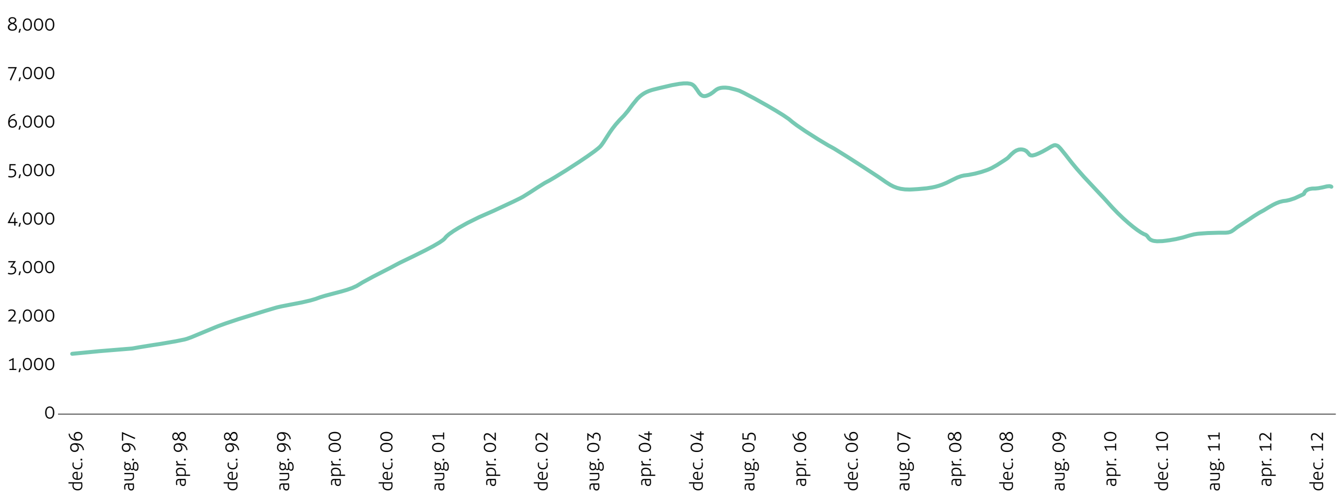
Return on investment in rental housing



Source: Bank of Spain.

Similar results have been seen in terms of the evolution of gross foreign investment in housing in Spain, which has improved by more than 15% each quarter since the last three months of 2012. The fact that foreign nationals who are not resident in Spain and are not affected by the domestic employment and business cycles have steeply increased their levels of investment would give credence to the idea that a large part of the price bubble correction is now behind us.

Gross foreign investment in housing (accumulated over 12 months) millions of euros



Source: Bank of Spain.

3.4
Non-residential sector

Evolution of the office property sector and conditioning factors

The most important cities in this institutional investment sector are Madrid and Barcelona, which between them account for more than 80% of the buildings intended exclusively for office use and are, therefore, the most convenient starting point for an analysis of the way that supply, demand and yields have evolved, according to information provided by consultants specialising in this sector. In general terms, according to information from these sources, one can see that the yield in both cities has reached very attractive levels for the international investor, in comparison with other European capitals. Indeed, the yield in Madrid and Barcelona stands at between 6% and 7%, higher than in other markets such as Brussels, Frankfurt, Paris, Milan and London.

In Madrid, there was a rise in the number of sales purchase transactions completed over the first half of this year, contributing to an improved climate of confidence among investors in the sector. The main players are still primarily, international investors who are gradually showing an increased interest in the Spanish real estate market.

Public authorities also continued to dispose of their assets via public tendering processes, completing some isolated sales during the second quarter of the year.

The office vacancy rate in Madrid remains very high in historical terms (around 14%), which would explain the fall in average rents and the increase in the number of rent renegotiation processes that have been seen over recent quarters. The correction process among prime quality properties and locations in this sector appears to have stabilised.

In Barcelona, activity among international investors has continued to increase during 2013. There are a certain scarcity of large suppliers for transactions involving the sale and purchase of office portfolios, so 'off-market' transactions have predominated. The office vacancy rate has reached a high of around 16%, and there has been a fall in average rents in all quality categories.

In both markets, the fall in rents and the large amount of unoccupied stock has meant that investment in the creation of further supply has been minimal. Nevertheless, it should be stressed that this sector is highly sensitive to levels of business activity, meaning that any improvement in the macroeconomic situation would lead to a certain amount of improvement from the second half of the year onwards.


METROPOLIS
TAXI
BUS

4

Sareb in numbers

Sareb manages a portfolio worth 50,781 million euros, of which 78% relates to financial assets and 22% to real estate assets.

As explained in Chapter 2 of this report, Sareb has been entrusted with managing assets transferred by banks that were about to be provided with government assistance. Under the terms of Article 48.1 of Royal Decree 1,559/2012, these assets were limited to the bulk of their exposure in the real estate sector. The categories that were eventually included under the terms of the transfer were the following:

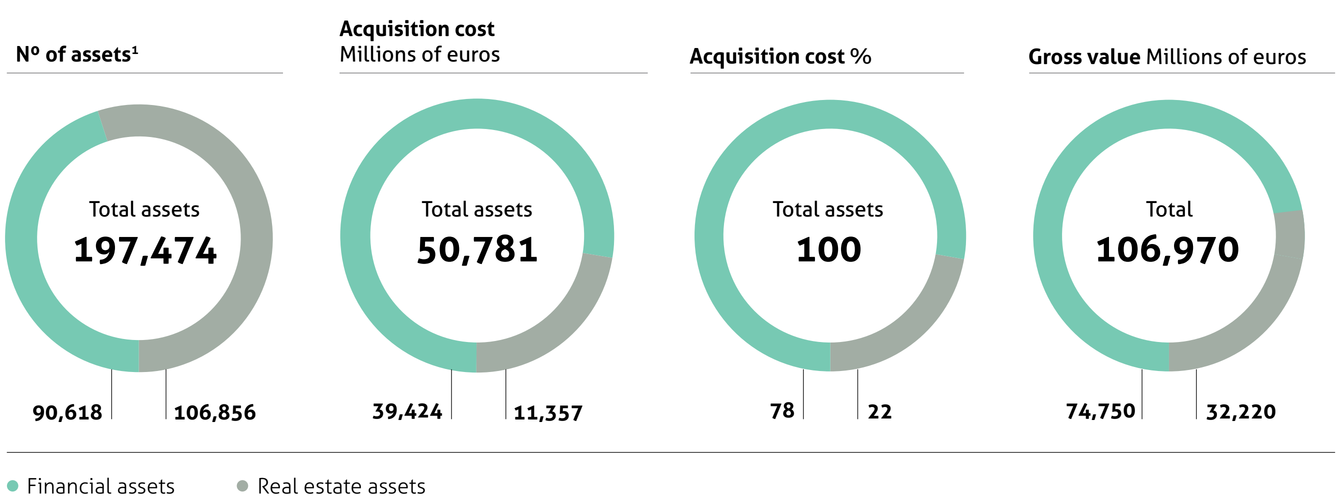
- **Loan exposure in the development sector**, with a net book value in excess of 250,000 euros per borrower.
- **Foreclosed properties** with a net book value of more than 100,000 euros

In accordance with its legal mandate, on 31 December 2012 Sareb received the real estate and financial assets selected for transfer from the five banks in Group 1 (BFA-Bankia, Catalunya Bank, Nova Galicia Banco, Banco Gallego and Banco de Valencia, worth a total of 36,694 million euros.

Subsequently, on 28 February 2013, Sareb received the assets to be transferred from the four banks in Group 2 (BMN, Liderbank, Banco Caja3 and Banco CEISS), worth a total of 14,087 million euros.

In total, Sareb received assets with an acquisition cost of 50,781 million euros, of which 39,424 million related to financial assets (Loans and credit lines for developers) and 11,357 million related to real estate assets.

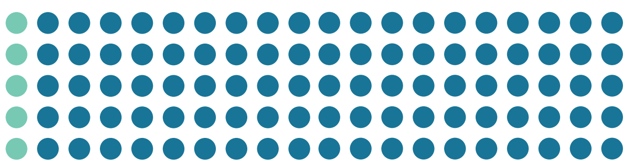
Sareb Portfolio (on the date of transfer)



1. Does not include the number of assets held as security for financial assets (collateral).

Financial assets portfolio %

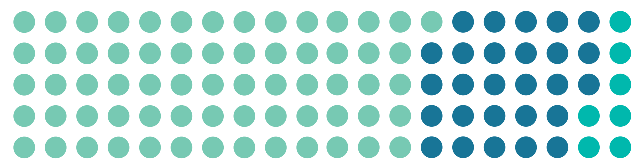
Financial assets portfolio comprising 95% loans and 5% credit lines



- 5% Credit lines
- 95% Loans

Real estate assets portfolio %

Real estate assets portfolio comprising 66% finished product, 27% land and 7% buildings under construction.



- 66% Finished product
- 27% Land
- 7% Buildings under construction

As mentioned above, these assets were transferred to Sareb following the application of a discount on the gross value assigned to the assets in question in the balance sheets of the contributing banks. This discount was fixed in a resolution adopted by the Bank of Spain and it took the form of an average cut in the gross value of the assets transferred, as detailed below:

Average discounts %	
Financial Assets	
Finished residential properties	32.40
Buildings under construction	40.30
Urban land	53.60
Other land	56.60
Other securities	33.80
No securities	67.60

Average discounts %	
Real Estate Assets	
New build residential properties	54.20
Buildings under construction	63.20
Land	79.50

Sareb generated cash flow of 842 million euros in the first six months of 2013, of which 80% (674 million euros) came from financial assets and 20% (168 million euros) from real estate assets.

4.1 Performance

Over its first six months of trading, Sareb displayed some of the singular characteristics inherent in a company of this nature. The following were some of the challenges it faced:

Logistical challenges, resulting from start-up, requirements such as the fitting-out of offices, the arrangement of basic support systems, the gradual recruitment of personnel, etc.

Operational challenges, such as the need to define the basic processes required to manage the assets transferred by the contributing banks.

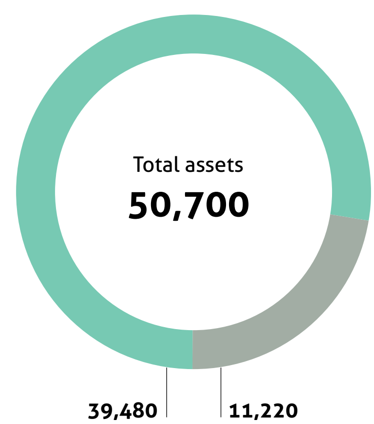
Commercial challenges, centred around the accelerated start-up of the company's various business channels and strategies, especially bearing in mind that part of the portfolio was going to be transferred once the first half of the year had begun (transfer of the Group 2 portfolio, completed on 28 February 2013).

As a consequence, the company was handicapped for almost three months during its first six months of trading; a fact that was reflected in its results, and it was only from halfway through the second quarter that Sareb's business could really be seen to take off.

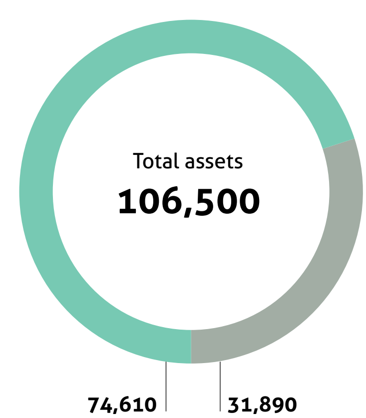
Following the first six months following its establishment, the portfolio has developed as follows (figures as at end of June 2013):

Sareb Portfolio (as of 30 June) Millions of euros

Acquisition cost



Gross Value



Financial assets   Real estate assets

The overall balance in terms of gross value was reduced by a total of 470 million euros, of which 140 million euros related to financial assets and 330 million euros to real estate assets.

The items transferred also included operations involving amounts that were yet to be drawn down, and Sareb was therefore subrogated to the obligations originally held by the contributing banks. The relevant transfer agreements established a mechanism for the subsequent repayment of any further amounts drawn down.

Amounts newly drawn down over the first six months of the year amounted to 318 million euros. If the effect of these drawdowns is removed, the net reduction in the total financial asset amount would be 262 million euros, and the reduction in the total asset amount would come to approximately 400 million euros.

For their part, cash flow figures for the first six months of the year were as follows:

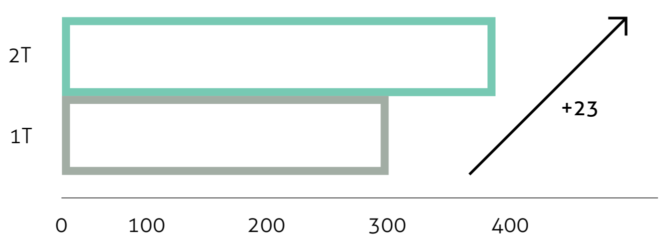
Cash flow generated Millions of euros	Q1	Q2	Accumulated June, 2013	Quarterly change, %
Total cash flow	329	513	842	56
Cash flow financial assets	302	372	674	23
- Amortisation and cancellation	194	221	415	14
- Interest	108	124	232	15
- Sales	-	27	27	-
Cash flow real estate assets	27	141	168	422
- Sales	16	128	144	700
- Rents from leasing	11	13	24	18

Other significant figures	Q1	Q2	Accumulated June, 2013	Quarterly change, %
Real estate assets sold (units)	163	1,354	1,517	+731
Investment in real estate assets (millions of euros)	-	11	11	-

In line with the observations made at the beginning of this section, **the company's performance measured in cash flow terms pointed to a very clear upward trend over the second quarter.**

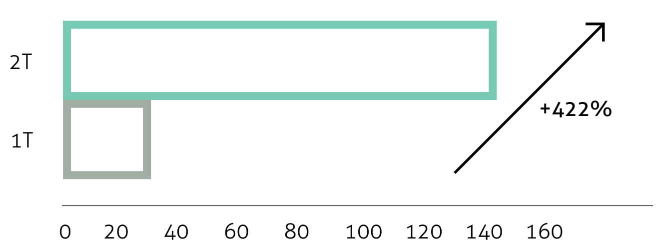
Financial asset cash flow Millions of euros

Growth over Q2. Accumulated cash flow of 674 million euros as at 30 June.



Real estate asset cash flow Millions of euros

Strong growth in Q2, reaching 168 million euros as at 30 June



The bulk of the company's cash flow, some 674 million from a total of 842 million euros, came from the interest generated by financial assets, as well as from the amortisation and cancellation of loans. The sale of loans, which is another potential source of liquidity from these kinds of assets, was limited over the first half of the year to the placement on the London markets of a share in tranche A of the Metrovacesa syndicated loan.

The efforts made to reduce total financial assets have intensified in recent months as a result of various initiatives. Advance figures show that the accumulated gross reduction amounted to more than 700 million euros as at the end of August.

In addition, the generation of cash flow from the sale of real estate assets was extremely positive over the second quarter, particularly in the retail segment, following the start-up of the asset marketing channels. The accumulated sales figure as at 30 June totalled 168 million euros.

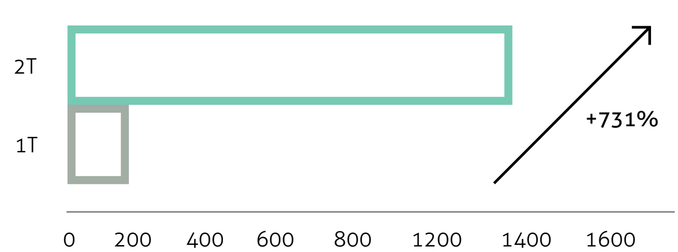
In terms of units sold, this dynamic commercial performance led to growth of almost 75% in monthly sales: more units were sold in April than in the whole of the previous quarter; the May sales figure was double that of the first four months, and in June the number of units sold was once again twice the figure for the entire preceding five-month period, bringing the total for the six months to 1,517 units.

This positive trend continued throughout July, the month in which the company achieved the highest sales figures in its short life. By the end of August, the accumulated number of units sold was approaching 3,000 units.

The cash flow obtained from the sale of real estate assets was further supplemented with the amounts obtained from the rental portfolio (more than 7,500 units), giving a total of 24 million euros for the first six months of the year. This figure had risen to nearly 35 million euros by the end of August.

Units sold

Robust rise in business, with a compound annual growth figure of 72%.



Sareb issued bonds underwritten by the government in return for the assets transferred by the contributing banks.

4.2
Financing structure

Sareb's financing structure following receipt of the assets Millions of euros	
Senior bonds	50,781
Capital (including issue premium)	1.200
Subordinated debt	3,600

In return for the assets being transferred, Sareb offered the contributing banks senior bonds maturing at 1, 2 and 3 years, in line with the following breakdown.

Bonds issued and handed over to Group 1 banks

Par value, €	Maturity	Coupon
11,008,100,000	31/12/2013	Eur 3m+2.189%
16,512,600,000	31/12/2014	Eur 3m+2.562%
9,173,600,000	31/12/2015	Eur 3m+2.964%
36,694,300,000		

Bonds issued and handed over to Group 2 banks

Par value, €	Maturity	Coupon
4,225,900,000	28/02/2014	Eur 3m+1.242%
6,339,200,000	28/02/2015	Eur 3m+2.017%
3,521,600,000	28/02/2016	Eur 3m+2.464%
14,086,700,000		

As at 30 June, the value of the bonds issued to the benefit of the Group 1 banks had been reduced by 127 million euros as a result of corrections to the value of the transferred assets (write-downs). The following table gives a breakdown of the amortised bonds:

Par value, €	Maturity
38,092,505	31/12/2013
57,138,758	31/12/2014
31,743,754	31/12/2015
126,975,017	

Bonos bancos del Grupo 1 tras subsanación

Par value, €	Maturity
10,970,007,495	31/12/2013
16,455,461,242	31/12/2014
9,141,856,246	31/12/2015
36,567,324,983	

Write-downs of this nature will continue to be made over the second half of the year, until the initial estimated value of the assets that originally served as the basis for the bond issue has been corrected to the real transfer value.

Senior bonds are underwritten by the government and offer a variable interest rate based on the Euribor 3-month rate plus a differential equivalent to the one that applies to government borrowing for a similar period, calculated on the date on which the bonds are issued.

La carga financiera devengada durante el primer semestre del ejercicio ascendió a 607 millones de euros. Esta es la principal partida de gasto de la compañía. A pesar de ello, **la sociedad generó en el semestre una caja bruta suficiente para atender el pago del servicio de la deuda,** que en dicho periodo alcanzó la cifra de 574 millones de euros, por los cupones pagaderos en marzo y en junio de los bonos de la serie I (a favor de los Bancos del Grupo 1) y el cupón de mayo de los bonos de la serie II (a favor de los Bancos del Grupo 2).

Además de los activos recibidos, Sareb nació con un volumen de liquidez de 4.800 millones de euros procedentes, tal y como se describe a continuación, del desembolso del capital y de la deuda subordinada que conforman sus recursos propios. **A 30 de junio, tras el pago de los cupones de deuda y las disposiciones realizadas, dicho colchón de liquidez se mantenía estable alcanzando un cifra de 4.782 millones de euros**.

En cuanto a su estructura de capital, los fondos propios de Sareb ascendieron a 1.200 millones de euros a fecha de su constitución, distribuidos entre capital social (300 millones de euros) y prima de emisión (900 millones de euros). Estos fondos propios se desembolsaron completamente en febrero de 2013, con el traspaso de entidades del Grupo 2. El mayor accionista es el FROB, con un 45% del capital, estando el restante 55% en manos privadas. La distribución del capital es la siguiente:

	Capital, Millions of euros	Capital, %
Santander	207.40	17.3
Caixabank, S.A.	149.30	12.4
Banco sabadell	83.20	6.9
Popular	71.70	6.0
Kutxabank	31.50	2.6
Banca march, S.A.	4.90	0.4
Bankinter	17.00	1.4
Ibercaja	17.70	1.5
Unicaja	15.80	1.3
Cajamar Caja Rural, S.C.C.	15.00	1.3
Barclays Bank, S.A.	3.00	0.3
Caja Laboral Popular C.C.	7.40	0.6
Deutsche Bank, S.A.E.	3.70	0.3
Ceca	4.20	0.4
Banco Cooperativo Español, S.A.	3.90	0.3
C.C. Caminos	0.80	0.1
Mapfre	10.00	0.8
Axa Seguros Generales	2.00	0.2
Mutua Madrileña	6.00	0.5
Catalana Occidente	3.00	0.3
Iberdrola Inmobiliaria	2.50	0.2
FROB	540.00	45.0
TOTAL	**1,200.00**	**100**

In addition, Sareb holds 3,600 million euros of subordinated debt, issued and underwritten by around thirty investors. This subordinated debt may be converted into share capital under certain circumstances and it entitles the investor to a coupon of 8%, payable in the event that sufficient profits are available for distribution. The following table gives a breakdown of these investors:

	Subordinated debt. Millions of euros	Subordinated debt. %
Santander	598.20	16.6
Caixabank. S.A.	431.90	12.0
Banco Sabadell	238.10	6.6
Popular	204.60	5.7
Kutxabank	91.20	2.5
Banca March. S.A.	14.30	0.4
Bankinter	49.20	1.4
Ibercaja	51.30	1.4
Unicaja	45.60	1.3
Cajamar Caja Rural. s.C.C.	43.40	1.2
Barclays Bank. S.A.	8.60	0.2
Caja Laboral Popular C.C.	21.30	0.6
Deutsche Bank. S.A.E.	10.70	0.3
Ceca	12.10	0.3
Banco Cooperativo Español. S.A.	11.40	0.3
C.C. Caminos	2.20	0.1
Mapfre	40.00	1.1
Axa Seguros Generales	8.00	0.2
Generalli	5.00	0.1
Mutua Madrileña	24.00	0.7
Catalana Occidente	12.00	0.3
Mutua Pelayo	3.00	0.1
Asisa	2.00	0.1
Reale	3.00	0.1
Zurich	5.00	0.1
Sta. Lucía	4.00	0.1
Iberdrola Inmobiliaria	7.50	0.2
FROB	1,652.40	45.9
TOTAL	**3,600.000**	**100**

4.3

4.3 Non-financial costs

The company's non-financial costs over the first six months of its operation totalled 140 million euros. Notable among these were the maintenance and after-sales service costs relating to real estate assets, with special mention of the payment of Spanish Property Tax (*Impuesto de Bienes Inmuebles*) and the fees agreed with the companies supplying asset management services, which are mainly the same credit institutions that transferred the assets to Sareb while maintaining responsibility for managing them.

Non-financial costs	**H1 2013**
Asset management fees	(35)
Asset marketing costs	(1)
Maintenance and after-sales, real estate assets	(77)
Real estate taxes and duties	(27)
Service charges	(24)
Other maintenance and after-sales costs, real estate assets	(26)
Operating and structural costs	(27)
TOTAL	**(140)**

4.4
Performance in comparison with business plan

In March 2013, Sareb updated its initial Business Plan, once it had completed an analysis of the assets transferred in December 2012 and February 2013, along with the final details of its liabilities. A notable element in the new Business Plan are the **targets established for the first 5 years following Sareb's creation:**

- A reduction of 44% in the company's balance sheet.
- The repayment of 49.9% of the senior debt underwritten by the Spanish government.
- The sale of 45,000 real estate assets.
- Achieving a final rate of return for Sareb's shareholders of between 13% and 14% over the 15 years of the company's lifetime.

The Business Plan is more conservative for the first years of this five-year period, given the depressed state of the real estate sector at the time of its preparation.

It should also be taken in to consideration that marketing activities did not properly begin until the second quarter. As a result, the results for the first full six months of Sareb's operation only allow one to make a provisional assessment of the degree to which targets have been met. In any case, the figures obtained throughout the first half-year indicate a growth rate that would favour compliance with the targets established.

It is important to point out that **despite the sharp correction in house prices; the company has achieved sales in all business areas, with significant levels of cash flow and positive commercial margins in all its operations.**

A further three elements worthy of mention, introduced after 30 June, are the following:

- The operation to provide cover for interest rate risk, the largest undertaken in Europe, which was completed in terms very close to those set out in the Business Plan.
- The decreasing differential with the reference rate paid on the bonds issued, which is tied to perceptions relating to the quality of Spanish Treasury Stock. The robust improvement in Treasury Stock spread up to September 2013 has led to significant potential savings for Sareb in comparison with the forecast contained in the Business Plan.
- The approval in July of a budget, based on more reliable information on the assets transferred, as a basic management tool to provide a guide for the company's actions over the second half of the year.

4.5
Advance information on the latest figures

According to advance information, the results from the third quarter confirm the positive growth in cash flow generation observed over the second quarter:

- Total cash flow for the third quarter rose to 619 million euros, 21% up on the previous quarter. This growth was seen in relation to both financial assets (16% growth) and real estate assets (32% growth).
- Accumulated cash flow generated to 30 September totalled 1,461 million euros.
- The strong boost obtained as a result of the shock plans introduced with the aim of stimulating commercial activity relating to real estate assets. **Over the third quarter, the number of real estate assets sold increased to 2,142 units, 58% up on the previous quarter.** The accumulated figure as of 30 September had reached 3,659 units.

Cash flow generated Millions of euros	**Q3**	Accumulated 30 sep 2013
Total cash flow	**619**	**1,461**
Cash flow from financial assets	433	1,107
- Amortisation and cancellation	331	746
- Interest	95	327
- Sales	7	34
Cash flow from real estate assets	186	354
- Sales	173	317
- Rents from leasing	13	37

Other significant factors	**Q3**	Accumulated 30 sep 2013
Real estate assets sold (units)	2,142	3,659

The asset transfer process

As described in Chapter 2 of this report, Sareb received assets for management worth a total of 50,781 million euros from banks that had required government assistance during the course of the restructuring of the Spanish financial system, under the terms set out in the MoU.

The process used to determine which assets would be subject to compulsory transfer and to establish their value was regulated under Act 9/2012 and Royal Decree 1,559/2012 and gave rise to a series of important and highly unique circumstances:

- It was a compulsory process, defined in a number of different administrative rulings by the FROB which provided specific details regarding the group of assets that were to be subject to transfer;
- The price was also determined administratively in a ruling by the Bank of Spain. To this end, under the terms of Article 13 of Royal Decree 1,559/2012 and the contents of paragraph 21 of the MoU, the price was calculated on the basis of the long-term economic value of the assets in a manner consistent with the results of the stress test carried out by Oliver Wyman.

  This price was made up of two components:

  - The value of the assets obtained, on the basis of the loss expected in each category according to the base scenario for the Oliver Wyman stress test.
  - An additional discount to take account of elements not included in the foregoing valuation, such as maintenance costs, financing costs, legal costs, recovery costs, etc.
- This price was applied in the form of an average discount on gross value for each category of assets on the transfer date.

Applying this methodology, the assets from both the Group 1 and Group 2 banks were transferred on 31 December 2012 and 28 February 2013 respectively. The value of the assets transferred by each bank was as shown in the following table:

Group 1 Millions of euros				
BFA-Bankia	CX	NCG Banco	B. Val.	B. Gallego
22,317	6,708	5,097	1,962	610

Group 2 Millions of euros			
BMN	Liberbank	CEISS	Caja3
5,820	2,212	3,137	2,918

TOTAL	**50,781**

Initial management of the assets by the contributing banks

While Sareb was completing its operational structure, it signed agreements with the contributing banks for the administration and management of the assets being transferred, for the purposes of ensuring an orderly transition and the continuing management of the assets in order to prevent their deterioration.

These agreements, which followed guidelines from Sareb, set out the legal framework that would govern the way in which the contributing banks would exercise delegated management duties, ranging from the administration, maintenance and marketing of properties to the management and covering of risk. Over the first half of the year, the contributing banks were Sareb's main management service providers or servicers. In return for providing this service, the contributing banks receive a management fee and commissions on sales of assets that are aimed at aligning the contributing banks' targets with the mission entrusted to Sareb.

5

Performance of the real estate assets business

5.1
Description of the portfolio

The stock of real estate assets transferred was comprised of 106,856 assets, including land, buildings under construction and finished product, the value of which (at acquisition cost) came to a total of 11,357 million euros.

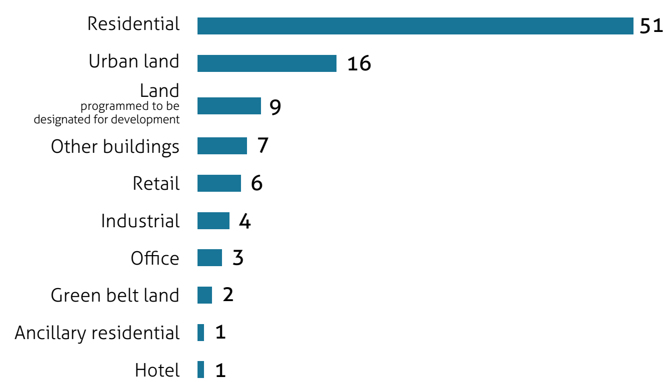
The first part of this portfolio contained 76,753 assets with an acquisition value of 8,403 million euros, and this was transferred on 31 December 2012. The remainder of the portfolio was subsequently transferred on 28 February 2013, and it comprised 30,104 assets with an acquisition value of 2,954 million euros.

In terms of property type, 52% of the total portfolio was comprised of assets intended for residential use (including ancillary properties). This residential portfolio included both finished properties (vacant and rented housing) and properties under construction.

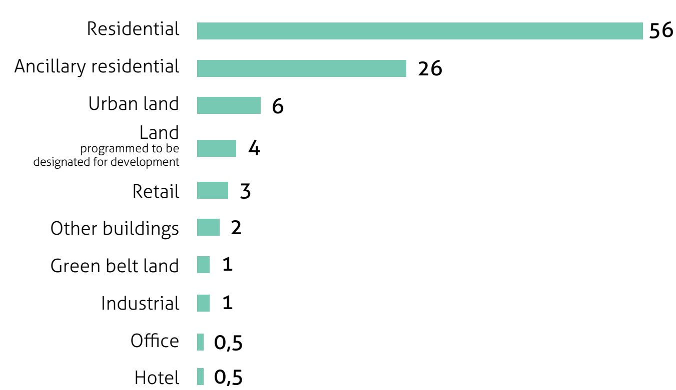
The remaining 48% consisted of both green belt and development land (27% of the portfolio) and commercial property assets and other buildings (21%).

If one analyses composition by number of assets, 82% of the portfolio comprised assets intended for residential use.

Asset types % value in Millions of euros



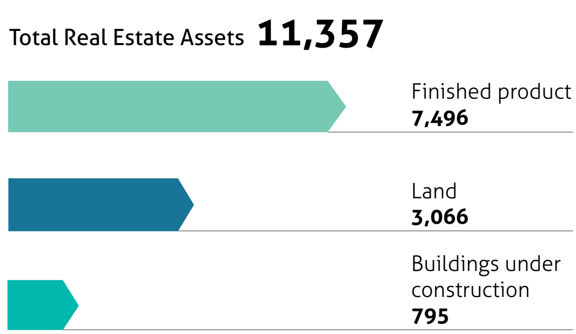
Asset types % No. of assets



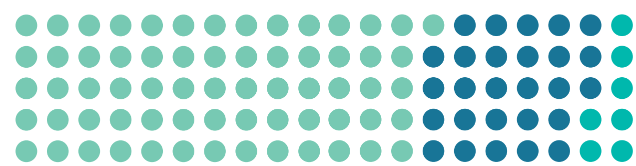
Depending on the stage of development reached by each asset, this real estate portfolio was initially broken down into the following groups, based on volume:

Classification of assets based on level of completion

Millions of euros



%

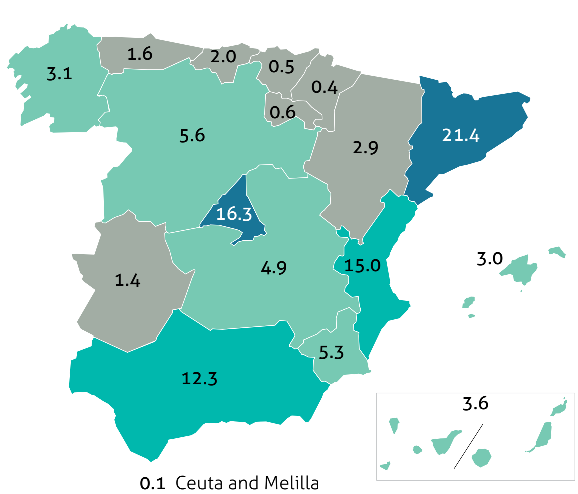


- 66 Finished product
- 27 Land
- 7 Buildings under construction

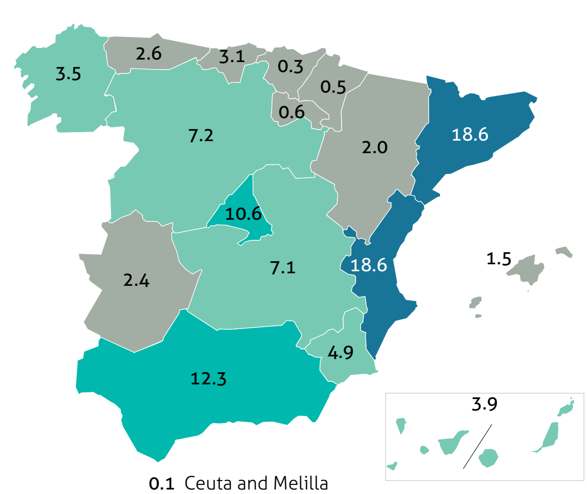
From a geographical point of view, there is a significant level of dispersion that makes management difficult, a problem that is further exacerbated by the scattered nature of the portfolio. Sareb has real estate assets in all 17 Autonomous Communities, spread throughout 50 provinces in Spain and the autonomous city of Ceuta.

More than 60% of the acquisition value of the property portfolio is concentrated in the Autonomous Communities of Catalonia, Madrid, the Community of Valencia and Andalusia.

Distribution of the portfolio % Millions of euros



Distribution of the portfolio % No. of assets



5.2
Courses of action

Over the course of the first six months of 2013, following completion of the transfer of the portfolio by the Group 2 banks on 28 February, the purpose of the main lines of action taken with regard to managing the real estate assets was as follows:

- Completing a full inventory of the portfolio of assets acquired, based on location and property type. The aim was to identify the assets transferred in order to design the best strategies for their management and marketing. The review of all the documentation will be completed towards the end of 2013. This data will be processed and forwarded to Sareb over the first few months of 2014 (see section 7.1).

- Completing a precise segmentation of the portfolio based on the condition of the asset, its use and its geographical location.

- Commencing active management of the portfolio in order to maintain and increase its value, based on property type, condition and potential.

- Defining and launching optimum strategies for the management of defaults, with a view to reducing the impairment of the portfolio.

- Defining and implementing the most suitable strategies for multi-channel disinvestment (indirect, direct and wholesale channels), based on the nature of the assets, the sales process and the investors to whom the assets are aimed.

- Implementing a strategy to set prices, based on the type of asset in question and the geographical area in which it is located.

- Boosting income flows, through the dynamic implementation of commercial retail sales plans and the launch of procedures for the sale of prime assets and wholesale campaigns.

5.2.1 Marketing channels

Over the first half of 2013, the company worked on the creation of three separate channels for the marketing of the real estate assets being managed. A number of different initiatives were launched over the course of this period, aimed at providing support and stimulation for the marketing process. Some of these initiatives are still in the development stage and will be implemented over the course of the second half of 2013.

Indirect channels

The main indirect channel used during this stage of the business, as described in section 4 ("Transitional Management by the Contributing Banks"), involved the companies that originally transferred the assets, which have acted as the main service providers or servicers for the management and marketing of the assets placed under management, in accordance with the price strategies and sales conditions established by Sareb.

This channel is highly focused on the small investor and individual house buyer sectors. The servicers concentrated on the marketing of housing and ancillary properties (parking slots and storage units), working through their own sales networks, namely:

- The different web platforms (both the servicers' own platforms and the leading independent real estate portals).

- The servicers' own commercial networks.

- The commercial networks of independent agents (usually Estate Agents) managed directly by the servicers.


SE
S
140
934.33
813.56
5.87
56.36
50.00
27.12
104.66
4,083.05

Other indirect channels were also developed:

- The marketing of completed asset products through independent agents managed directly by Sareb (either exclusively or in conjunction with other marketing strategies established simultaneously for the same asset).
- Agreements with industry associations to assist with disinvestments.
- The development of a website to bring together all the assets aimed at private individuals (mainly housing and ancillary properties), which is scheduled for launch in 2014.

Given the vital importance of these indirect channels for the retail sales segment during Sareb's first few months of operation, specific action was taken to provide them with support:

- The delegation of powers to the servicers to speed up sales processes.
- The definition of the criteria to be used to set and review sale and rental prices, based on the current state of the market. By the end of the first six months of the year, Sareb had set a price for more than 50,000 assets, including both residential and non-residential properties.
- Support for and coordination with each of Sareb's servicers with a view to developing specific commercial actions and shock plans: open days, promotional activities and specific campaigns, the use of individual servicer or general websites, attendance at specialist trade fairs aimed at both the sector itself and the general public, etc.).
- The definition and implementation by Sareb of specific commercial plans and campaigns to increase and speed up sales.

Indirect channels have also been used to market special assets, with the engagement of real estate professionals other than the servicers to sell various portfolios of land (both urban and green belt).

Direct channels

Sareb has also developed a direct sales channel.
The starting point for this process centred around the marketing of assets which, because of their size, special physical characteristics, location or other feature, could be considered to be prime assets.

The main profile for investors interested in the sale of prime assets is, in the majority of cases, that of a medium-sized investor or one that specialises in a certain segment, a family office or a developer. These operations can be easily completed by means of a direct sale and purchase transaction or through the creation of investment vehicles such as FABs (the structure of which is explained in Chapter 2).

Initiatives have also been launched to strengthen the marketing of other assets via direct channels:

- A direct sales channel for land and commercial sector assets via the Internet, which will come on line shortly.
- The advertising on the Internet of the available green belt properties, in order to facilitate their marketing, initially via third parties but with the potential for direct marketing in the future.

Wholesale channels

Finally, during this same period the company was actively engaged in the launch and consolidation of a wholesale channel for disinvestment of the transferred assets. It also created specialised portfolios (new-build residential properties, offices, tourist resorts, etc.) that would be attractive to specific buyers as a result of their characteristics, critical mass, potential for value uplift, fiscal benefits, etc.

This wholesale channel is directed towards institutional or large investors (such as, for example, large international investment funds), given the size of the portfolios offered.

Given the principle of transparency adhered to by Sareb, the marketing processes implemented were based on competitive tendering processes in which the majority of investors who might potentially be interested were invited to take part, based on the types of assets involved.

A number of different wholesale operations were designed and put together over the first half of the year. One of these (Project Bull) was introduced before 30 June, and the sale agreement was signed in August 2013.

Project Bull

- More than 50 investors interested in the portfolio.
- First placement by Sareb of a package of real estate assets on the wholesale markets.
- Asset type: 939 assets spread over 33 developments of new-build residential and retail units.
- Location: Mostly located in the Autonomous Communities of Andalusia, Valencia, Madrid and the Canary Islands (90% of the portfolio), with the remaining 10% in Catalonia, the Balearic Islands, Murcia and Cantabria
- The transaction began over the course of the second quarter. Agreement signed: August 2013. Process completed in accordance with the scheduled timetable.
- The transaction valued the portfolio at 100 million euros, and it allows Sareb to share in any future capital gains.
- The transaction was structured using a Banking Asset Fund (FAB) , the first to be created in Spain, which will operate as a joint venture between Sareb (which will hold 49%) and the purchaser (which will hold the remaining 51%).
- The FAB’s properties will be managed by an independent operator.

Sareb continues to work on the design and preparation of other potential portfolios, seeking to optimise their composition so that they appeal to the interests of different categories of investor. In this regard, some of the types of assets that have so far been identified as items that could attract greater interest among the investment community are the following:

- **Properties belonging to new build developments** (mainly residential properties and their ancillary properties and, to a lesser extent, retail units), and even in some cases properties under construction and plots of land.
- **Rented office buildings in large conurbations.**
- **Residential tourist assets located on the Spanish coast.**

5.2.2. Financing agreements with institutions

In order to stimulate the marketing of the product portfolio, agreements are being made with financing institutions that will offer specific financing facilities for the acquisition of Sareb's assets.

These agreements will extend to the financing of the purchase from Sareb of both properties and assets linked to developer credits (residential and non-residential in both cases), as well as to the purchase of prime assets. They will also extend to properties that are included in FABs or other disinvestment vehicles (such as Residential Leasing Companies or Listed Limited Companies for Investment in the Real Estate Sector ("SOCIMIs" – Spanish equivalent of REITs), among others.

These financing agreements have been agreed for an initial term ending on 31 December 2014, though they may be extended.

In recent months, agreements have been signed with Banco Santander, CaixaBank, Banco Sabadell, Banco Popular, Kutxabank, Banco Cooperativo and BBVA. As a result of these agreements, more than 6,000 million euros of financing is now available.

82% of all cash flow was obtained between the months of April and June (second quarter).
74% of sales were achieved through retail channels

5.3
Business performance

Over the first six months of 2013, the cash flow obtained from managing and marketing real estate assets totalled 168 million euros, of which 144 million (85%) came from the sale of assets and 24 million (14%) was received as a result of the management of rental properties.

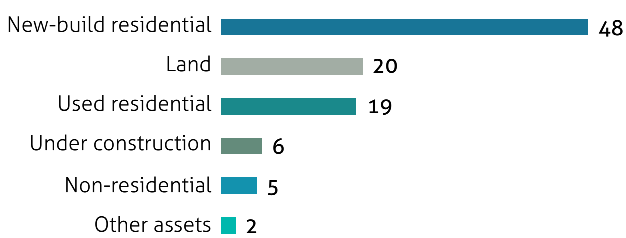
Cash flow generated Millions of euros	Accumulated March, 2013	Accumulated June, 2013
Cash flow from real estate assets	27	168
Sales	16	144
Rents from leasing	11	24

82% of all cash flow was obtained between the months of April and June (second quarter). According to advance data for the second half of the year, this figure continued its upward trend in July, coming close to 100 million euros during the month, meaning that total accumulated cash flow to 31 July exceeded 250 million euros (with generated cash flow approaching 300 million at the end of August).

74% of sales were achieved via retail channels, a total of 108 million euros. Cash flow generated by direct bilateral sales (i.e. assets sold directly by Sareb without mediation from a third party) totalled 36 million euros, some 26% of total sales income.

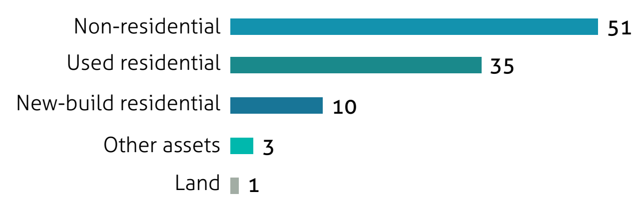
Total accumulated cash flow from the management of rental properties to 30 June amounted to 24 million euros. The launch of a number of initiatives to boost rentals will further increase this source of income (according to the advance data, in July the monthly cash flow figure rose to nearly 6 million euros).

Distribution of accumulated cash flow at 30 June, by asset type %



- Marketing of all asset types (residential, non-residential, buildings under construction, land and other assets).
- Sharp upturn in the sale of residential assets: 67% of sales cash flow came from the sale of residential assets.
- Remaining 33% divided between land (20%), non-residential (5%), buildings under construction (6%) and other assets (2%).
- Strengthening of commercial activity over Q2.

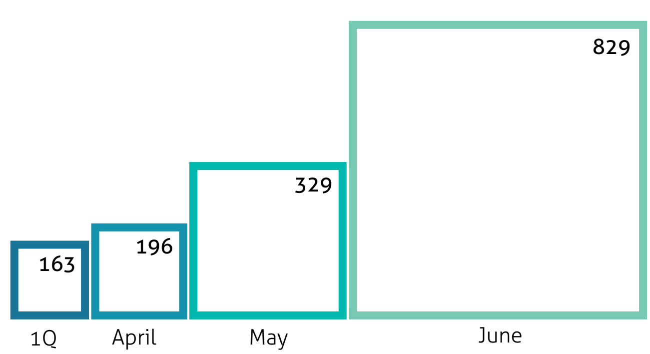
Distribution of cash flow from rentals, by business sector: retail, residential, others, etc.%



- Significant levels of business in the commercial property sector and residential assets.
- Rents received from commercial property assets accounted for 51% of all rents billed.
- Residential rentals portfolio accounted for 45%.
- Other assets (including land): 4%
- Strengthening of commercial activity over Q2.

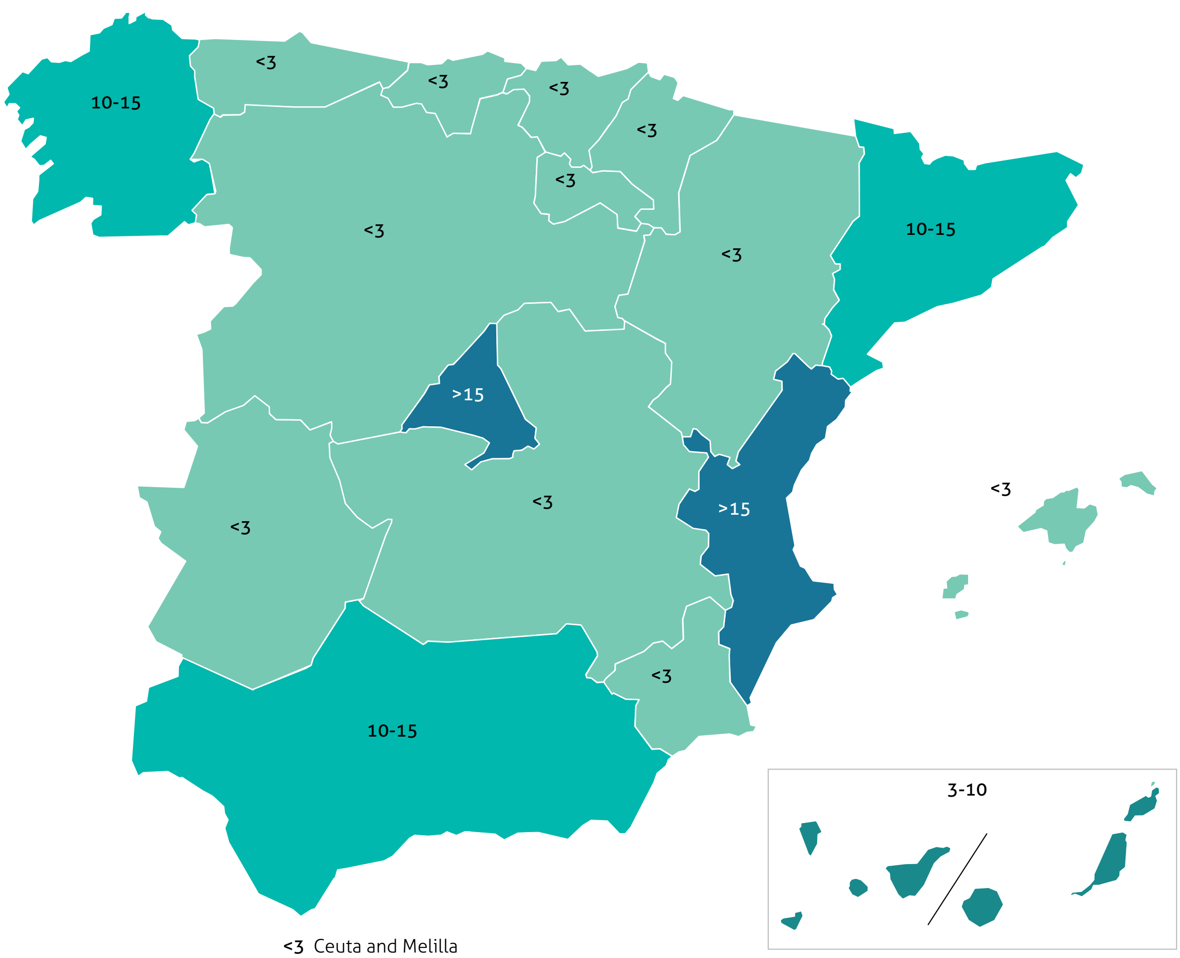
In terms of units, 1,517 assets were sold over the course of the first half of the year, including retail sales and the sale of prime assets. The business showed an upward trend with a monthly growth curve. This upward trend was maintained during July, when the number of units sold reached nearly 1,000. By the end of August, the total number of units sold had reached almost 3,000.

Units sold



In geographical terms, sales were made mainly along the Mediterranean seaboard and in Madrid. The Community of Valencia was the region in which the highest percentage of sales was recorded, based on aggregate value of the units sold.

Distribution of sales by geographical area, % of total sales volumes by recorded title deed price.



6

Performance of the financial assets business

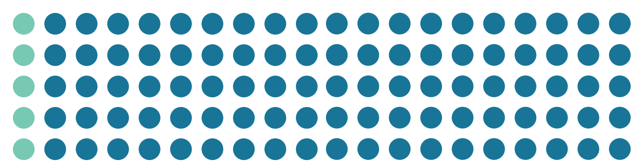
6.1
Description of the portfolio

The stock of financial assets transferred comprised 90,618 assets, with an acquisition value of 39,424 million euros (74,750 million euros gross value).

The initial transfer, made on 31 December 2012, involved a portfolio comprising 68,160 financial assets with an acquisition value of 28,291 million euros and a par value of 54,600 million euros. The remainder of the portfolio was subsequently transferred on 28 February 2013, and it comprised 22,458 assets with an acquisition value of 11,133 euros and a par value of 20,150 million euros.

95% of the initial portfolio was loans; the remaining 5% comprised credit lines.

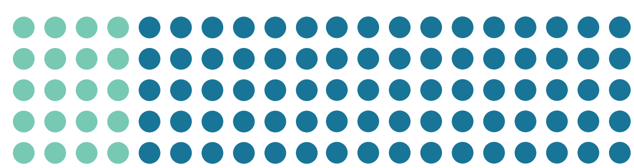
Geographical distribution of financial assets portfolio by asset type %



- 5% Credit lines
- 95% Loans

At the time of transfer, 20% of the par value of the loans and credit lines had matured, meaning that 80% of the capital remained pending.

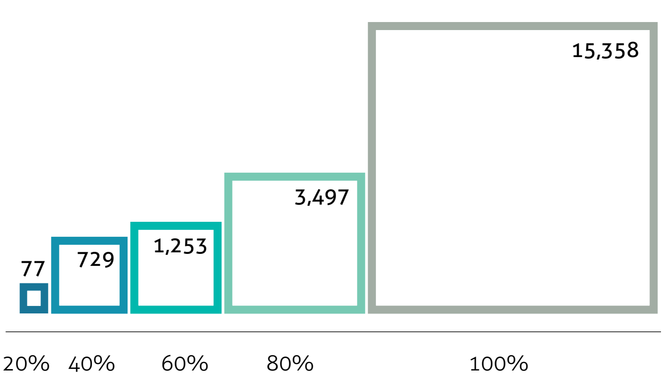
Distribution of financial assets portfolio by asset type %



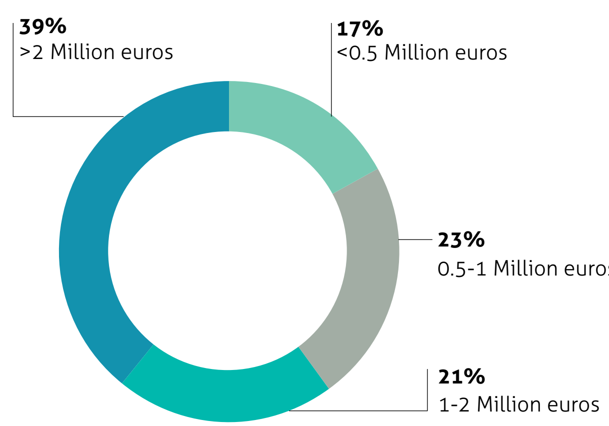
- 20% capital matured
- 80% capital pending

The 90,618 financial assets are distributed among 15,358 financial groups of borrowers or creditors, with an average debt amount of 825,000 euros per operation.

No. of borrowers per gross debt percentile

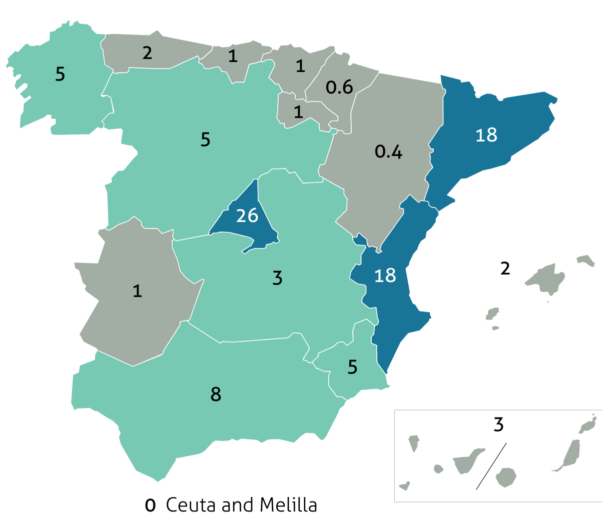


No. of borrowers per gross debt percentile



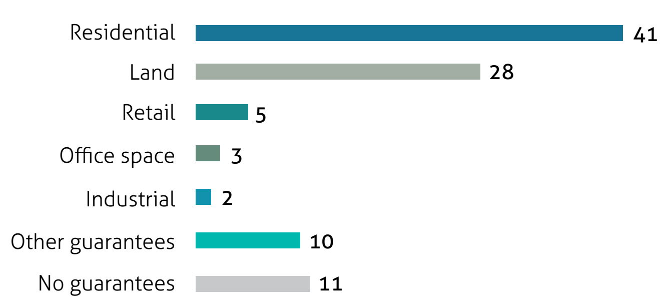
Geographical distribution of financial assets portfolio %

60% of borrowers are concentrated in three Autonomous Communities: Madrid, Catalonia and the Community of Valencia.



Distribution of portfolio by type of security %

As regards distribution by security type, in terms of volume, 89% of the financial assets (by volume) are covered by mortgage guarantees, represented in 69% of cases by residential properties and land.



6.2
Courses of action

The main objectives pursued with regard to the management of the financial assets over the first six months of the year were as follows:

- Completing and optimising knowledge of the portfolio: the size of the financial assets portfolio and the broken-up and scattered nature of the loans it contained made it necessary to implement a clean-up process and obtain more information on the loans in question.
- Forming a team: as with the management of the real estate assets, a team was built over the course of the first six months of the year to take charge of managing and marketing the portfolio.
- Establishing and notifying servicers of the strategic lines for the management of the financial assets.
- Establishing mechanisms to cover decision-making processes: in conjunction with the Risk, Real Estate Assets, Legal Advice and Internal Monitoring Departments, procedures were established and committees were set up to take decisions on credit operations.
- Designing strategic lines for disinvestment in the financial assets portfolio, with particular emphasis on the prioritising of the options available in each case.
- Establishing and opening up the distribution and management channels via which disinvestment strategies were to be implemented.

At the time of Sareb's incorporation, one of the priorities identified was that of avoiding any discontinuity in the management of the loans, as a result of their transfer from the contributing banks, thus ensuring that borrowers would not suffer any consequences arising from the inefficient management of the financial assets. With this aim in mind, part of the management of the financial assets over the first half of the year was focused on minimising potential risk and concentrating on those situations that required immediate action.

Activities centred around the management of credit risk and the launch of strategies to market the portfolio.

6.2.1. Credit risk management

The management of credit risk includes all the essential elements relating to follow-up, monitoring and recovery duties. The aim is to maximise the value of the financial assets, protect them from or mitigate any potential impairment, support their liquidity in the marketplace and structure their eventual refinancing with the aim of maintaining a high level of control over future exposure to credit risk.

An important part of this credit risk management is the management of defaults, the model for which was progressively introduced over the first half of 2013 as an essential element to ensure compliance with the requirements of both shareholders and regulators.

Supported by the resources and tools provided by the servicers, a regular monitoring and risk management process has been implemented, based on both the active management of defaults from the moment they occur, and on preventive management, implementation of which extended beyond the first half of 2013.

As a result of this preventive management process, which is based on a system of early warnings that provide information on compliance by borrowers with their payment obligations, action has begun to be taken to remedy certain situations and avoid defaults.

Other important lines of action introduced over the first six months of the year were as follows:

- Credit policies and decision-making rules: Sareb set out the various credit policies and decision-making rules that would apply to the financial assets, based on their origin and type.
- Definition of the management process and levels of communication: as is the case with the real estate assets (explained in Chapter 5), communication with borrowers is mainly the responsibility of the servicers. As part of this process, and depending on the credit policies agreed, Sareb assumed responsibility for sanctioning credit requests received by the servicers. However, in the case

of certain assets, given their volume or complexity, Sareb remained in direct contact with the borrowers in order to negotiate and finally complete the agreements required.

- Definition of management strategies: The following mechanisms were established for the reduction of amounts outstanding:
  - The ordinary or early collection or recovery of operations that have matured.
  - The sale of collateral by the debtor company, with support from Sareb, in order to allow the debt to be cancelled.
  - Donations in lieu and the enforcement of mortgages. This last line of action is taken as a final resort, and only to the extent it has not been possible to implement the preceding processes or such processes have been unsuccessful.

These mechanisms to reduce the amounts outstanding were implemented alongside strategies for marketing the assets.

6.2.2 Marketing channels and strategies

A number of marketing channels were introduced over the course of the first six months of the year, all of them aimed at every market sector, from retail to wholesale, in order to commence the natural divestment of the portfolio, either via write-downs and the cancellation of loans or via the sale and/or early amortisation of the financial assets. As was the case with the real estate assets, the channels defined with this aim in mind were the following: indirect channel, direct channel and wholesale channel.

Indirect channel

Channel managed by the servicers in accordance with guidelines issued by Sareb. This channel was created for the management (collection and recovery) of loans and credit lines, and for the retail sale by the borrowers themselves of the assets used as security.

The majority of the assets marketed as part of this process for the sale of collateral were finished residential properties. The cash flow obtained was mainly allocated to the write-down or cancellation of the debt. This channel was also supported by the financing agreements signed with the group of financing institutions listed in Chapter 5.

Direct channel

The channel managed directly by Sareb, allowing for disinvestment either through negotiations with the borrower for cancellation of the debt or through the individual sale of loans to interested investors. This channel was further strengthened by the introduction of initiatives that allowed borrowers to propose the terms under which they would be willing to repay their debts.

In this connection, during this first half-year Sareb used this channel to complete the sale of its share in a tranche of the Metrovacesa syndicated loan.

Wholesale channel

A channel managed directly by Sareb and aimed at domestic and international institutional investors (such as, for example, large international investment funds). Operations may be restricted either to individual loans or to portfolios comprising a number of loans.

Over the first six months of the year, Sareb worked on the identification of potential loans or portfolios of loans that would be suitable for marketing by competitive tender via this channel during the second half of the year.

As with the management of its real estate assets, given the principle of transparency adhered to by Sareb, the marketing operations implemented were based on competitive tendering processes in which a wide-ranging group of potential investors were invited to take part, depending on the type of assets involved.

6.3
Business performance

Results obtained

Over the first six months of 2013, the cash flow obtained from managing and marketing financial assets totalled 674 million euros, of which 415 million (61%) came from the amortisation and cancellation of loans, 232 million (35%) from the collection of interest and 27 million (4%) from the sale of financial assets.

Flujos de caja Millones de euros	Acumulado Marzo 2013	Acumulado Junio 2013
Flujos de caja activos financieros	**302**	**674**
Amortizaciones activos financieros	194	415
- Intereses	108	232
- Ventas	-	27

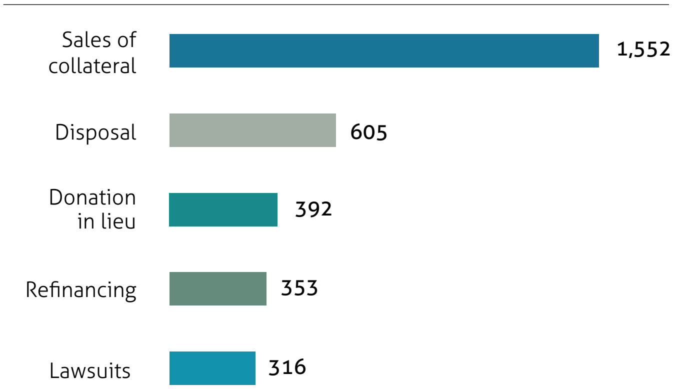
Active management of financial assets

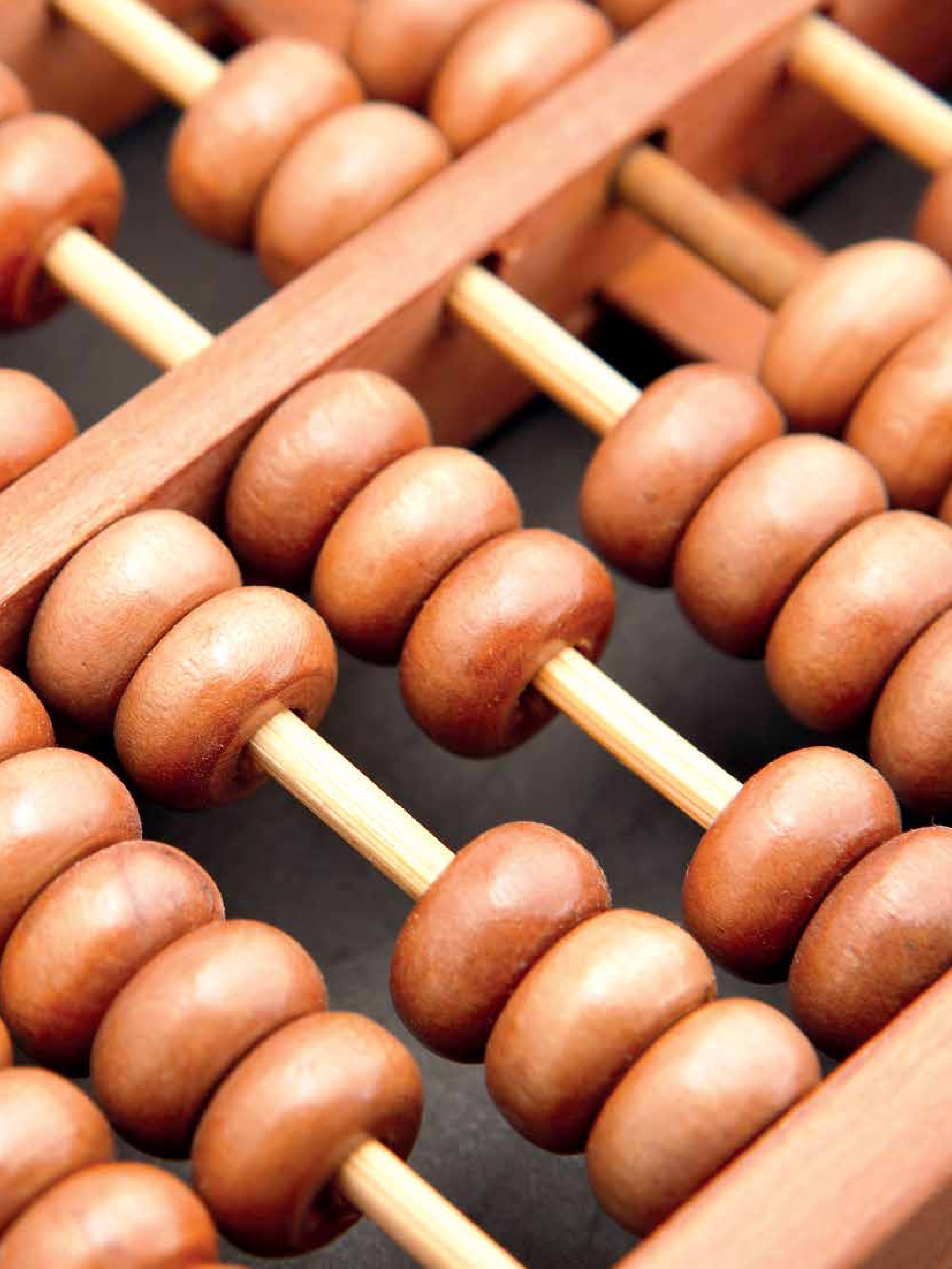
Throughout this period, the main challenge faced in managing the financial assets, given their significant volumes and diverse property types, involved building a personnel structure and creating policies and procedures that would facilitate implementation of the company's strategy.

Thus, the initial management process focused on an analysis of the credit proposals received from both servicers and borrowers, as applicable, and the generation of cash flow using the measures described. Going beyond its ultimate aim of liquidating the assets, Sareb's loan portfolio provided the company with recurring income from the payment of interest and amortisation.

As of 30 June, a total of 3,218 credit proposals had been agreed. Of these, 42% (1,552 proposals) related to the sale of collateral by the borrower; 10% (353) related to restructuring/refinancing; 17% (605) related to disposals; and 20% related to donations in lieu and enforcements (708). Sareb gradually reduced the time taken to respond to proposals received while at the same time passing on concise instructions regarding its objectives to the various servicers, which resulted in an improvement in levels of response relating to the direct recovery of outstanding payments and sales by developers.

Agreed proposals for the management of financial assets
No. of proposals





7

Policy and procedures

More than 90,600 financial assets
More than 400,000 collateral assets acting as guarantee. More than 106,000 real estate assets

7.1
Main projects launched

Due Diligence

The due diligence process is an ambitious project that began over the first half of 2013 and involves making an in-depth review of the portfolio of assets transferred. This process was necessary due to the singular nature of the transfer process:

- Portfolios were transferred en bloc from each of the contributing banks.
- Each portfolio comprised thousands of individual items (real estate assets and financial assets).
- The acquisition price was established within the framework of the programme to provide financial assistance to Spain, based on certain of the assets' characteristics.

In this context, it became necessary to carry out an in-depth review of the portfolio in order to: (i) obtain better information with regard to setting a price and correcting any potential errors; (ii) undertake a legal review that would, on the one hand, allow each asset to be properly documented and, on the other, allow the charges or restrictions on the assets to be identified; and (iii) complete the classification of the portfolio, with particular emphasis on the guarantees held against the financial and real estate assets, including, among other things, their precise definition (e.g. additional guarantees not specifically identified in the portfolio), verification of the requirements for transfer agreed in respect of all the assets and the degree to which different assets were related to one another.

The due diligence process that is being undertaken is unmatched by any other ever carried out in Spain:

- More than 90,600 financial assets
- More than 400,000 items of collateral acting as guarantee
- More than 106,000 real estate assets

Once completed, a review of this calibre will allow Sareb to correct and extend the existing information, providing it with up-to-date valuations for all the assets and giving it access to all the contractual and supplementary documentation for each asset item. In this way it will have a comprehensive description of each of the assets and their associated guarantees.

Expected to cover 80% of the transferred portfolio in value terms, the due diligence process has focused on a review of the real estate and financial assets, taken one by one, along with their associated guarantees. This process involves the following:

- **Legal review:** review of the legal files, identification of charges, restrictions on ownership and other individual situations, and the incorporation of any legal documents that were missing.
- **Valuation review:** assessment and analysis of the commercial viability of the real estate assets and the collateral used for the financial assets (using the valuation methodology usually used for each asset type).
- **Review of the transfer process:** review of the correct application of the relevant criteria for calculating the discount on the transfer of the assets and their inclusion in the portfolio, as required under the regulations and the resolutions adopted by the FROB.

Sareb Responds | **902 27 27 32** (9022 SAREB)

To complete the due diligence process, in line with the competitive principles described above, Sareb selected a consortium of leading companies (9 legal firms, 10 valuation firms, 1 audit firm and one technology supplier), each of them a specialist in one of the areas being reviewed.

As a result, from the outset this project has involved 20 different companies and more than 800 specialist personnel.

As at 30 June the project remained on going. The main achievements made up to that point were:

- The identification of new guarantees for the financial assets transferred.
- The correction of critical areas characterised by the assets, according to the documentation provided on the date of transfer. Example:
  - Exact location of the real estate assets and the collateral for financial assets.
  - Contractual conditions governing the financial assets.
- The acquisition of supporting documentation (ordinary registry records, deeds, contracts) for the assets reviewed to date. Initiation of the design of a document management process for the additional documents acquired.
- The review and updating of the value of real estate assets and collateral reviewed to date.

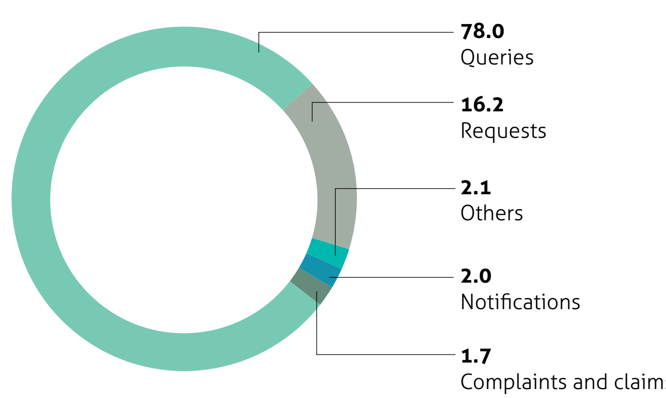
Once this process has been satisfactorily concluded, Sareb will be able to undertake a proper classification of the assets, manage them more efficiently and achieve greater speed in implementing the disinvestment strategies it deems most suitable.

Sareb Responds

In order to be able to manage the various external enquiries received in an efficient and centralised way, Sareb worked throughout the first six months of the year on the introduction of a public helpline service, Sareb Responds, as a line of communication through which requests, queries, notifications, complaints and claims could be received from individuals, groups of people and companies.

The service was introduced at the end of June, and it is currently being managed by external specialists with experience in the real estate sector, whose personnel have received the relevant specific training from Sareb.

Call type %



Although this service was not available over the first half of the year, in the first month of operation Sareb Responds received 480 calls, 72% from individuals and 25% from real estate companies and developers, among other groups. The reasons for the calls received are shown in the above diagram.

The service operates from a call centre, which receives calls via the number 902 27 27 32. A second phase in this project is scheduled to be introduced over the coming months, and this will allow requests to be made via Sareb's website.

A new business-oriented website

Following the launch during the company's early months of a preliminary version of its corporate website with some basic operational capabilities, the second quarter of 2013 saw the introduction of a series of improvements aimed at extending the capabilities and information offered and providing space for the various corporate and commercial initiatives being introduced by the company.

A project was also introduced during the same period to set up a new corporate website over the second half of the year. This site will be available in both Spanish and English and will focus heavily on the disinvestment business.

The new website will provide Sareb with a modern and efficient channel of communication that will help it to meet its needs in the areas of communications, information and, in particular, business.

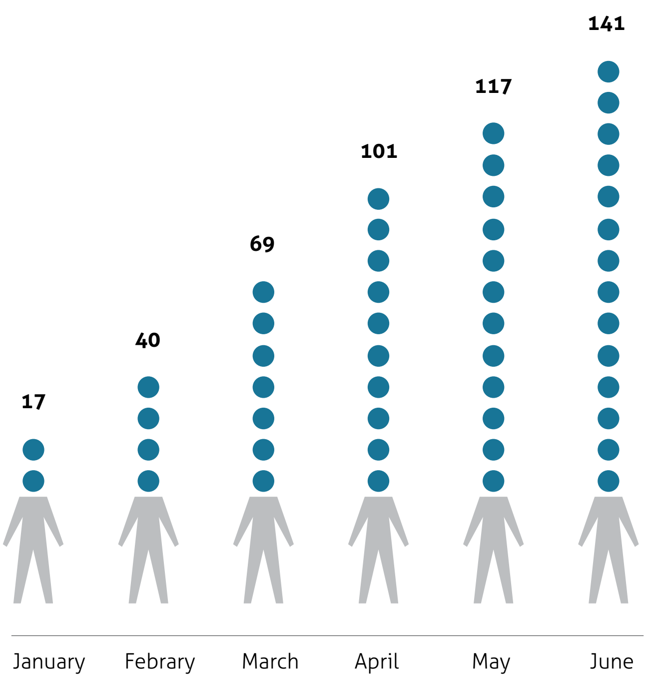
The new website will include areas specialising in land, assets for rent and residential properties, each of them designed to meet the individual needs and characteristics of each product. These different areas will have specific operational capabilities and will allow the company to enhance its transparency and broaden the information on the products on offer. The launch of the new website will be timed to coincide with the relaunch of Sareb's corporate brand.

7.2
Internal policies

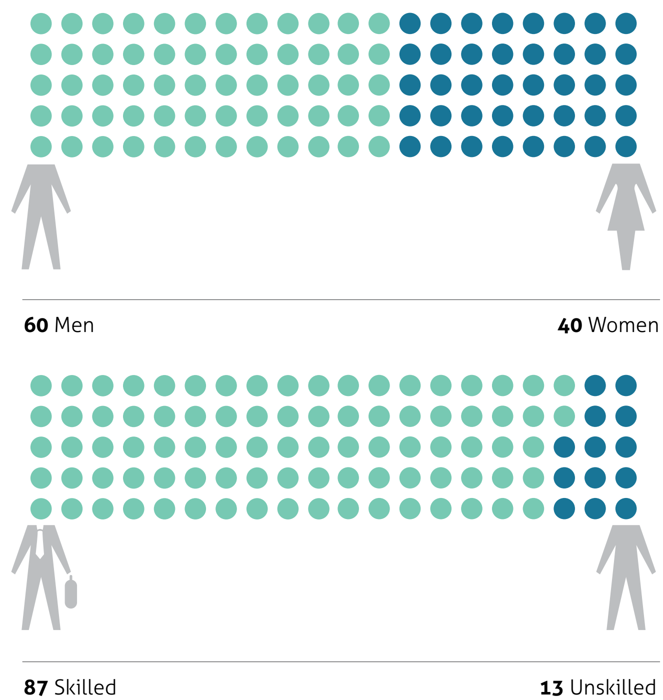
HR policies and evolution of the workforce

As of 30 June 2013, Sareb's workforce comprised 141 people.

Evolution of the workforce



Other important figures %



During the course of the first half of 2013, following the preliminary design and review of the company's organisational structure, during which lines of responsibility were established along with the appropriate distribution of tasks and duties, a number of policies and procedures were implemented. As part of this process, the following policies were developed and introduced as a matter of priority:

- Selection policy: designed to assist Sareb in identifying the candidates that would be most suitable for the specific requirements of each position and the company's own general needs.
- Remuneration policy: Sareb's remuneration policy was introduced as a key feature of its HR strategy, with an emphasis on equality in terms of both duties and personal treatment.

Supplier relationship models

With an organisational model that is heavily focused on the management of certain processes through external suppliers, Sareb decided from the outset to implement a relationship model that would respect the highest principles of transparency and ethics.

To this end, in line with the general procurement policy approved by the Board of Directors on 16 January 2013, Sareb's General Procurement Procedure was defined in detail and widely communicated both inside and outside the company. Observance of this procedure is compulsory for all parties. From the beginning, this procedure has been centrally run from the procurement department, which is a sub-division of the resources department.

Other than in exceptional circumstances (which in all cases involve tenders with a very low value that are managed through the submission of one bid), the process for the award of contracts follows a complete tendering procedure, in which a panel of suppliers is invited to bid and the final award is made through a formally constituted contracting board. The complexity of this entire process will depend, according to the terms of the defined model, on the value of the item or service to be procured.

The general principles governing procurement policy and relations with suppliers at Sareb are as follows:

- Strengthening transparency, competitive practices and non-discrimination, establishing a professional, honest and open relationship with suppliers.

- Reducing the overall cost of the products and services to be contracted in order to ensure compliance with the targets set. This must be done in a way that does not in any way harm the quality of the goods and services required by Sareb.

- Establishing the necessary information and the management and communications tools at the company to ensure that all departments participate in the planning and execution of the procurement process and the receipt of goods and services.

- Encouraging collaboration to achieve optimum contractual conditions.

- Promoting rotation and non-concentration, establishing pre-selected groups of suppliers for each category of goods or services to be procured by Sareb.

- Promoting stable relationships based on a desire for continual improvement and mutual benefit.

During the time that Sareb has been trading, the Procurement Department has managed a total of 177 bids, in which 358 invitations to tender were sent to 238 different suppliers.

Important among the lines of action that have already been initiated and are due to be implemented in the coming months is a process for the authorisation of suppliers by category or procurement group. This authorisation process will ensure true competition and the rotation of suppliers with regard to recurring goods and services for which terms and conditions have already been agreed. This will increase flexibility and speed up the contracting process.

Governance and Internal Monitoring

Sareb's Internal Governance is based on the following procedures:

Internal monitoring system

Compliance with Norms and Standards

SCISNE

- Integrity-related risk

Relating to risk management

SCIR

- Financial risk
- Operational (non-technological) risk
- Risk of enforcement (strategic)
- External risk

Relating to financial information

SCIIF

- Risk (operational) relating to financial information.

Strategic processes and governance

- Business risk (strategic)
- Organisation risk (strategic)
- Technological operational risk
- Reputational risk

- Internal control system designed on the basis of the type of risk affecting the development of the company's activities and business, as shown in the above diagram.

- A programme for allocating responsibilities in the area of risk management and monitoring at all levels of the company's organisational chart and in all its decision-making bodies.

- Monitoring duties (Internal Auditing, Internal Monitoring and Compliance, and Risk), defined in accordance with best practice at the time.

Internal Monitoring System

The Internal Monitoring System, which was designed over the first half of 2013 and is scheduled for full implementation over the second half of the year, extends in general terms to the following areas:

- Internal System for Monitoring Compliance with Ethical Norms and Standards (SCISNE), to ensure the design and monitoring of compliance with the Code of Conduct, Policies for the Prevention of Money-Laundering and the Prevention of Criminal Risk and any other standards aimed at ensuring compliance with the regulations governing certain aspects of the company's business.

- Internal System for Monitoring Financial Information (SCIIF), the aim of which is to guarantee the reliability and tracking of the flow of financial information from its source, and to document the entire process.

- Internal System for Monitoring Business Risk Management Processes (SCIR), which includes monitoring processes designed to mitigate any risk arising from the company's business activities and supporting processes (principally strategic, financial, operational and reputational procedures).

- Internal system for monitoring strategic and governance processes, which forms part of the layer of structural controls that combine to create the general monitoring environment. Its purpose is to manage business, organisational, technological and reputational risk through the structuring of corporate guidelines in the following areas: organisational matters; defining the duties, responsibilities and composition of the Board of Directors and its supporting committees; establishing a robust and consistent risk policy; implementing a clear, transparent and documented decision-making process and a clear allocation of responsibilities and competences to ensure compliance with internal rules and decisions; implementing risk monitoring, compliance and internal auditing activities, along with aspects relating to information and communications systems and the continuing management of the business.

- Operational efficacy and efficiency.

- Reliability of the financial and management information issued.

- Compliance with the applicable regulations (especially as regards the Prevention of Money Laundering, Criminal Risk and Fraud).

The implementation of an internal monitoring model at Sareb involves the establishment of a precise methodology to identify, evaluate, monitor and follow up any risk inherent in the operations that the company engages in. It is implemented at corporate level and forms an integrated part of the management process, in order to ensure that the company's operations and decision-making are supported by documented and approved procedures that will ensure that:

- Responsibilities and duties are clearly defined.

- The authorisation, processing and entry of all transactions in the accounts can be tracked and followed up.

- There are formal channels for the forwarding of information.

The Board of Directors is informed of these activities through its Audit Committee, the Internal Monitoring Body's supervisory organisation.

Internal Monitoring Systems relating to the model for relations with service provider organisations (servicers)

During the first half of the year, Sareb's internal monitoring departments (Internal Auditing, Internal Monitoring and Compliance and Risk) introduced measures aimed at supervising the mechanisms and procedures used by the contributing banks in their management of Sareb's assets.

The aim of these measures, particularly those relating to Internal Monitoring, are as follows:

- Obtaining information on the monitoring measures implemented by each servicer, along with the processes from which they are formed.

- Obtaining information on the degree to which these procedures apply to Sareb's operations, and their adaptation, where necessary. This section includes express adherence to Sareb's Code of Conduct where it applies.

- Confirming levels of compliance, by means of internal or external audits of the institutions in question.

Specific Internal Monitoring Model for the Prevention of Money Laundering

Article 24.2 of Royal Decree 1,559/2012 establishes that "*Sareb shall be understood to be included among the parties subject to the terms of Article 2.1 of Act 10 of 28 April 2010, on the prevention of money-laundering and the financing of terrorism*".

In this regard, Sareb is subject to supervision by the Executive Service of the Commission on the Prevention of Money-Laundering and Financial Offences (SEPBLAC). It is entered in the said organisation's Register of Supervised Parties, and has appointed a representative to liaise with the Executive Service of the Commission on the Prevention of Money-Laundering and Financial Offences.

Sareb is aware of the magnitude of this problem and the role that financial operators play in the prevention process. It understands the importance of combatting money laundering and the financing of terrorism and is aware of the risks involved in its business insofar as its services may potentially be used for illegal purposes.

As a result, from the moment that it commenced operations, the company began to design suitable and effective control mechanisms that took the form of a Policy for the Prevention of Money Laundering and the Financing of Terrorism, based on the establishment of compulsory rules and procedures aimed at

- Strengthening its corporate reputation by complying with the regulations in force regarding the prevention of money-laundering and the financing of terrorism, and implementing the recommendations made by both domestic and international organisations and authorities.
- Implementing the necessary procedures, monitoring systems and channels of communication to ensure that the transactions involving its assets are not used for money laundering or the financing of terrorism.
- Establishing client acceptance policies and procedures that will allow it to identify and get to know its clients and prevent access to the company's services by undesirable individuals or groups, ensuring that all the company's employees are aware of and comply with these procedures.
- Involving all levels of the company in compliance with these rules.

Specific Internal Monitoring Model for the Prevention of Criminal Risk

The entry into force on 23 December 2010 of Act 5 of 22 June 2010 led to the modification of Spanish Criminal Code Act 10 of 23 November 1995 and a clear definition of liability for legal entities.

In order for a legal entity to be considered liable, the offence in question must have been committed in its name, on its behalf and to its benefit, or it must have been committed by persons who were subject to the company's authority but were able to commit the offence due to the absence of the proper controls.

The Spanish Criminal Code sets out an implicit obligation on the part of the employer to exercise control over the actions of its employees, in such a way that if the proper diligence can be shown, the legal entity will not be liable for any offences committed by its employees. In any case the Code establishes that the fact that the legal entity has put effective measures in place to prevent and uncover any offences that may have been committed using the company's resources or hiding behind its name will serve to mitigate a legal entity's liability.

As a consequence, Sareb is carrying out a review and assessment of all of its current controls in the different parts of the organisation and making the relevant adjustments required under the terms of these legal reforms and the new classes of offence that have been introduced, in order to ensure that, once this model has been implemented and approved, it will act as an adequate system for the prevention and detection of offences that will extend to everyone who acts in the name and on behalf of Sareb.

Internal Auditing

The Internal Auditing department is operationally dependent on the Board of Directors (through the Audit Committee), and it reports to the company's chief executive in the daily performance of its duties, the prime function of which is to provide Sareb's directors and senior management with an independent and reasoned view of:

- The risks involved in Sareb's business and activities.
- The quality of the internal monitoring systems on which the management and administration of its operations depend.
- The processes associated with the governance of the company.

In performing these duties, the Internal Auditing department examines and assesses the following:

- The effectiveness and efficacy with which the company's resources are managed and, in particular, the effectiveness and efficacy of Sareb's risk monitoring and management systems.
- The company's assets and the effectiveness of the measures adopted to protect them.
- The sufficiency and suitability of internal controls and, in particular, the controls associated with:
    - Compliance with ethical norms and standards.
    - Examining and assessing the company's management, organisation and risk control processes, ensuring that they are both effective and adequate.
    - Preventing and detecting both internal fraud and the improper use of Sareb's products and services.
    - The reliability, effectiveness and integrity of the systems and processes used to prepare financial and management information, with attention to the relevance, accuracy, comprehensiveness, availability, confidentiality and sufficiency of the data on which this information is based.
- The operational efficiency and efficacy of all of Sareb's other departments and duties.
- The processes established for the purposes of ensuring the reliability and sufficiency of the information supplied to the governing bodies in order to allow them to make their decisions, and any other information aimed at ensuring the proper implementation of their decisions.
- Any matters specifically requested by the Board of Directors or by the company's chief executive.

The Internal Auditing Department directly implements any actions that relate to processes managed and administered directly by Sareb, as well as those that relate to processes that are managed and administered by third parties and considered of particular importance to the company's interests.

These processes that are managed or administered by third parties are implemented by the third party's own internal auditing team under supervision from Sareb's Internal Auditing department, in accordance with the monitoring programme established annually for this purpose.

Internal Monitoring Body

On 20 February 2013, Sareb's Board of Directors approved the creation of an Internal Monitoring Body (the "OCI") that reports directly to the Audit Committee and is responsible, among other duties, for overseeing compliance with the Code of Conduct.

The Body has the necessary powers to decide on aspects relating to the SCISNE, which is made up of the combination of processes designed to offer reasonable safety regarding compliance with the regulations applicable to Sareb's business and activities and the behavioural guidelines set out in its Code of Conduct. This includes both processes that are administered by Sareb and those that are administered by third parties.

The OCI is charged with certain reporting duties, such as:

- Informing the Audit Committee regarding any issues raised in the areas in which it is competent, and regarding any proposals that should be submitted for the Committee's consideration.
- Preparing an annual report on the performance of its duties and activities and the degree of compliance with its regulations. This report is submitted to the Audit Committee.

Integrity Pledge

Sareb's Integrity Pledge is designed as a response to the social expectations and demands that led to the creation of this corporate project. This pledge is an unavoidable responsibility that extends to each and every one of the people who form part of the project: directors, managers and employees, and everyone who chooses to provide services to the company.

Sareb's Integrity Pledge takes a variety of forms, a large number of which are explained in the Code of Conduct (available on the company's website at www.sareb.es) and in the Board of Directors' Policy on Conflicts of Interest and Related-Party Transactions.

The Integrity Pledge involves preserving the Company's integrity, which among other things means:

- Ensuring that the operation of its business and activities complies with the ethical rules and standards that form part of its own corporate culture.
- Preventing and managing conflicts of interest, at both the institutional and personal level, ensuring the impartiality and objectivity of its decisions and actions at all times.
- Safeguarding information that is not in the public domain, protecting it from any use other than that for which it is intended by the company.
- Not engaging in any operations or transactions that might indicate links with criminal activities, particularly money laundering, the financing of terrorism or any form of corruption, working actively together with government organisations and other institutions in the fight against crime.

Policy on Conflicts of Interest and Related-Party Transactions

The Policy on Conflicts of Interest and Related-Party Transactions, approved by the Board of Directors on 20 March 2013, provides for situations in which there may be a conflict between the interests of the company and the interests of one of its directors or anyone associated with them. This ethical code would apply, for example, in the event that a company body on which a director is represented is required to be informed about, discuss, analyse or decide on an operation that involves such a conflict of interest; or in situations in which the Board of Directors is required to discuss certain company operations with input from directors or people who are linked to such operations.

Once Sareb has identified and agreed upon the existence of a conflict of interest, or it learns of the existence of a conflict of interest or related-party transaction, it will not provide the affected director with any further information on the operation or situation in question. This person will not participate in discussions or vote on the issue that has given rise to the conflict of interest or related-party transaction.

Code of Conduct

Sareb's Code of Conduct, approved on 24 April 2013 by the company's Board of Directors at the proposal of the Auditing Committee, is a manifestation of the company's corporate culture in which it expressly sets out the following:

- The commitments deemed necessary in order to satisfy the expectations and demands that have been publicly evoked by such a unique corporate project, supported as it is by the efforts of millions of contributors and subject to the permanent scrutiny of both Spanish and European supervisory organisations and public opinion in general.
- The behavioural standards that must be observed by everyone who falls within the Code's applicable scope.
- The boundaries by which the contents of the policies and procedures established by the company are defined.

The Code must be observed by the members of the management team and all of the company's employees, as well as by anyone involved in the provision of third party services and acting in Sareb's name.

The ethical standards that act as inspiration for the Code are based on the ten principles relating to human rights, labour law, the environment and anti-corruption measures contained in the United Nations Global Compact.

In this way, Sareb undertakes to perform its duties in accordance with three broad principles: integrity, transparency and commitment to society.

The Code contains strict regulations for preventing conflicts of interest and these apply to everyone who works for the company, particularly the management team.

For more information, please go to Sareb’s website at www.sareb.es or contact the company’s Communications Department by telephone at +34 91 556 3700 or by email at comunicacion@sareb.es.

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