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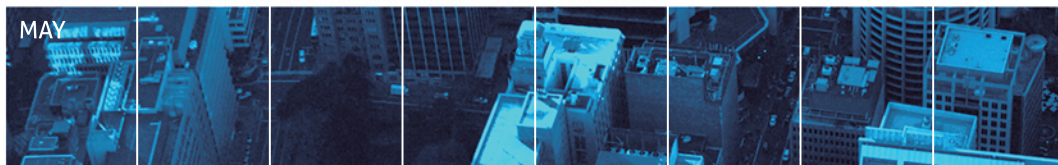
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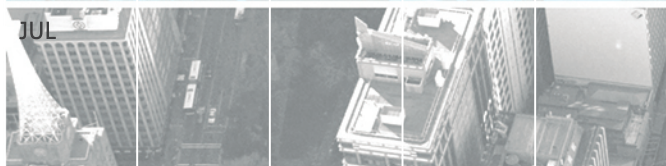
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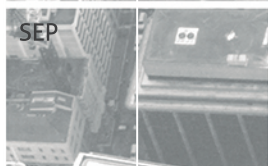
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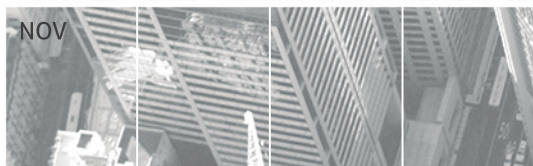
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*Sociedad de Gestión de Activos
Procedentes de la Reestructuración
Bancaria, S.A.*

ACTIVITY REPORT FIRST HALF 2014

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*Sociedad de Gestión de Activos
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ACTIVITY REPORT FIRST HALF
2014

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Executive Summary

2014 is a very significant year for Sareb. After having met the twofold challenge of constituting the company and commencing the disinvestment mandate conferred by its regulatory framework and shareholders in record time in 2013, the company entered into its second year of existence with a more mature structure, geared toward creating higher asset portfolio value and undertaking a more intense commercial drive. In addition, the company faces two no less significant milestones: adapting itself to a new accounting framework and a new scheme for relations with transferring institutions and new servicers, which will arise as the result of the expiration of the management and administration contracts underwritten at the end of 2012 and beginning of 2013.

The strategic focus adopted in the first half of the year manifested in Sareb's redesigned organisational structure and in the substantial reinforcement of its management team through the incorporation into the managing team of new members boasting wide-ranging financial sector expertise and experience.

The new organisational structure and fortified management team are intended to be able to adapt, not only to the changing profile which the portfolio is taking on as the disinvestment process moves forward, but also to the need to create greater value for real estate and financial assets. Along these lines, the company has drawn up specific strategies and initiatives already in the first six months of the year to bring works in progress to a close and to urbanise land for commercialisation thereof.

In the medium term, Sareb also seeks to engage in an industrial approach to the rental housing business that will enable the company to make the most of its pool of rental assets and consolidate income from this segment by allocating some of the properties in the portfolio to this activity.

The commercial impetus pursued through the refocused and redesigned structure has already begun to reap conspicuous fruits, which has enabled the company to move forward in its goal of positioning itself among the five major market operators. Data for the first half of the year indicate that Sareb sold 8,100 properties as of the end of June through the retail channel. It is important to bear in mind that the company had established a sales estimation for the entire year of around 11,000 units. Sareb sold units at a rate of 45 per day over the first half of the year.

Income generated by management and disinvestment activity over the first six months of the year totalled 1,696 million euros. This boost in commercial activity enables us to be optimistic in the fulfilment of the company's principal mission: amortisation of debt. For the whole year, Sareb has set the target of amortising 3,000 million euros, up by 50 per cent over 2013.

As far as wholesale activity is concerned, through customary competitive processes, Sareb sold a variety of portfolios composed for the most part of residential and office real estate assets to different international institutional investors during the first half of the year. Although two of the disposed portfolios comprise land assets, this shows signs of recovery coming to the Spanish property market.

In this regard and with respect to the market environment in which Sareb has had to conduct its activity during the first half of the year, it is worth mentioning that expectations for stabilisation of the real estate sector were consolidated, and even selective recoveries of prices in particular submarkets and zones were identified. The Housing Price Index ("IPV") recently published by Spain's National Institute of Statistics ("INE") for the second quarter of 2014 confirms this impression and shows a 0.8% rise in housing prices. More specifically, in the second quarter of the year, new homes rose by 1.9% and second hand by 0.2%.

Sareb is poised to face the second half of the year with the challenge of adapting to a new framework of relations with the institutions receiving public assistance from which it acquired assets and with major real estate operators that emerged from market restructuring. With this aim in mind, and in anticipation of the upcoming expiration of the management contracts underwritten with the nine transferring entities subject to cleanup and restructuring, Sareb has initiated the so-called Ibero process, a competitive tendering procedure for awarding the management of company assets to the best market platforms applying criteria of service quality, efficiency and value maximisation. This tendering process was designed to ensure not only concurrence and competition, but process transparency and rigour as well. To this end, the company relied on the support of an independent auditor.

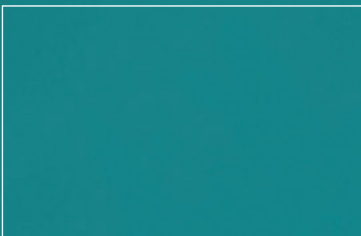
Adaptation to a new accounting framework designed for Sareb by the Bank of Spain is another of the major challenges facing the company in this second half of the year. This accounting framework could have significant impacts on the assessment of company assets and, consequently, on its financial strength. At the end of the first half of the year, the overseer presented a draft circular which is undergoing a consultation process, with final approval to take place shortly. Impact on the evaluation of company assets may be determined once the criteria to be applied are known.

Finally, at the end of the first half of the year, Sareb and the Generalitat of Catalonia presented in Barcelona the first agreement signed up to by the company to transfer 600 dwellings to the Autonomous Community to allocate them to an affordable rent scheme and thereby assist the government in palliating, to the extent possible, the housing problems resulting from the economic crisis endured in recent years. Sareb has opened negotiations with other Autonomous Communities and expects to finalise new agreements over the second half of the year.



1

Introduction



1.1 Constitution & portfolio

The creation of the Management Company for Assets Arising from the Banking Sector Reorganisation (Sareb) is part of the commitments signed in July 2012 between the Spanish government and European Union authorities, which enabled Spain to receive financial assistance to address the capital needs of financial institutions with excessive exposure to the real estate sector.

The agreement, included in the “Memorandum of Understanding on Financial Sector Policy Conditions (MoU)”, involved creating an external asset manager to which to transfer part of the assets linked to the real estate sector of these entities. In accordance with the terms of the agreement, the perimeter of assets that would be transferred to the company was as follows:

- 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.

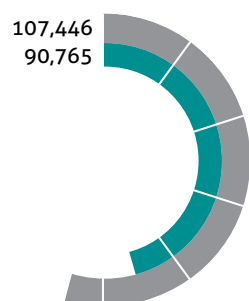
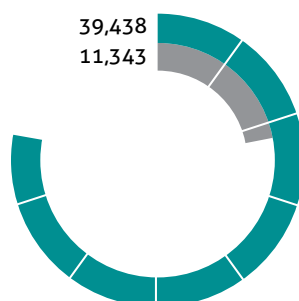
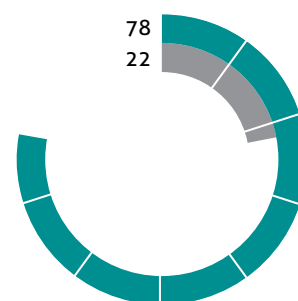
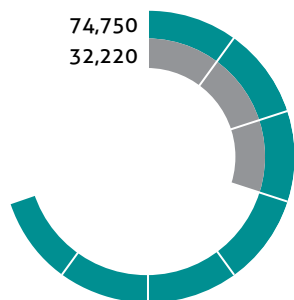
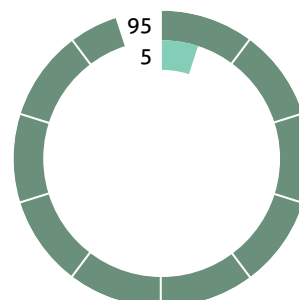
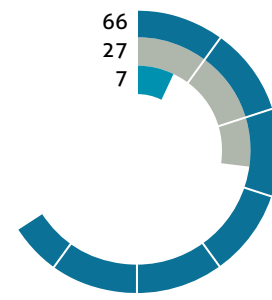
With the birth of Sareb, this institution has been set up to be a key component in the restructuring of the financial system and the recovery of the Spanish economy.

Its sole purpose was set out in the MoU and specified as 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 under Royal Decree 1559/2012 dated 15 November, which governs Sareb’s functioning and legal regime.

On 31 December 2012, Sareb received the assets defined under the transfer perimeter from the so-called Group 1 banks, whose majority stake is held by the Fund for the Orderly Restructuring of the Banking Sector (“FROB”): BFA-Bankia, Catalunya Banc (CX), Novagalicia Banco, Banco Gallego and Banco de Valencia.

The transfer was completed on 28 February 2013, whereby Sareb received the assets from the so-called Group 2 banks: Banco Mare Nostrum (BMN), Liberbank, Banco Caja 3 and Banco de Caja España de Inversiones, Salamanca y Soria (Banco CEISS).

In total, Sareb received 50,781 million euros in real estate and financial assets for management thereof during the established period. Details on the portfolio received are as follows:

Sareb portfolio (on the date of transfer)**No. of assets****Acquisition cost**
Millions of euros**Acquisition cost**
%**Gross value**
Millions of euros**Financial assets**
%**Real estate assets**
%

■ Financial assets
 ■ Real estate assets
 ■ Credit lines
 ■ Loans
 ■ Finished product
 ■ Buildings under construction
 ■ Land

Source: In-house preparation

Mission, Vision and Values

Sareb's corporate culture is directly linked to the commitment undertaken to act as a key component in achieving the return to smooth and sustainable operation of the Spanish economy.

Sareb's Vision, Mission and Values seek to convey the guiding principles that will enable the company to successfully accomplish the tasks with which it has been entrusted.



Mission

To manage and sell the assets received over a 15-year period while optimising their value.

Sareb is a key instrument in the process to restructure the Spanish banking sector. It is committed, over the course of the established timeframe, to manage and sell the financial and real estate assets it receives at the highest possible price and to repay the debts that have been underwritten by the Spanish government.



Vision

Through its efforts, Sareb aspires to help **to improve the Spanish economy in such a way as to positively impact society as a whole.**

Sareb is a private company dedicated to fulfilling the mandate with which it has been entrusted, thereby contributing to the recovery of the Spanish economy and financial sector.



Values

The values governing day-to-day business at Sareb are **Integrity, Transparency** and **Civic Commitment**.

Integrity: This means ensuring that the actions and conduct of all Sareb employees uphold the ethical rules and standards of the company's business culture.

Transparency: This means that Sareb shall provide information on all of its policies and procedures, in the knowledge that the company is acting under the watchful eye of society as a whole.

Civic Commitment: In performing the duties with which it has been entrusted in accordance with standards of ethics and social responsibility.

1.2 Governance Bodies

The bodies governing Sareb are the **General Meeting of Shareholders** and the **Board of Directors**. The General Meeting of Shareholders includes all Sareb shareholders and meets to discuss and adopt resolutions on matters that fall under its purview.

The Board of Directors is composed of 15 members, five of whom are independent directors, José Ramón Álvarez-Rendueles Medina, Emiliano López Atxurra, Isidoro Lora-Tamayo Rodríguez, José Poveda Díaz and Luis Sánchez-Merlo Ruiz. The remainder of the Board is made up of eight directors who represent the interests of the company's main shareholders -Remigio Iglesias Surribas, Rodolfo Martín Villa, Antonio Massanell Lavilla, Miguel Montes Güell, José Ramón Montserrat Miró, Ana María Sanchez Trujillo, Rafael de Mena Arenas and Antonio Trueba Bustamante- and there are two executive directors, chairwoman Belén Romana and chief executive officer Jaime Echegoyen. Over the course of the first six months of 2014, Sareb's Board of Directors met 10 times.

Two committees were in turn set up within the Board of Directors: 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 being 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 Rules of Operation, which can also be found on the company's website (www.sareb.es).

In addition to the aforementioned bodies, the company also has a number of **Support Committees**, made up of 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. The Support Committees are as follows:

- **Management Committee:** assists with the company's financial and operational management and in the duties of budgetary and management reporting.
- **Risk Committee:** oversees and proposes action to respond to situations or activities that may give rise 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, regarding matters pertaining to capital structure, financing and liquidity.

Over the course of the first half of the year, the Support Committees met six times.



1.3 Supervisory framework

Sareb was formed as an incorporated company with a number of special characteristics resulting from its singular corporate purpose and the public interest associated with its business activities. As a consequence of these special characteristics, Sareb must at all times act with transparency and professionalism, and is subject to a comprehensive monitoring regime.

On the one hand, there is supervision from the **Bank of Spain**, over which, under the terms of Act 9/2012, the Bank of Spain is responsible for overseeing, among other aspects, compliance with:

- Sareb's sole purpose
- the specific requirements governing the assets and, where applicable, liabilities that are to be transferred
- regulations relating to transparency and the establishment and composition of corporate governance and monitoring bodies

For its part, the **Spanish Stock Exchange Commission ("CNMV")** supervises Sareb in matters relating to its business as an issuer of fixed-income securities. In addition, the "CNMV" is in charge of creating a register of Banking Asset Funds ("FABs") and ensuring that the companies that manage them comply with its rules and regulations.

Furthermore, in accordance with Act 9/2012, a **Monitoring Committee** was set up for the purpose of strengthening oversight of 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 periodically provides the Monitoring Committee with information detailing its activities. The Monitoring Committee comprises four members: one appointed by the Ministry for the Economy and Competitiveness and who chairs the Committee; a second member who is appointed by the Ministry of Finance and Public Administration; a third appointed by the Bank of Spain (who also acts as Secretary) and a fourth appointed by the Spanish Stock Exchange Commission ("CNMV"). A representative from the European Central Bank also attends meetings in the capacity of observer. Four committee meetings were held over the first six months of 2014.

The company must prepare a **Half-Year Report** on its activities, and it must submit to an annual **Compliance Report** prepared by an independent expert. The Six-Monthly Business Report must be submitted to the Bank of Spain and the Monitoring Committee, and the report must be made publicly available via Sareb's corporate website (www.sareb.es). This report has been issued in fulfillment of the aforementioned obligation and pertains to the first half of fiscal year 2014.

A teal-tinted background image showing a close-up of a laptop keyboard and a computer mouse. The keyboard is in the upper half, and the mouse is in the lower right corner. A large white number '2' is centered over the keyboard area.

2

The background image is a teal-tinted photograph of a hand operating a calculator. The hand is positioned over the numeric keypad, with the index finger pressing one of the buttons. The calculator is white with black buttons. In the background, a keyboard and a pen are visible. At the bottom of the image, there are faint geometric line drawings, including a large triangle and several smaller squares and rectangles.

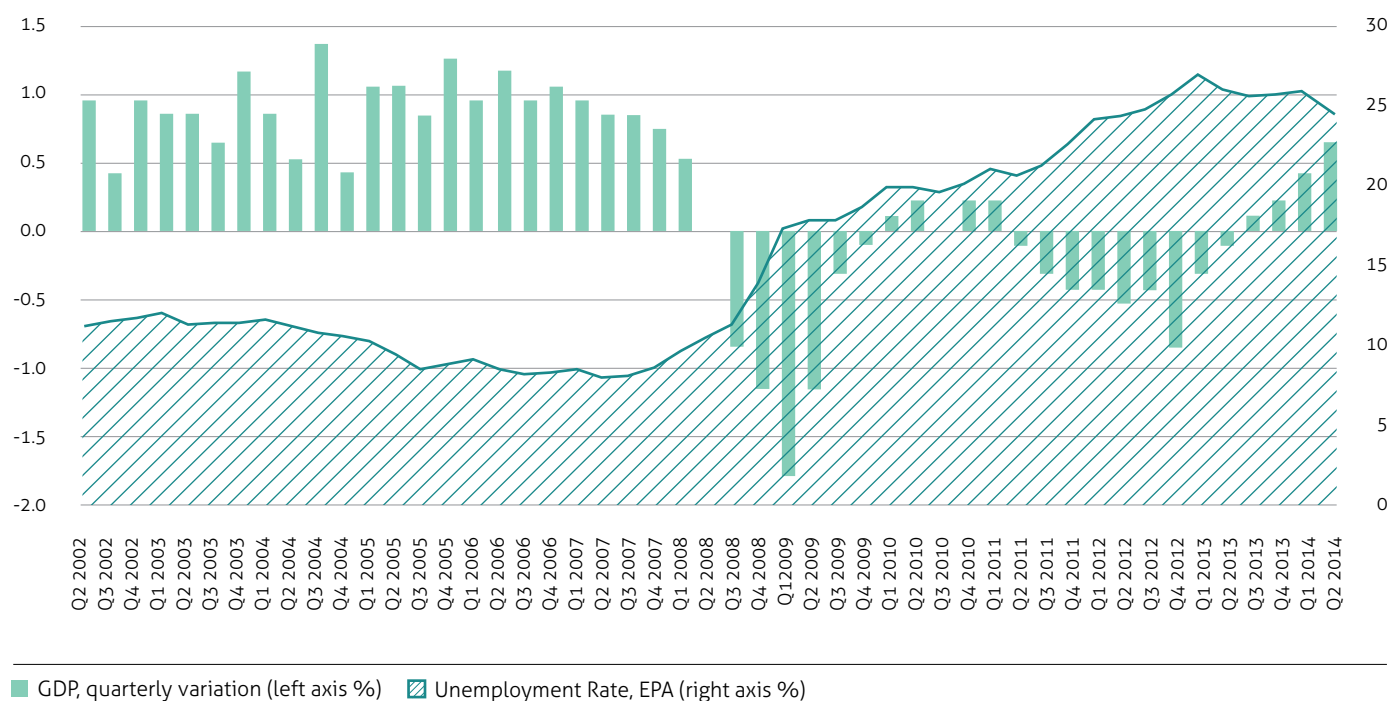
Economic Context and Sector Overview

2.1 Economic Situation

Key figures

Spain's economic activity has been exhibiting a recovery since mid-2013 and a return to positive GDP growth. In the third and fourth quarters of 2013, GDP showed quarter-on-quarter growth rates of 0.1% and 0.2%, respectively. This situation was consolidated with quarter-on-quarter growth figures of 0.4% and 0.6% in the first and second quarters of 2014.

Quarter-on-quarter variation in GDP Unemployment Rate (EPA)



Throughout the latter part of 2013 and in 2014 there has been an improvement in most GDP components, with a slowdown in the drop, and in several cases, entering into positive figures.

Household final consumption, which in the first quarter of 2013 saw a year-on-year drop of -4.8%, returned to positive rates in the last quarter of 2013, showing year-on-year growth of 2.1% and 2.2% in the first two quarters of 2014.

Investments are also showing positive numbers.

Overall investment in fixed capital went from negative year-on-year rates in 2012 and at the beginning of 2013 of around -7% to a positive year-on-year rate of 0.6% in the second quarter of 2014. Among the tangible fixed assets, construction saw a substantial moderation in its fall, going from a negative rate of -9.7% in 2012 and -9.6% in 2013 to a figure of -3.7% in the second quarter of 2014.

GDP, YEAR-ON-YEAR VARIATION RATES OF DEMAND INDICATORS

	2012				2013				2014	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Final consumption expenditure	-2.7	-2.9	-3.8	-3.9	-4.1	-3.2	-0.7	-0.3	1.7	1.8
Household final consumption expenditure	-2.0	-2.5	-3.4	-3.5	-4.8	-3.2	-1.2	1.1	2.1	2.2
Final ISFLSH consumption expenditure	-0.2	-0.4	0.0	-0.1	-1.2	-0.5	0.4	1.0	0.7	-0.3
Final Public Adm. consumption expenditure	-5.4	-3.8	-5.2	-4.8	-2.3	-3.3	0.5	-3.7	0.5	1.0
Gross fixed capital composition	-6.0	-7.0	-7.2	-7.7	-7.1	-5.5	-5.4	-2.4	-0.7	0.6
Tangible fixed assets	-7.0	-7.7	-8.3	-8.3	-7.7	-5.6	-5.8	-3.2	-1.3	0.5
Construction	-9.1	-10.0	-10.1	-9.5	-9.4	-10.8	-9.7	-8.3	-8.4	-3.7
Capital goods and cultivated assets	-3.1	-3.5	-3.7	-5.6	-4.9	3.5	3.0	7.5	10.4	6.9
Intangible fixed assets	4.7	2.6	6.7	-1.6	-0.6	-4.3	-1.8	5.5	3.9	1.7
Exist. and acq. variation less transfers of valuable goods (*)	0.3	0.0	-0.1	0.1	0.2	0.0	0.1	-0.4	0.3	0.1
Domestic demand (*)	-3.4	-3.8	-4.5	-4.7	-4.6	-3.8	-1.7	-0.6	1.3	1.9
Exports of goods and services	-1.4	-0.7	3.9	6.7	2.5	10.1	3.7	3.2	6.4	1.5
Imports of goods and services	-8.0	-7.4	-4.4	-2.9	-4.4	3.6	0.5	1.8	8.9	3.8
GROSS DOMESTIC PRODUCT at market prices	-1.3	-1.7	-1.7	-1.9	-2.5	-1.7	-0.6	-0.1	0.7	1.1

On the supply side, both industry and services have shown positive growth rates in the first two quarters of 2014. Industry went from negative year-on-year growth of -0.5% and -1.2% in 2012 and 2013, respectively, to positive growth of 0.7% and 0.9% in the first two quarters of 2014. The service sector also experienced a change in trend, going from negative figures of -0.3% and -0.5% in 2012 and 2013, respectively, to year-on-year growth of 0.9% and 1.5% in the first two quarters of this year.

Construction, from the supply standpoint, continues to be the sector exhibiting the sharpest downturn; however, the drop has shown substantial moderation, going from negative rates of -8.6% and -7.7% in 2012 and 2013 to a year-on-year decrease of -3.2% in the second quarter of 2014.

In terms of variation in prices, inflation has been dropping throughout the past few years, to the point of entering negative terrain in several months of 2013. Since then, the CPI is moving in the range of a year-on-year rate of between -0.5% and 0.5%.

In turn, like GDP and its aforementioned indicators, is showing signs of sustained improvement. Taking EPA ("INE") into consideration, the unemployment rate peaked in the

first quarter of 2013 at 26.9%. Since that time, it has been dropping to lie at 24.5% in the second quarter of 2014, which means a decrease of 2.5 percentage points. In absolute terms, unemployment has gone down from 6.3 million people to 5.6 million people between these dates. The number of actively employed people rose by 400,000 in the first quarter of 2014 with respect to the last quarter of 2013. This change in trend, and to a greater extent if it continues to consolidate, should have a positive effect on the evolution of the real estate sector.

From the perspective of international comparison, the most widely followed parameter is the interest rate of Spanish 10-year public debt and the differential with respect to the German counterpart. Spain's 10-year bond interest rate stood at 2.7% in June of 2014, clearly indicating a downward trend. The differential against the German bond dropped from the 354 points registered at the beginning of 2013 to 231 in December 2013, and continued in a downturn to lie at 140 basis points in June 2014. This data not only has a positive effect on government financing, but is also passed on to the entire rate curve, exerting a beneficial influence on investment and the consumption of durable goods.

2.2 Evolution of Prices and Transactions

Evolution of housing prices

The prices of homes in Spain reached their highest point in 2007 and the beginning of 2008, according to the different sources available. From that point on, they exhibited a generalized drop extending up to 2013, over the course of which positive growth in prices began to be seen in some Spanish provinces.

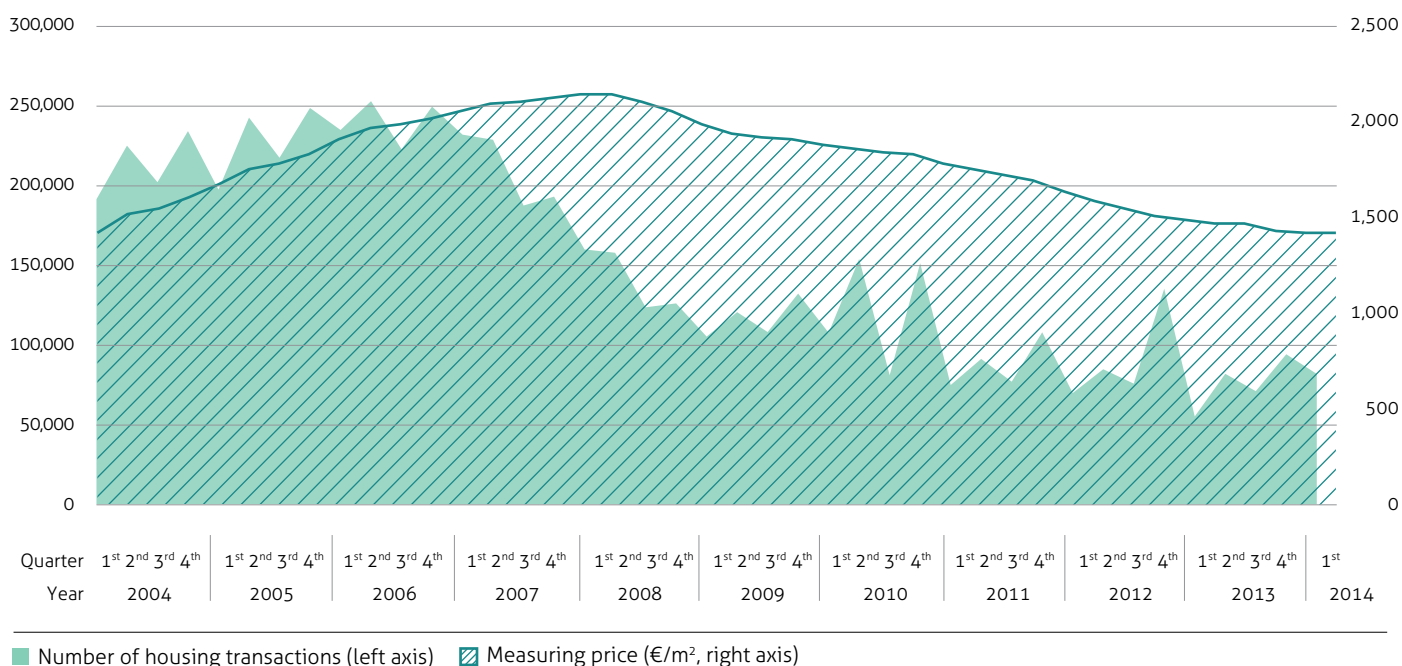
This trend has continued in 2014. Recorded in the second quarter of the year was year-on-year growth in the average price of a home in Spain of 1%, according to data from Spain's College of Property Registrars. The latest figures published by the National Institute of Statistics ("INE") are similar, situating the rise in housing prices in the second quarter of 2014 at a year-on-year 0.8%. According to data from the

Ministry of Public Works, the variation in the price of housing in the second quarter was non-existent with respect to the first quarter, although a total of 17 provinces show positive quarterly growth rates.

Based on "INE" data, the autonomous communities in which the Sareb portfolio has the highest concentration are showing year-on-year housing price growth: Madrid (2.7%), Community of Valencia (2.3%), Catalonia (1.6%), Andalusia (0.7%).

The accumulated decrease in home prices since its maximum highs lies at -32%, according to the College of Registrars as of the second quarter of 2014, and at -31% according to the Ministry of Public Works up until the first quarter of 2014.

Housing: (Number of transactions, average price)



Source: Ministry of Public Works, in-house preparation.

Evolution of residential property transactions

Residential property transactions are showing a course of stabilisation, after having dropped to a minimum in the year 2013, when, according to the Ministry of Public Works, 300,568 transactions were executed, lying below the 363,623 transactions taking place in 2012 and the 349,118 transactions in 2011. The first quarter of 2014 shows numbers on the rise with 81,358 transactions, which means the best first quarter since 2010, higher than the 74,455 transactions seen in 2011, the 69,420 transactions in 2012, and 54,835 transactions in 2013.

The evolution of both statistics (price and the number of residential property transactions) continues to improve on the abovementioned economic indicators, including GDP growth, increase in internal consumption and the drop in the unemployment rate, among others, which could contribute to the rise in the demand for homes.

On the other hand, the substantial drop in home prices that has led to rectification of previous excesses, the stabilisation and slight increase in prices, together with an improved domestic economy, are spurring some investors to consider that this may be a propitious time for investing in the real estate sector.

According to data from the College of Registrars as of June 2014, by autonomous communities, the largest number of year-on-year transactions are taking place in Andalusia, with a figure of 62,283, followed by Catalonia with 46,798, the Community of Valencia with 46,313 and the Community of Madrid with a total of 44,706.

Evolution of land prices and transactions

The land market has been affected by the crisis to a greater extent than the housing market, an evolution that is understandable if we bear in mind that land is the raw material input. We will need to wait until excess housing is absorbed, in the first place, and for demand to show signs of optimism in order to see a return to a relatively burgeoning land market.

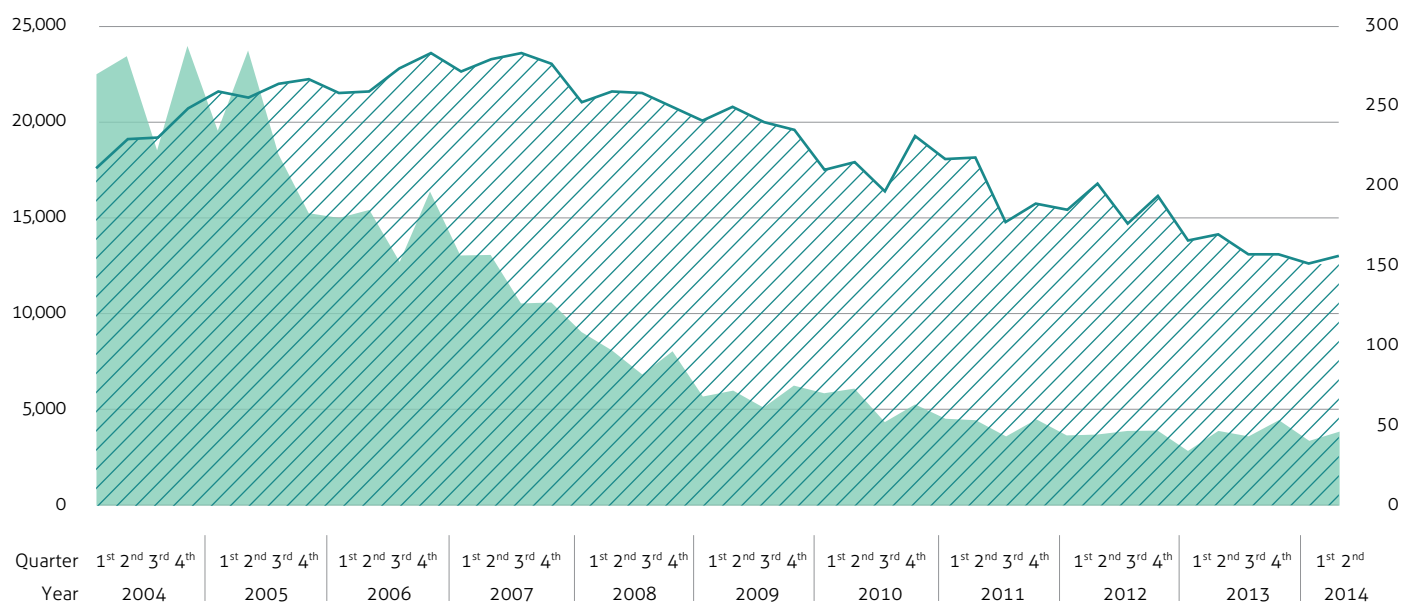
The greatest negative repercussion on the land market with respect to that of the residential property sector can be illustrated on the basis of the drop in price and in the number of transactions. Thus, the price of land has decreased from a maximum of around 280 €/m² registered as the average in a number of quarters during the critical phase of the cycle, to 140 €/m², which represents a correction of 50%. On the other hand, the drop in the housing market stands at around the aforementioned figure of 30%. In reference to the

number of transactions, the drop was substantially higher in both markets, even though the land market suffered another more marked fall: land transactions fell by 85% from their maximum quarters, whereas housing saw a decrease of 70%.

As far as the number of transactions is concerned, worth underscoring is that it appears to have hit bottom. The number of transactions has stabilised since 2011, and although the first quarter of 2013 recorded a minimum, since that time a slight upward trend can be observed.

In reference to price, the statistics utilised (Ministry of Public Works) include provinces exhibiting upturns in the last quarter taken into consideration (second quarter of 2014) and others with higher year-on-year prices. These data must nevertheless be handled with care due to the significant disparity in land areas and uses.

Land: (Number of transactions, average price)



■ Number of land transactions (left axis) ■ Measuring price (€/m², right axis)

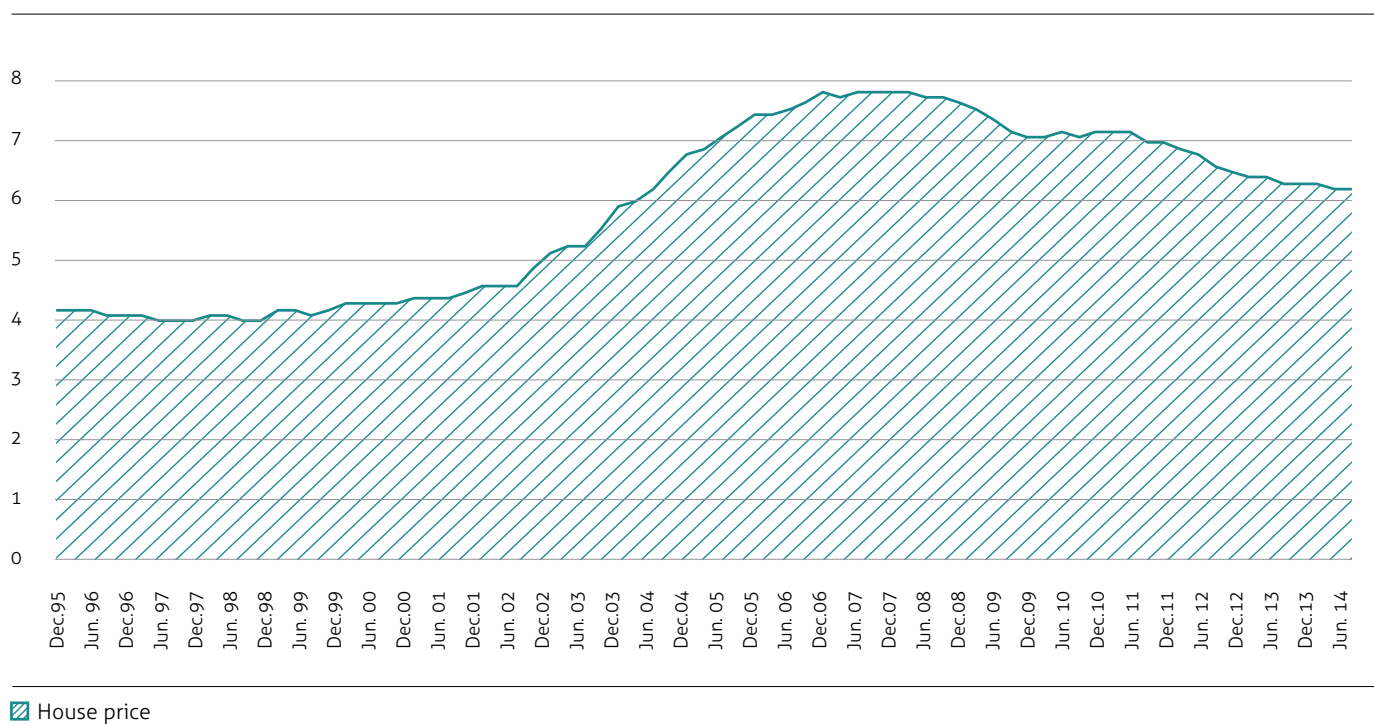
Source: Ministry of Public Works, in-house preparation.

2.3 Conditions

Mortgage loan conditions and accessibility indicators

Price corrections have brought about a substantial improvement in some of the indicators relating to access to housing. The ratio of house prices to gross disposable income fell from a factor of 7.6 in 2007, at the peak of the real estate sector cycle, to a factor of 5.9 in the second quarter of 2014.

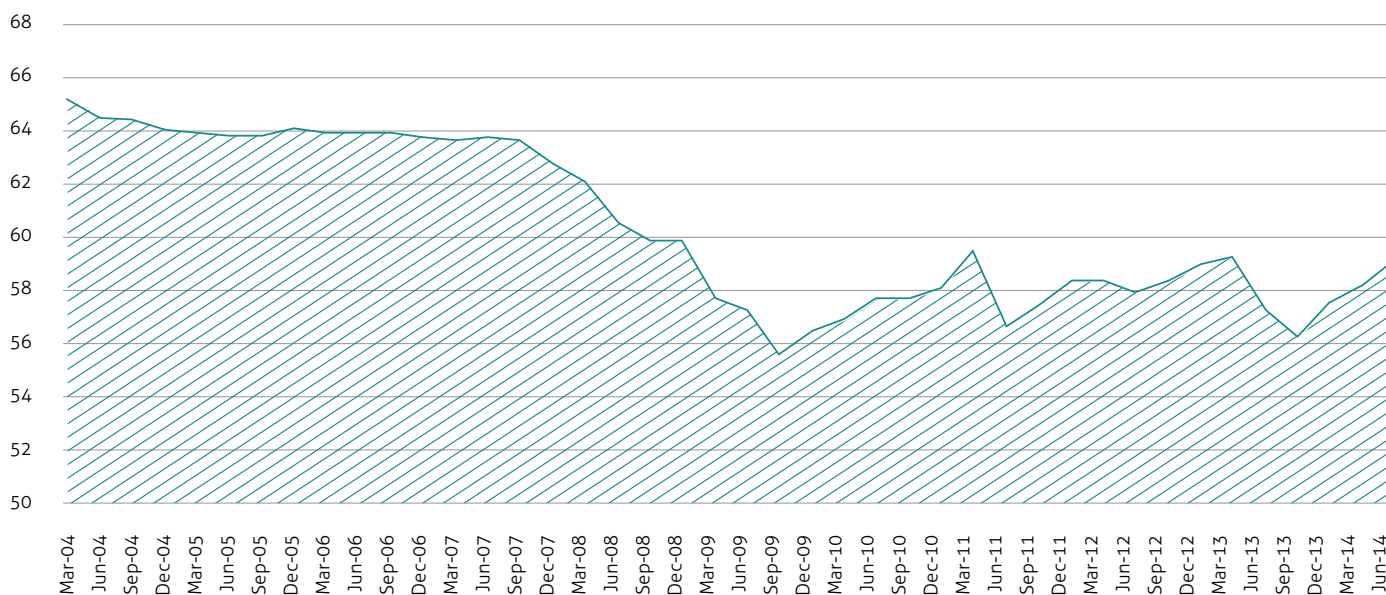
House prices/ Gross income per household (years)



Source: Bank of Spain, in-house preparation.

One of the other most widely used indicators in this regard is the ratio between the amount of the loan and the transaction price (Loan to Value, LTV). Here a decrease can be seen from 64% in 2006 to 55% in 2009. Since then, its behaviour has been relatively irregular. It appears to shown signs of an increase in recent quarters, having ended the first half of 2014 at 59%.

Loan transaction value ratio (%)



■ Loan Ratio

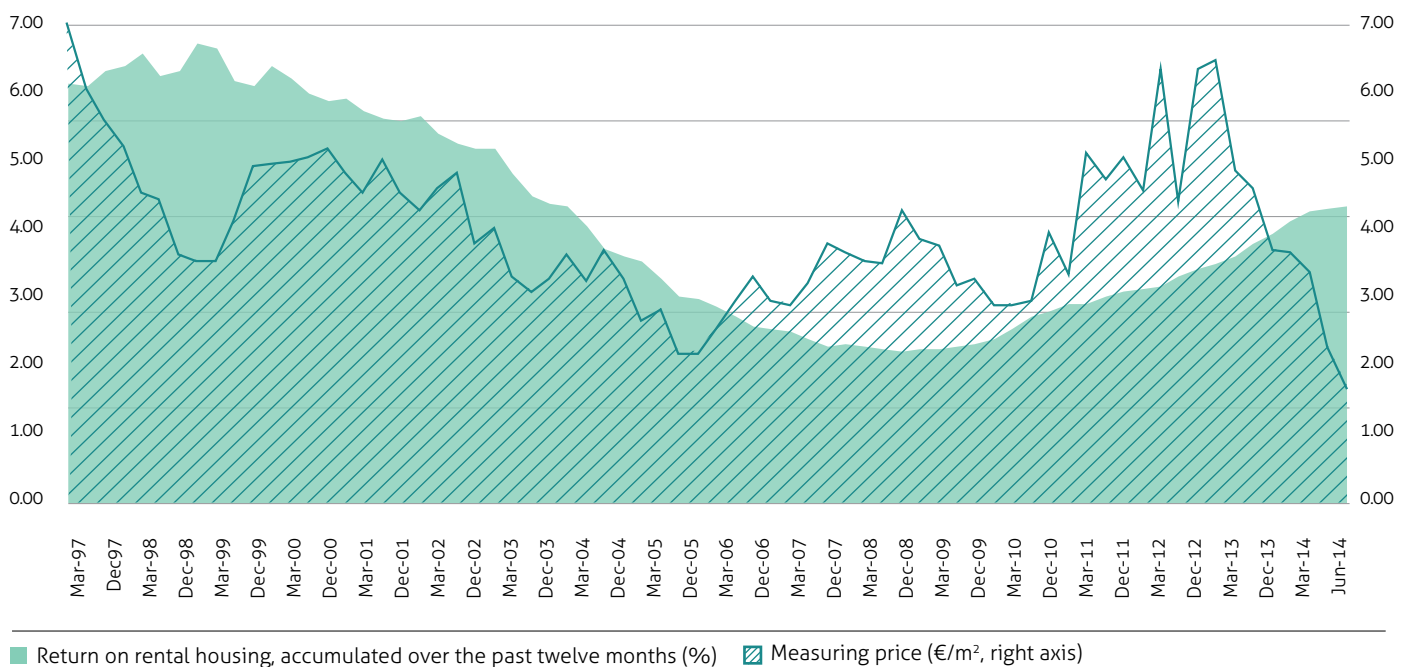
Source: College of Registrars, Bank of Spain, in-house preparation

Profitability of residential property as an investment

In line with the indications that the real estate market may be coming to the final step of its adjustment, the evolution of real estate assets is positioned in terms of its profitability as an investment. Gross rental yield, which comprises an alternative to other investments, showed a prolonged drop to lie at 3.3% in 2008, and since then it is showing a sustained upward trend, reaching 4.8% in the second quarter of 2014.

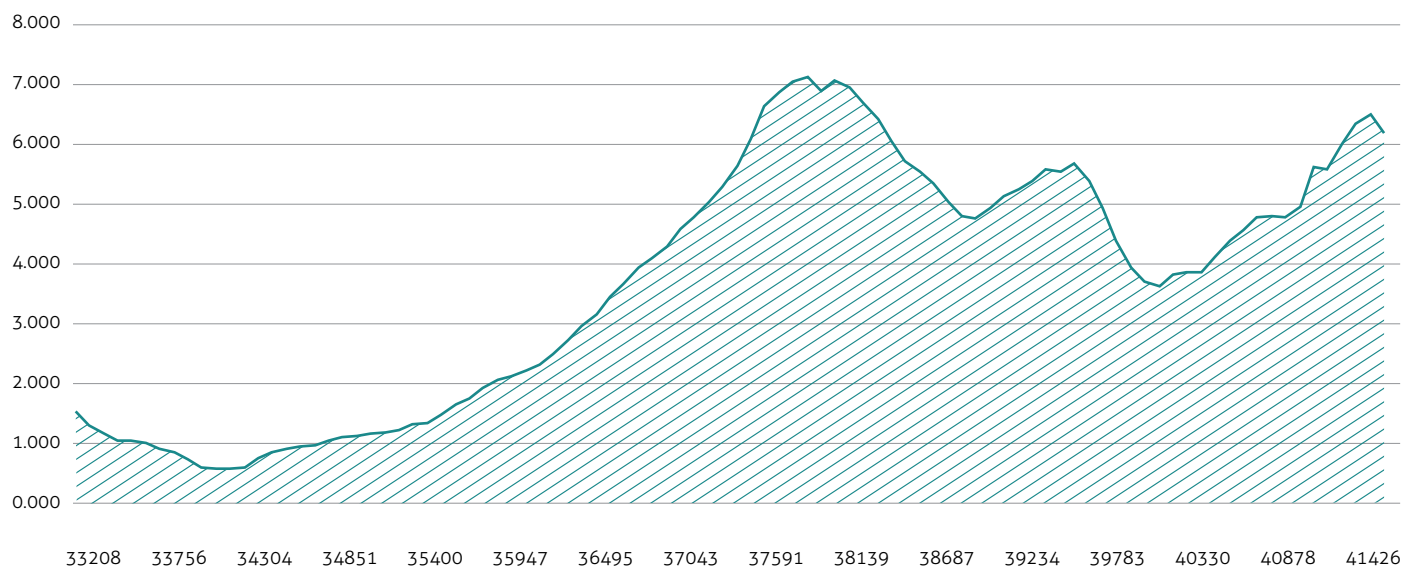
The comparison of gross home rental yield with 10-year treasury bond yield returned to being advantageous for the former mid-2013. In the second quarter of 2014, according to the latest available data, gross rental yield stands at 2.1 percentage points above 10-year treasury bonds.

Return on rental housing 10-year treasury bonds



Source: Bank of Spain, in-house preparation.

Situated along the same line is the evolution of gross foreign investment in residential property in Spain, which hit bottom in 2010 at 3,500 million euros per year. Since that time, it is exhibiting very sound recovery, totalling current annual figures above 6,000 million euros. The fact that the non-resident segment of foreign investors, who are not subject to the domestic cycle of employment and activity, is heavily increasing their investment confirms the idea that much of the price bubble correction may have occurred already.

Foreign investment in real estate. Accumulated over the past 12 months (thousands of millions of euros)

Foreign investment

Source: Bank of Spain, in-house preparation.

2.4 Non-residential market

Evolution and conditioning factors of the office property market

The predominant 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 space. In general terms, according to information from sector consultants, 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 lies at around 5.5% above other markets such as Frankfurt, Paris, Milan and London.

In both Madrid and Barcelona, income reached its maximum in the years 2007 and 2008, at the same time the availability rate was reaching its minimum. Since that time, they have shown a negative trend, in line with the economic and real estate cycle. However, the two indicators have stabilised and show indications of a slight upturn throughout 2013 and at the beginning of 2014.

As to the commercial space/centre and industrial/logistics market, the indicators consulted reveal containment in the drop, but an upturn in the figures is yet to be observed.

An upturn has nevertheless begun to be noted in all of the products mentioned above (office, commercial, industrial/logistics space) from the standpoint of the investor market, with a variety of operations already having been finalised and others under negotiation over the last few months, in line with the increasingly more generalised belief that Spanish real estate can be a good investment offering.

2.5 Evolución reciente

In recent months, there has been an increasing occurrence in the number of transactions in the real estate market from the investor perspective. The sale of buildings, property portfolios, and property-secured loans has become a commonplace news item. The types of properties and portfolio size are highly diverse, which means that there is wide-ranging and profound interest in the Spanish real estate sector.

Reference should also be made to the "SOCIMIs", a real estate investment figure that is currently experiencing a substantial surge.

The Listed Limited Companies for Investment in the Real Estate Sector ("SOCIMIs") were approved through Act 11/2009. They comprise a new investment instrument intended for the real estate market and, more specifically, to the rental market. Their main activity is investment, direct and indirect, in urban real estate assets for rental. They must meet diverse investment and profit distribution requirements and they benefit from a special tax regime.

The image features a large, white, serif-style number '3' centered on a dark teal background. In the lower right corner, there is a faint, light blue line graph with multiple peaks and valleys, suggesting a data trend. The overall aesthetic is modern and professional, likely intended for a report or presentation.

3



Business evolution

3.1 An advanced business model

Following its first year focused on the creation of company structure, analysis of the portfolio received and the unveiling of commercial channels, Sareb faced 2014 in a situation of more enhanced business maturity. This has enabled the company to develop a more advanced business model that combines the company's ultimate aim, that of selling all of its assets over a 15-year period, with the necessary value creation.

Decisive in the evolution of this business model is the due diligence exercised by Sareb last year in detailed, comprehensive review of the portfolio of assets acquired from the nine transferring institutions at a price of 50,781 million euros. This review determined that the prices Sareb paid for its portfolio are adjusted to 2013 market levels, which implies the existence of reduced sales margins.

It was therefore necessary to approach a more advanced business model, in which the company is capable of creating value for assets while they remain on the balance sheet. This ultimately entails the evolution from a "storehouse" model to a "factory" model. The former means the sale of assets while seeking the best market price, with a significant dependence as a result on the evolution of the economic cycle. Under the latter model, the company maintains these disinvestment efforts, but works in parallel to increase the value of the assets while they are on the balance sheet so that the price is higher at the time of sale.

The main working lines drawn up to promote value generation are the following:

- **Urbanistic land transformation:** spurring land transformation to a more developed phase usually represents an increase in value exceeding that proportional to the investment made, although it requires more extended timeframes.

- **Boosting** all proposals and possibilities for achieving the company's own proprietary development margin.
- **Developing buildings under construction** received: there are assets in the Sareb portfolio whose level of pending investment and commercial viability suggest conclusion of works.
It is foreseeable that their value will increase more than proportionally to the investment needed, in addition to facilitating disinvestment thereof.
- **Proprietary land development** with commercial prospects: Sareb shall evaluate the potential of developing land allotments with the highest potential for development.
- Driving forward a policy of **industrial rental** of residential property assets: Sareb seeks to develop over the long term a professionalised approach to rental, non-existent at present in Spain, where renting is understood from a more domestic perspective. Rental models in place in other European countries, cultural changes and the entry of new operators into this market lead to expected development of this sector. The rental option strategy will enable Sareb to obtain recurrent income up until disposal of assets and to amortise maintenance costs. Furthermore, Sareb is working on a plan to promote rental of tertiary spaces.

With a view to optimal development of this advanced business model, Sareb implemented a new organisational strategy in the first half of the year. The strategy comprises three fundamental areas for the company's business, Restructuring and Recovery, Equity and Transactions.

Goals for 2014

Once the keys to the Sareb business model were established, and with the aim of driving forward the twofold commercialising and value creating strategy, the company set the following overall targets for the year 2014:

- **Debt amortisation:** increasing by **50% the volume of debt amortised** in 2013 to reach 3,000 million euros. Settlement of debt is the main

commitment of the company and its ultimate performance objective.

- **Commercial management:** the boost in commercial strategy will enable the company to position itself among the **top five operators** in the real estate market. In addition, Sareb will increase its sales over the course of the year to total 10,800 units and **go from 25 to 30 homes sold per day**. The company also seeks to step up the rate of

disinvestment in the five most thriving provincial markets (Barcelona, Madrid, Alicante, Valencia and Málaga).

- **Buildings under construction:** within its framework of value creation, Sareb plans to **develop around 50 property promotions**, which will enable the company to further commercialisation of more than **1,000 residential properties**.

Project Íbero

Among the administrative decisions adopted upon the formation of the company at the end of 2012 was that of underwriting management agreements with the nine financial institutions that transferred their assets to Sareb.

The urgency of starting up the company's commercial activity and the lack of other operators who could provide this service backed the advisability of taking this decision.

The situation, however, has changed over the 18 months that have since gone by. Many of the organisations providing this service to Sareb have sold their real estate platforms to third parties, which has brought about the emergence of new managers professionalised in the Spanish market.

This factor, in conjunction with the upcoming expiration of management contracts on 31 December, led Sareb to initiate a tendering process for selecting the organisations that will manage its balance sheet in the coming years.

This process provides an opportunity for Sareb to be able to apply its principles of competitive participation, transparency and best practices in awarding the most important service it receives, that of managing and administering the company's assets.

Additionally, the selection of new suppliers will allow Sareb to be able to rely on highly professionalised and efficient service. The tender has sparked great interest among real estate

market operators and is being overseen by an external auditor to ensure the transparency, rigour and smooth operation of the contract awarding process.

At the time this report was prepared, the tendering process was in the phase of analysing and evaluating binding bids submitted during the latter part of July. The servicers selected to manage the Sareb portfolio are expected to be announced during the autumn.

3.2 Restructuring and recovery

The Restructuring and Recovery division was reorganised this year to bolster management of the portfolio of financial assets which Sareb purchased from the nine institutions receiving some type of public funding.

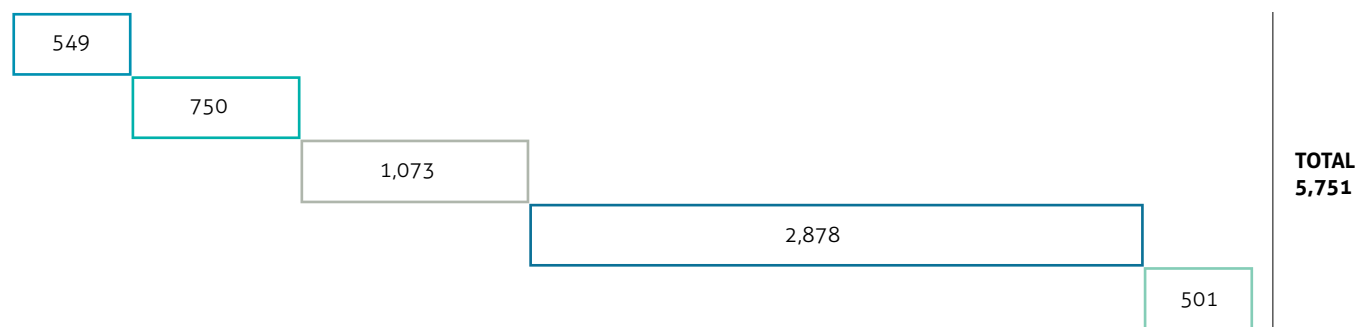
The main objective governing the management of these loans is that of adding value and safeguarding credit rights, attempting to dispose of them optimally, as fast as possible and with the best terms for profitability.

This department plays an essential role in the process of transforming the Sareb portfolio. From the onset, real estate credit lines and loans have had predominant weight over the properties in the company's portfolio, 80% with respect to 20%, but this proportion will eventually be invested in a natural manner, either through the closeout of the loan itself, or by taking the secured property.

It is here in this process of transformation where the Restructuring and Recovery division takes on value, as the result of the work conducted with real estate developers to accelerate this conversion. This is why the department maintains open, fluid dialogue with the sector, propitiating not only negotiation processes, but credit arrangements, dations in payment and other formulae. In short, it seeks to pursue solutions with briefer temporal scenarios than in traditional banking, taking into account that Sareb has a limited lifetime.

Over the course of the first half of 2014, **Sareb managed a total of 5,751 proposals**, which amounts to almost 75% of all of the business conducted in 2013. Half of these proposals involved collaboration with the developer to accommodate loan conditions and assist in selling the properties which secured the credit line. The remaining 50% consists of operations involving dations in payment, restructuring and refinancing operations, as well as credit arrangements.

Developer proposals 1st half of 2014



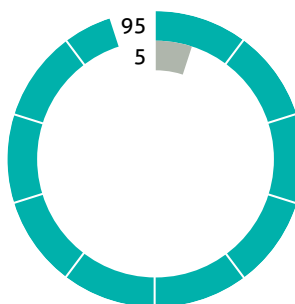
■ Disposals and expenditures ■ Disposals and expenditures ■ Dations and executions ■ Collateral sale ■ Others

Loan management compels the Restructuring and Recovery division to maintain a close relationship with outside portfolio managers, or servicers. Servicers are in charge of the direct management of recovery operations in most cases, under the control and supervision of Sareb, which maintains certain delegated powers of decision-making in agreement negotiations and scope. To this end, the department has a team referred to as "indirect management", dedicated to coordinating the work of the external managers in the area of recovery and delinquency management.

In other cases, the Restructuring and Recovery division is in charge of direct management with certain clients due to their type or volume of credit. For this purpose, the department has developed a classification of the borrower portfolio by volume, security type and payment performance.

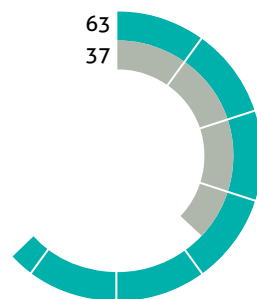
The Restructuring and Refinancing division also performs the important task of risk monitoring and prevention in all phases, including the legal phase. In addition, among the different alternatives examined for recovering a debt, the area also works on retail sale of certain credit lines. It also receives support in other areas of Sareb, with which it coordinates the solutions analysed and proposed for each operation.

Financial asset portfolio distribution by asset type (%)



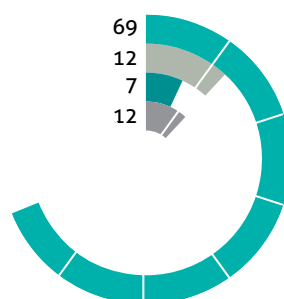
■ Loans ■ Credits

Financial asset portfolio distribution by capital position (%)



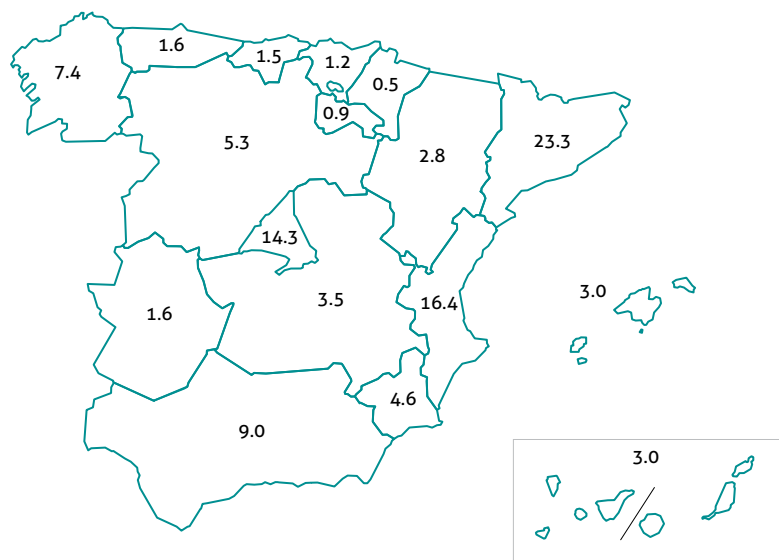
■ Delayed capital ■ Pending capital

Asset distribution by range of debt (%)



■ >= 2M€ ■ [1-2] M€ ■ [0,5-1] M€ ■ <0,5 M€

Portfolio distribution by borrower (Autonomous Communities, %)



Project Atenea

One of Sareb's most singular features, which can also be seen in other similar organisations worldwide, is the austerity of its structure. The key to Sareb's being able to execute its mandate of diligent disinvestment lies in having a personnel structure that is agile, lightweight and capable of smoothly adjusting to the evolution of the portfolio itself. It involves adaptation of company structure to the naturally occurring changes of a portfolio, which, over time, will gradually reduce its size and change composition, with more weight from properties and lesser weight in credit lines. Having a low staff headcount means that, in conducting day-to-day business, the company must rely on external providers for a significant

number of tasks, among which one of them is crucial: managing and selling the company's assets.

As explained previously in this report, at the time the company was formed, the decision was taken for asset managers to be the nine financial institutions that had generated the assets. In this way, these institutions became from the outset the commercial agents to sell or rent the properties, as well as spokespersons for the companies holding credit lines with Sareb.

This model demands coordination efforts with managers, a task which Sareb has undertaken with determination. Over the last few months, the company has been

building up a network of professionals for movement to each one of the managing institutions, through a process referred to as Project Atenea.

The role played by these agents integrated into the managing organisations is vital, because they oversee and coordinate tasks carried out by each institution, ensuring that the work performed is in line with established guidelines. For Sareb, they not only act as a bridge of connection between the company and the managers of its assets, but constitute a valuable resource and one that is indispensable in the smooth and efficient functioning of the company's complex disinvestment machinery.

3.3 Property

The Property division was set up in 2014 to bolster management and administration of the real estate assets on the Sareb balance sheet. This reinforcement is twofold in purpose:

- Value generation: optimising and controlling all tasks involving value generation, including proactive land management and real estate promotion and development.
- Protection of value: optimising the maintenance of the assets whose sale is to occur in the short or medium term, renting assets that are susceptible to the same and managing income from contracts.

Therefore, concentrated under Property are the main working lines relating to value generation. Thus, on the one hand there lies within the Property area Sareb's strategic commitment to developing an industrial rental policy, which will in the future enable the company to allocate entire buildings to this activity. The division, however, is also in charge of managing land properties in their range of phases as well as buildings under construction.

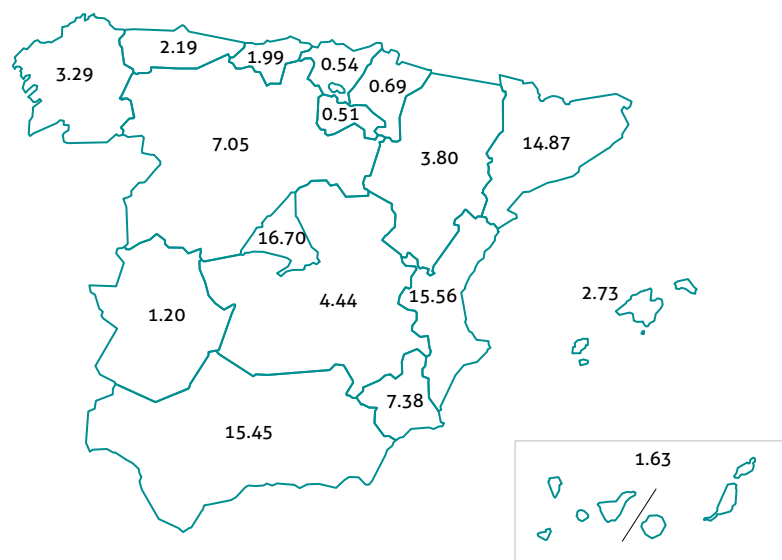
In short, given that Property manages the entire range of real estate assets, it has defined a management strategy for each portfolio segment. This enables the division to classify assets according to whether they should be earmarked for sale in the short term, maintained on the Sareb balance sheet for sale in the medium or long term, of whether they should undergo development, which can occur in some land assets.

The following are the different working areas of the Property division:

Land

Over the course of the first half of the year, Sareb finalised agreements to reclassify, reassess, drive forward urban processing and commence urbanisation works in a variety of land properties in Andalusia, the Balearic Islands, Asturias, Madrid, Catalonia, Castilla-León and Galicia. In addition, it participates actively in the management of 670 areas with an approved intervention system (compensation boards, urbanising authority, cooperation, etc.).

Land portfolio (Autonomous Communities, % over acquisition cost)



Real estate development

The Restructuring and Recovery division was reorganised this year to strengthen management of the portfolio of financial assets purchased by Sareb from the nine institutions receiving some type of public assistance. The main objective governing the management of these loans is that of adding value to them and safeguarding credit rights, attempting to dispose of them in an optimal fashion, as fast as possible and with the best terms of profitability.

This department plays an essential role in the process of transforming the Sareb portfolio. From the outset, real estate credit lines and loans have held predominant weight over the properties in the company's portfolio, 80% with respect to 20%, but this proportion will eventually be invested in a natural manner, either through closeout of the loan itself, or by taking the property held as security.

Asset Management

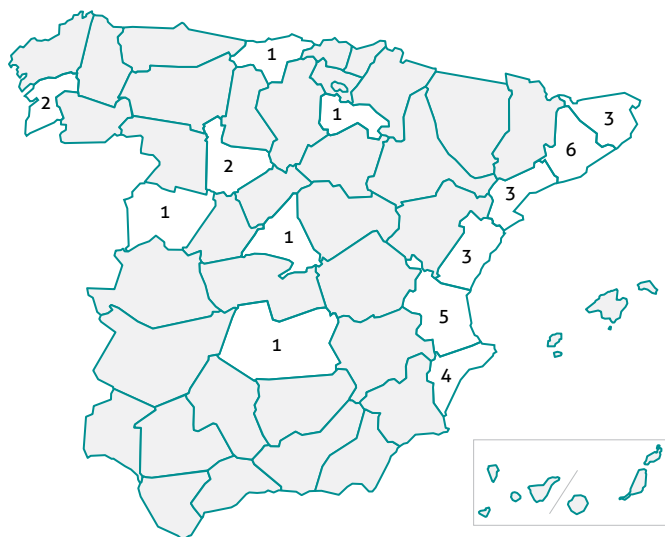
Over the first half of the year, general policies were developed pertaining to maintenance for the different asset categories. Specific procedures were also implemented for assets under development. Additionally, support is given to the Restructuring and Recovery area in technical matters relating to the collateral of loans under company management.

Asset Management

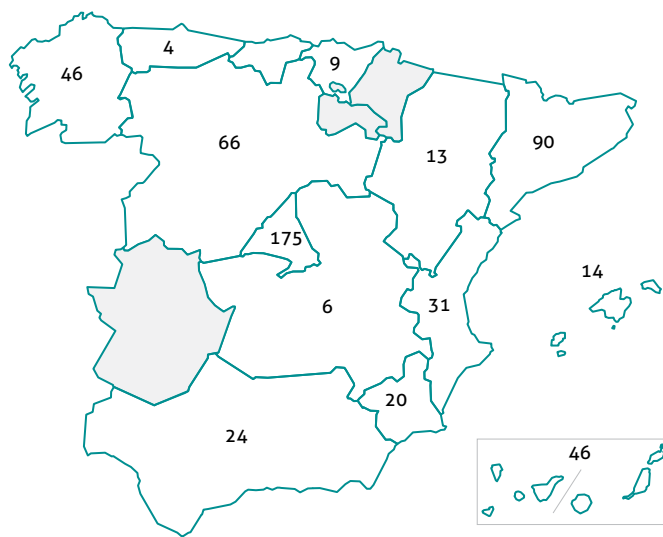
Among the activities of the Equity division is that of managing new unoccupied housing rentals, protected dwellings, commercial and hotel assets, in addition to the study and analysis of portfolios of residential properties dedicated to social purposes to be included under collective agreements with Spain's Autonomous Communities. Sareb firmly believes that the rental market will take off in the next few years and may therefore represent a business opportunity.

The company currently has **around 5,000 units that are being rented**, most of which consist of residential properties, although it also has commercial spaces, industrial assets, office locations and hotels.

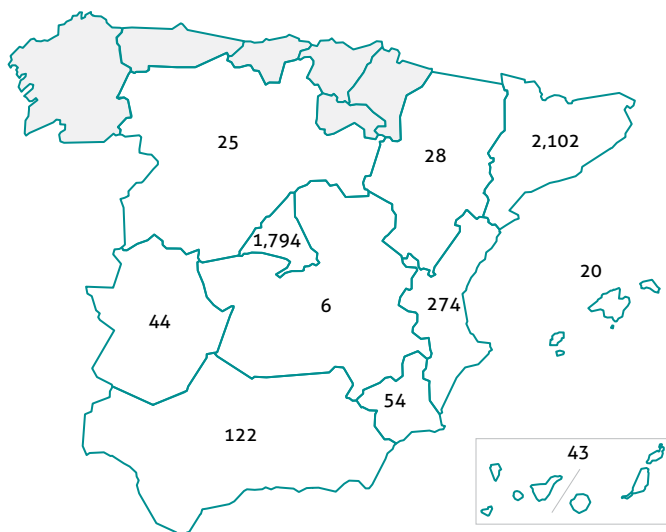
Distribution of works in progress undertaken in the 1st half of the year (number of building promotions)



Distribution of rented tertiary assets (units)



Distribution of rented residential assets (units)



- **Teide "FAB"**: This banking asset fund was set up in December of 2013, in which the company maintains a 15% interest. Added to the "FAB" were 32 completed building promotions, 2 works in process and three land allotments for development. **Over the course of the first half of 2014, 202 units were sold for a total of 18.7 million euros.** Refinancing of the "FAB"'s senior debt is being managed in conjunction with Deutsche Bank.
- **Corona "FAB"**: A banking asset fund set up in December of 2013, in which the property is 100% owned by Sareb. Added to the fund were four office buildings located in Madrid. **Income obtained by the "FAB" in the first half of the year totaled 3.4 million euros.**

As of the half-year close, the May "FAB" is in the process of being set up. This fund will group together a portfolio of urbanisable land allotments.

Business Development

The Business Development team is dedicated, on the one hand, to establishing the lines of collaboration with third parties, geared toward developing assets, and, on the other, to the analysis, control and monitoring of the **Banking Asset Funds ("FABs")** set up by the company.

As of the half-year close, three "FABs" had been set up, on which ongoing monitoring is performed to the extent that the company maintains a stake in the company:

- **Bull "FAB"**: formed in December 2013, in which Sareb maintains a 49% stake. Added to the fund were 32 building promotions and remainders of completed promotions and 2 promotions in progress. **Sales during the first half of 2014 amounted to 235 real estate units for a total of 15.7 million euros.**

Sareb's Call Center service

During the first half of 2014, Sareb's call center service, Sareb Responde, consolidated as a highly useful tool in addressing and resolving doubts, complaints or queries reaching Sareb from different types of users.

During this time, a total of 5,801 telephone calls were handled, with a monthly average of 944 in processing operations. With respect to the profile of the users who contact the Sareb Responde service,

66.8% are private individuals and 28.4% are companies (with respect to the previous year's figures of 54.2% and 43.2%, respectively).

User type (%)



■ Private ■ Companies ■ Public administration ■ Others ■ Groups/ Associations

As far as the type of enquiries is concerned, most of them come from private individuals or companies interested in purchasing some type of property (46.5%), although numerous processes are related to requests for

information on Sareb's core services (18.4%) and, to a lesser extent, involving payment of bills (5.7%), procedures regarding the Opportunity Plan (4.9%) and information on financial assets (3.8%).

In terms of commercial contacts relating to real estate assets, the greatest concentration is found in atomized residential property (74.8%) and in urban land (9.5%).

Enquiry type (%)



■ Acquisition of assets ■ Central Sareb services ■ Others ■ Bill payment ■ Opportunity Plan 2013
 ■ Info on financial assets ■ Impact on housing ■ Impact on housing ■ Info on asset ownership

3.4 Transactions

The new Transactions area is one of the pillars underpinning Sareb's disinvestment efforts. Its purpose focuses on the sale of assets owned by the company, for which it has set up two departments, a Commercial Department with responsibilities in sales via the retail and wholesale channel, and a second department dedicated to Market Intelligence and Prices.

The Department of Market Intelligence and Prices works so that the company has the necessary information, both specific and periodic, to take rigorous decisions based on the maximum amount of market knowledge possible. This information may be related to the composition of the Sareb portfolio itself and its characteristics, or the evolution of the real estate market in its range of segments. The data obtained by this division undergo a rigorous process of filtering and analysis so they may be converted into knowledge for the company.

This department's second important task is that of determining and validating the market prices of its real estate assets, both those owned by Sareb and those emerging as credit line guarantees. The work performed by this department affects both assets for sale as well as those allocated to rental. In just the first six months of the year prices were set for nearly 36,000 real estate assets, of which approximately one third were owned by Sareb and the rest were loan guarantees. These assets are distributed by type as follows:

Pricing, by asset (%)



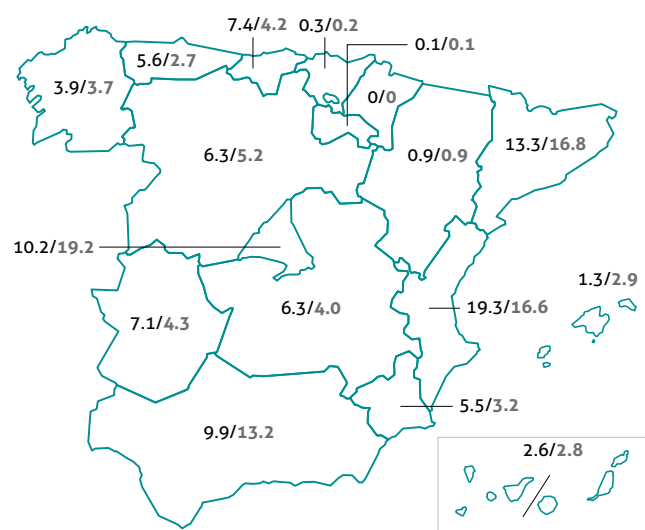
The **Commercial Department** centralises the business conducted by Sareb in both the retail and wholesale channels through the sale of both real estate and credit lines. In total, the sale of financial and real estate assets yielded Sareb income totalling close to 825 million euros in the first half of the year.

Retail Channel

Retail sale has experienced particular energy in the first half of the year, as illustrated by the 8,100 properties Sareb sold to retail investors during this period, with a sales price of over 750 million euros. This volume consolidates the company as one of the major market operators, with an average of 45 properties per day, significantly higher than the target of 30 properties per day set for 2014.

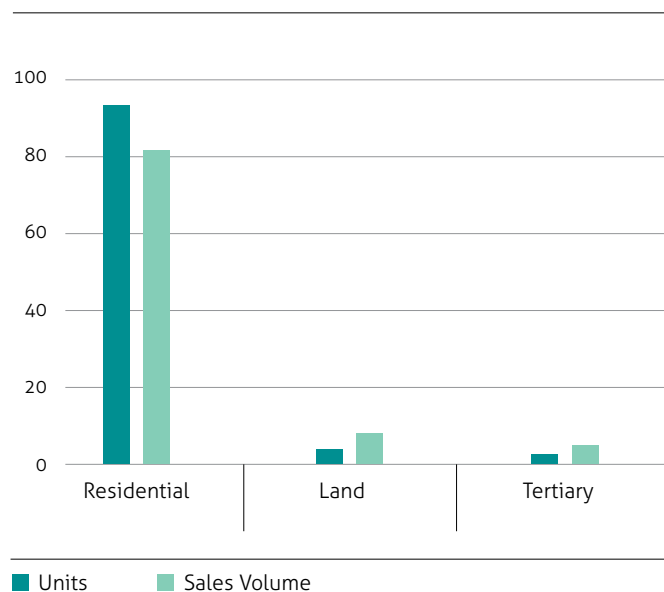
Most of the properties sold are intended for residential use, although there are also tertiary and land assets. Geographical distribution, by autonomous communities, is the following:

Percentage distribution of retail property sales during the first half of the year



% Units/ % Sales Volume

Property sales (type, %)



The aim of the company is also to reinforce retail sales through the development of a channel, Canal Colaborador, composed of autonomous professionals and approved marketing companies.

Another important tool in retail sales is the real estate website that was launched last March and which has proven to be a very useful instrument for illustrating products that usually do not get broad visibility in the real estate market, such as land, hotels, commercial facilities and commercial spaces.

With 756 published assets and 110,656 visits received to date, this website enables parties interested in purchasing a property to request further related information and make offers which the website itself redirects to the managing company. Over the course of the first six months of the year of the company's activity, a total of 1,873 requests for information were taken in, particularly relating to rural estates, land and hotels.

www.inmuebles-sareb.es



Results of website analytics

The new www.inmuebles-sareb.es real estate website was launched on 12 March for the purpose of establishing a showcase of the range of asset types other than homes in the Sareb portfolio.

Visits in six months	110.656 visits
Users	91.443 users
Total no. of pages viewed	693.803 pages
Pages per session	6,32 pages
Average website browsing time	3'42" minutes

Requests for information received

Through the Sareb real estate website, those interested in purchasing a property or asset may request further information and submit an offer to the commercialising body. Over the course of the first six months of website operation, a total of 1,873 requests for information were taken in, distributed as follows:

1,873 requests



Within the retail area, there is a team that is also dedicated to marketing efforts, managing the real state website and dynamising other commercial undertakings, as well as another area focusing on direct sale of assets of special singularity, due to typology, dimension or price.

Wholesale Channel

The Transactions team is supported by an area specialising in the sale of portfolios and another dedicated to managing the transaction of major loan collateral. Both working lines are extremely important to the disinvestment efforts that must be undertaken by Sareb.

Over the first half of the year, Sareb managed to yield income through this channel totalling 100 million euros by means of operations such as the Klauss and Dorian operations, and land sales as part of the Crossover process.

There is also a team within the commercial department dedicated to the rental of a significant part of the foreclosed asset portfolio, including properties, residential and tertiary/ industrial units, which allows for increasing their value before the time of final sale.

Investor Relations

Sareb has an Investor Relations Department which provides support to the Transactions area in the execution of portfolio and bilateral sale. Over the first half of the year, Sareb office locations welcomed more than 250 potential investors of different types and nationalities, which lends credence to the vision of the types of assets and/or transactions most in demand.

Customer segmentation is performed based on particular factors that include:

- Type of investor
- Type of asset of interest
- Minimum amount to be invested
- Expected return on investment
- Investment vehicle

Portfolio composition and sale is carried out in accordance with investor profile and appetite at a given time. With a clear purpose, the information gathered enables one to ascertain different market niches and timeframes for recovery of the range of "micromarkets" in existence within the Spanish real estate sector and to thereby adapt commercial policy to market circumstances.

Sales policy

The sales policy applied by Sareb cannot be understood unless the context of company creation is taken into account:

- **Assets received.** Sareb was unveiled with a portfolio of 50,781 million euros, comprising foreclosed real estate assets and credit lines tied to the property development sector. Specification of asset type was determined by the Fund for the Orderly Restructuring of the Banking Sector ("FROB").
- **Established transfer price.** Price was established in accordance with the terms of Article 36.2 of Act 9/2012 and Article 48, Section 4, of Royal Decree 1559/2012 that specifically determined criteria and percentages set for each institution and group of assets by the Bank of Spain.
- **Powerful leveraging.** The company was formed with a financial structure characterised by a high percentage of senior debt, which leads to a significant interest load. Thus, Sareb issued 50,791 million euros in bonds in payment of the assets received. These bonds, issued via underwriting with the Spanish

government, pay coupons linked to the 3-month Euribor, plus a variable spread, which in 2013 amounted to a financial cost of 1,272 million euros.

Once need is identified, various questions emerge: What assets exactly does Sareb have on the balance sheet? Are they all apt for sale? Is it possible to sell assets in a market that had been completely closed off for years? How can these assets be sold? To be able to answer these questions, Sareb undertook the largest due diligence process ever executed in Spain (90,000 financial assets, around 400,000 secured assets and more than 100,000 real estate assets).

Using the reports received throughout the process and the new projects for improvement and filtering of the information pertaining to the assets received, the company has been laying the foundations for portfolio segmentation, pricing, rectification of existing errors and legal certification of assets.

From the very beginning, three sales channels were established in order to serve a wide spectrum of potential investors. A retail channel for selling to

individuals out of the platforms of the transferring institutions, although their activity was practically non-existent in the first few months, as well as a wholesale channel and other singular assets, which required more time for implementation due to the complexity in identifying assets, defining processes and preparing portfolios.

On the other hand, the relative improvement in the country's economic prospects and the real estate sector began to capture the attention of international investors, in addition to the interested generated by Sareb in starting up its business. With a clear purpose, over the company's first year of existence, more than 700 potential investors approached Sareb for information on assets and established sales processes.

Seven months after the company was formed, it finalised the awarding of the first portfolio, referred to as Bull, through the constitution of a "FAB". Through these first operations, Sareb played an unquestionable role in reclaiming and catalysing international institutional investment in Spain.



A close-up photograph of several round, textured wooden beads on a string. The beads have a natural wood grain pattern and are arranged in a slightly overlapping manner. A large, white, stylized number '4' is overlaid in the center of the image. The background is a dark, textured surface, possibly wood, which complements the beads.

4



Sareb in figures

Key figures (in millions of euros)

	1h14	1h13 (*)	Variation	Variation %
P&G Data				
Net gross margin (net of commissions)	601	468	133	28%
- Financial asset margin	524	391	133	34%
% over total	87%	84%	3.67 p.p.	
- Real estate asset margin	77	77	-0.1	0%
% over total	13%	16%	-3.67 p.p.	
EBITDA	429	348	81	23%
Gross cash flow generated	1,696	842	854	101%
Balance Sheet Data				
Balance Sheet Data	52,461	54,250	-1,789	-3%
Senior Debt (**)	46,991	48,997	-2,006	-4%
Other figures				
Properties sold through the retail channel	8,100	1,517	6,583	434%
Number of portfolios sold	3	0		
Income from portfolio sales	94.8	0		
"FAB"s constituted to date (Mill. Euros)	3	0		
Number of employees	251	141	110	78%

(*) Sareb was not a fully operational company over the entire first half of 2013.

(**) Does not include unpaid accrued interest.

Profit and loss account data

Gross margin

During the first half of 2014, the company generated a **gross margin in the sale of financial assets** of 524 million euros under the following concepts:

- 255 million euros from interest generated by loans on the balance sheet.
- 158 million euros attributed to amortisations and settlements of loans;
- 61 million euros from sales of portfolios, loans and collateral;
- 50 million euros from PDVs (agreements with developers to sell their assets) and individual acquittances.

Gross Margin of Financial Assets

Interest	255	49%
PDVs and acquittances	50	10%
Portfolio, loan and collateral sales	61	12%
Amortisations and closeouts	158	30%
TOTAL	524	

Gross margin from the sale of real estate assets totalled 77 million euros:

- 3 million euros from the sale of the company's own properties via the retail channel;
- 5 million euros from the sale of singular assets; and
- 39 million euros from income from leased assets and constituted "FABs".

Gross Margin of Real Estate Assets

Sales through the retail channel	33	43%
Singular assets	5	6%
Rental income and constituted "FABs"	39	51%
TOTAL	77	

The company proceeded to sell the following portfolios in 2014:

- Klauss Operation: a portfolio of credit policies backed by a true mortgage guarantee on a variety of properties in Spain.
- Dorian, which included a range of residential property promotions allocated for rent in the Community of Madrid.
- In addition, during the first half of the year, the company proceeded to sell a syndicated loan.

EBITDA

For its part, EBITDA increased by 81 million euros (23%) with respect to the first half of 2013.

Gross cash flow generated

Gross cash flow generated increased to total 1,696 million euros, 74% of which is attributed to the management and sale of financial assets, with the remaining 26% coming from real estate assets. Generation of this cash flow has enabled Sareb to amortise during the first half of the year 1,400 million euros, in addition to the amortisations paid for by the cash flow generated in 2013.

BALANCE SHEET FIGURES

Total Assets

Assets have been reduced by 1,789 million euros during the first six months of the year as the result of the company's own business, whose mission consists of the orderly liquidation of its portfolio.

Financial Debt

In compensation for the assets received from the transferring institutions, in December 2012 (Group 1) and February 2013 (Group 2), Sareb issued renewable bonds in the amount of 50,781 million euros.

The evolution of net financial debt during the first half of 2014 was as follows:

Balance of bonds issued in favour of Group 1 banks

Balance of bonds issued in favour of Group 2 banks

Nominal (€) 31 Dec	Nominal (€) 30 June 2014	Maturity date	Coupon	Nominal (€) 31 Dec	Nominal (€) 30 June 2014	Maturity date	Coupon
10,481,300,000	10,432,000,000	31/12/2014	Eur 3m+0.656%	4,217,600,000	4,085,100,000	28/02/2015	Eur 3m+0.272%
15,722,300,000	15,648,300,000	31/12/2014	Eur 3m+2.562%	6,326,700,000	6,127,700,000	28/02/2015	Eur 3m+2.017%
8,734,600,000	7,693,400,000	31/12/2015	Eur 3m+2.964%	3,514,700,000	3,004,200,000	28/02/2016	Eur 3m+2.464%
34,938,200,000	33,773,700,000			14,059,000,000	13,217,000,000		

Bonds, Group 1 banks

Bonds, Group 2 banks

Nominal Variation (€)	Maturity date	Coupon	Nominal Variation (€)	Maturity date	Coupon
49,300,000	31/12/2014	Eur 3m+0.656%	132,500,000	28/02/2015	Eur 3m+0.272%
74,000,000	31/12/2014	Eur 3m+2.562%	199,000,000	28/02/2015	Eur 3m+2.017%
1,041,200,000	31/12/2015	Eur 3m+2.964%	510,500,000	28/02/2016	Eur 3m+2.464%
1,164,500,000			842,000,000		

During the first half of 2014, the company executed the following debt amortisation operations:

- a) On 10 February 2014 and paid by the cash flow generated in the year 2013, the company proceeded to carry out anticipated partial amortisation of the senior debt issued for purchase of the Group 1 assets in the amount of 164.5 million euros.
- b) On 28 February 2014 and also paid for by the cash flow generated in 2013, the company proceeded to carry out partial amortisation totalling 389 million euros. Simultaneously, exercising its right to amortise certificates of senior debt at maturity through the issuance of new bonds, it proceeded to issue 40,853 securities with a par value of 100,000 euros each. The total amount of the issuance amounted to 4,085.3 million euros used to amortise 1-year bonds maturing on 28 February 2014. The differential set in the new issuance totaled 27.2 basis points with respect to the 124.2 basis points of the maturing issuance.
- c) Finally, on 10 April 2014, thanks to the positive evolution of the cash flow generated in 2014 and paid for by available cash flow, the company executed, through a competitive reverse auction procedure, partial and anticipated amortisation totaling 1,400 million euros in nominal value (1,000 million euros corresponding to the bonds issued for acquisition of the Group 1 assets and 400 million euros corresponding to the bonds issued for Group 2 acquisition).

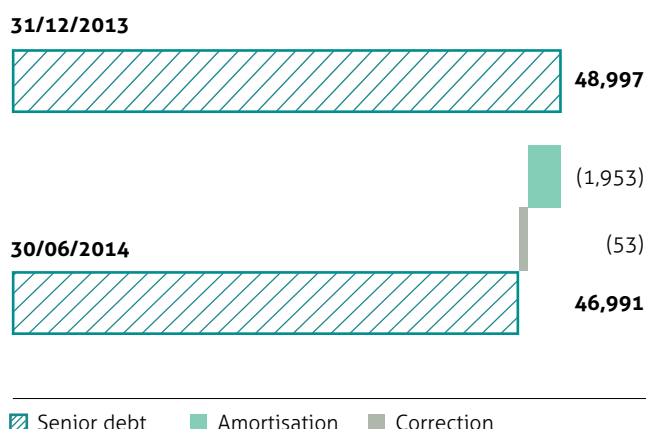
Through these actions, total amortised debt in the first half of 2014 amounted to 2,006.5 million euros and total amortised debt (including corrections) since the creation of Sareb totals 3,790.1 million euros.

In addition to the aforementioned amortisations, the company proceeded on 7 February 2014 to rectifying the contract for transfer of assets underwritten on 25 February with Banco de Caja España de Inversiones, Salamanca y Soria, S.A. (CEISS).

The total amount of the assets undergoing rectification amounted to 52.4 million euros, which was met through the return of senior bonds of identical value.

On 31 March and 30 April, the company proceeded to liquidate both corrections of the contract to transfer assets underwritten on 25 February 2013 with Banco Mare Nostrum, S.A. (BMN). The total amount of the assets that were the object of rectification totaled 0.6 million euros, which was met by means of the return of senior bonds of identical value.

Evolution of debt over the 1st half of the year 2014



Overall debt has generated a financial cost of 554 million euros and includes the corresponding correction due to interest rate hedging carried out by the company last year. The accrued financial charge in the first half of the year was 24 million euros lower than that recorded in the first half of 2013. This improvement is mainly the result of lesser financial expenditure accrued as a consequence of partial amortisation of the senior financing issued by the company.

Additionally, the financial income obtained as the consequence of the remuneration of treasury and equivalent liquid assets increased to 32 million euros, showing a 100% increase over the figure obtained in the first half of 2013.

As of 30 June 2014, Sareb has not reported any financial expenditure attributed to subordinated debt issued, given that the return of the same is conditioned by obtaining profits and the existence of reserves available to the company.

Interest rate hedging

Sareb issued 50,781 million euros in bonds as payment of the assets received from the institutions receiving public assistance for offset thereof. These are 1-, 2- and 3-year bonds with an option for renewal at maturity.

These government-backed bonds issued by Sareb pay coupons linked to the 3-month Euribor and also pay a variable spread set at each issuance and which depends on the risk premium of the Spanish Treasury (asset swap of Spanish Treasury issuances); although this differential has a 2% limit.

Given the virtually non-existent sensitivity of the Sareb asset to variations in interest rates (real estate assets and a very high and growing percentage of non-performing financial assets), there was a clear imbalance in the balance sheet in relation to the interest risk due to the lack of natural hedging that could compensate the impacts on the assets and liabilities from the variations in interest rates.

Under the original financial structure, Sareb had extremely high exposure to a rise in interest rates potentially resulting from economic recovery. In this scenario, Sareb could have become unviable regardless of its commercial performance. Accordingly, the decision was taken to analyse and implement measures to mitigate this risk.

The interest risk of the senior debt issued by Sareb is derived from two variables:

- 3-month Euribor
- Credit spread of the Kingdom of Spain

The table below shows the impacts of different interest rate scenarios before possible hedging. At the time of analysing the hedging coverage, it can be seen that, for example, a 1% rise in Euribor would have entailed a higher financial cost between the years 2014 and 2022 totalling 2,187 million euros in the event issues were to be maintained without hedging coverage.

	Business Plan 2014-2022 scenario	Implicit curve scenario	-50pb curve displacement	+50pb curve displacement b	+100pb curve displacement
Interest on proposed hedging coverage	8,903,307,600	8,405,360,498	8,219,200,359	8,591,520,637	8,777,680,776
Interest 100% open		8,405,360,498	7,125,381,540	9,685,339,457	10,965,318,415
Hedging-Non-hedging differential		-	1,093,818,819	-1,093,818,819	-2,187,637,639
Proposed Hedging Differential over the Business Plan	-	-497,947,102	-684,107,241	-311,786,963	-125,626,824
Difference 100% open over the Business Plan		-497,947,102	-1,777,926,060	782,031,857	2,062,010,815

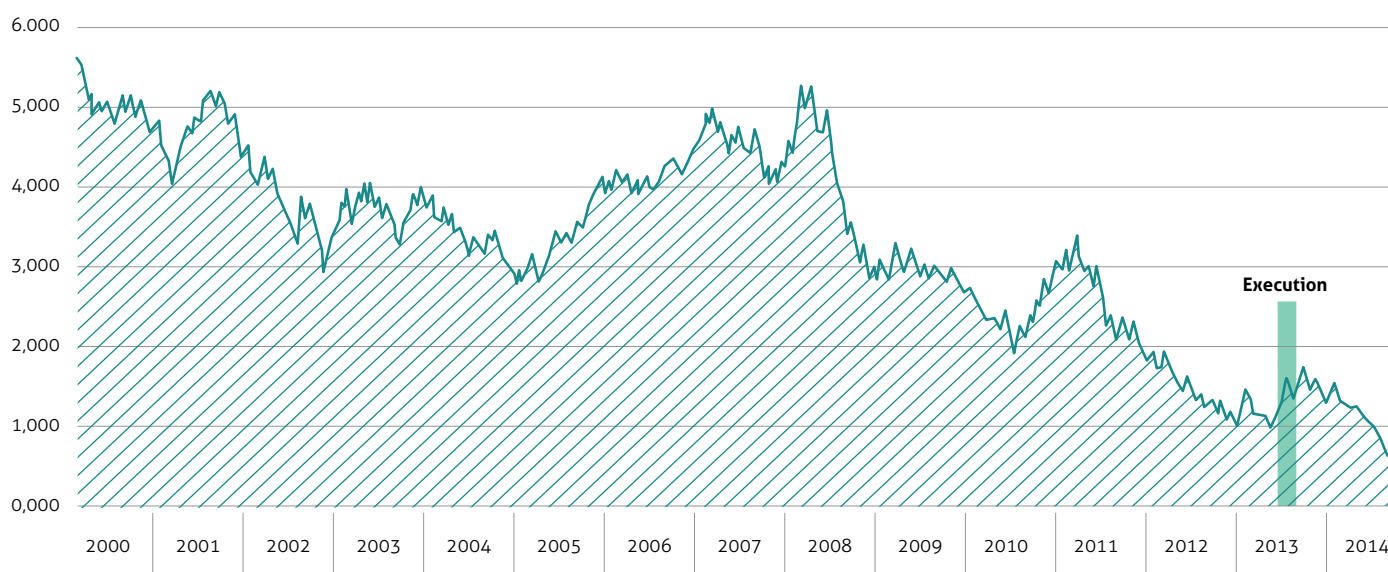
Sareb decided to hedge a significant portion of its issuances (approx. 83%) in light of potential increases in the Euribor that would take place in a context of economic recovery. The decision was taken within a context of historically low interest rates. The highest risk scenario derived from an interest rate hike arising from potential economic recovery, which could also have varying intensity in Europe than in Spain, remained buffered.

In terms of credit spread risk, as previously indicated, this is limited to a maximum of 2%, whereas the improved risk premium of treasury bonds, as was occurring, allowed anticipation of a reduction in this spread for subsequent issuances.

Under these premises, between July and August of 2013, and taking advantage of a context in which rates were compatible with the company's projections for its Business Plan, hedging was applied with respect to a rise in interest rates, in the amount of 83% of the estimated live debt over the next 9 years through the contracting of Interest Rate Swaps in which Sareb would pay a fixed rate and collect the 3-month Euribor.

The weighted average fixed rate of the operation during its hedging life is 1.586% This secured Sareb an interest rate that fit perfectly with the budgeted amounts under the company's Business Plan, thereby mitigating the uncertainty of variations in the company's financial cost.

5-year swap interest rate evolution (%)



Sareb records in its financial statements the financial cost of debt while taking into account the hedging of cash flow executed. Pursuant to prevailing accounting regulations, changes in derivative value are recorded under the company's net equity until results are going to be attributed in the corresponding fiscal year.

However, from a commercial point of view and in accordance with the provisions of Article 35 of the Code of Commerce for purposes of profit distribution, the obligatory reduction in share capital and the obligatory dissolution due to losses, these changes in the value of the hedging derivative allocation to the profits and loss account are not considered as net equity.

As a consequence of the lax monetary policies imposed by the ECB, the decrease in market types currently places the 5-year IRS (orientative reference level) at 0.55%-0.60%. This circumstance leads to a negative variation in the derivative value from the time of its contracting. However, the fact that not 100% of the issuances are hedged and, above all, the improvement in the risk premium of Spanish Treasury bonds, today means a sharp reduction in projected financial expenditure over that envisioned under the company's Business Plan.

Bank of Spain Circular

As of the closing date of this report, pending publication is the Bank of Spain Circular determining the criteria to be followed in establishing the methodology which Sareb must use to verify the potential existence or not and the scope of potential deterioration of its asset portfolios. Bearing in mind that there is a first document that underwent public consultation, regarding which allegations were made by diverse institutions and which is currently being processed by the Council of State, at this time estimations cannot be made regarding the potential impact of the future norm.

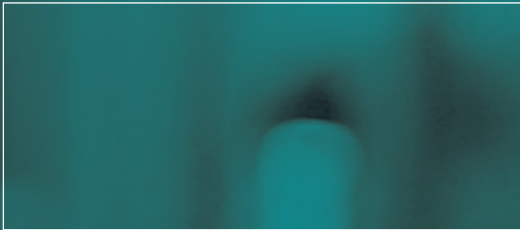
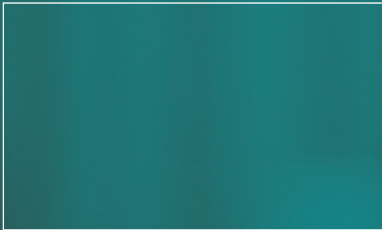
In any case, it should be pointed out that in the year 2013 there were no grounds for portfolio deterioration (with the exception of a group of participative credits) because the macroeconomic scenario which served as the basis for estimating the value of the transfer of assets had not suffered any deterioration, but rather a slight improvement instead. Along the same lines, 2014 shows a positive evolution in macroeconomic data.

Given the above, the impacts of the future circular could be determined in the first place by the final specifications of the parameters for the future assessment of assets, and secondly, by the results eventually obtained from new individualised assessment which will presumably be required under the circular and which may differ from the values of transfer to Sareb of said assets.

In any case, Sareb is undertaking an ambitious internal project for creating an updated system for the assessment of all of its assets. To this end, use will be made of physical appraisal cycles and automated assessment systems, applied to both the properties it owns as well as the collateral behind the financial assets it owns.



5



Policies for governance and internal control



5.1 Internal auditing

The Internal Auditing area reports functionally to the Board of Directors (through the Audit Committee) and to the company's first executive in the daily performance of its duties, among which is the primary objective of providing Sareb's administrators and members of the senior management team with an independent and substantiated view of:

- The risks facing Sareb's businesses and activities.
- The quality of the internal control systems upon which lie the management and administration of company operations.
- Processes associated with corporate governance.

The internal auditing function is structured around three key elements approved by the pertinent body in 2014:

1. The **Auditing Function Bylaw** which defines the purpose, authority and responsibility of the function's activity;

2. The three-year (2014-2016) **Executive Plan** as an instrument of the Audit Function to align its structure and strategy for upholding duties to the company's medium- and long-term targets; and

3. The **Annual Audit Programme**, which sets down the plan determining the priorities of function activity for the year 2014.

During the company's first year and a half of activity, development began on a **Risk Control Model** structured through Sareb's Internal Control System promoted by the company's control areas¹, upon which the aim of Internal Auditing is to construct a **Corporate Assurance** process to efficiently facilitate ongoing assessment of the effectiveness of the internal control mechanisms in place in Sareb's processes.

Internal control system

Relating to compliance with norms and standards

SCISNE

- Integrity risks

Relating to risk management

SCIR

- Financial risks
- Operational risks (non-technological)
- (Strategic) execution risks
- External risks

Relating to financial information

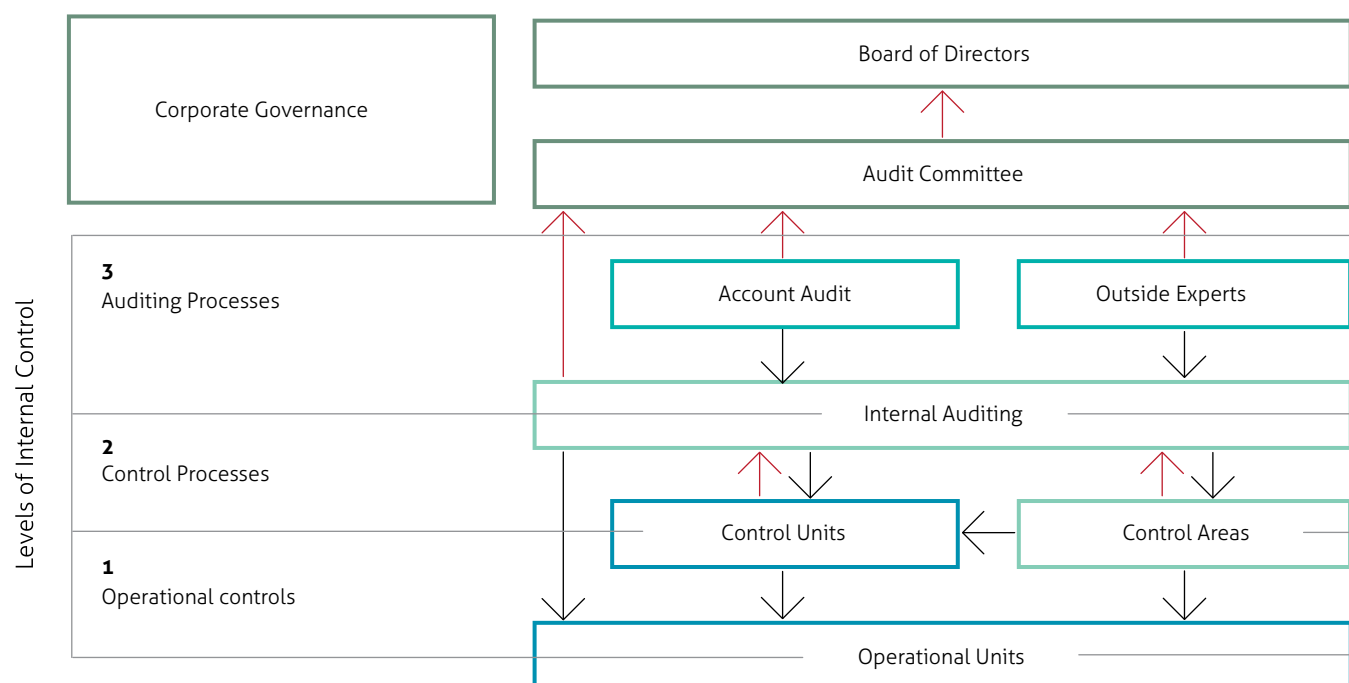
SCIIF

- (Operational) risks involving financial information

Relating to strategic processes and government

- (Strategic) business risks
- (Strategic) organisational risks
- Technology-related operational risks
- Reputation risks

¹ The control areas comprise the functions of Internal Control, Compliance, Risk and Internal Auditing.



→ Flow of assessment → Flow of assurance

In this process the Internal Audit Function draws upon the activities of the “eligible” assurance groups² in order to **formulate an integrated opinion** of the systems into which the Internal Control Model is structured. As the component ultimately in charge of reporting this integrated opinion prepared to the Board, the Auditing Function has taken on a **significant role in designing and implementing the Corporate Assurance process by monitoring the operational effectiveness of the other control functions**.

The 2014 Annual Auditing Programme was drawn up on the basis of a methodology which attributes to each Sareb process an approximation to the inherent level of risk and its relevance in meeting budgetary and strategic objectives.

The Annual Auditing Programme integrates the activities agreed upon with the internal auditing departments of the transferring institutions on the basis of the order of priorities resulting from the aforementioned methodology.

In turn, the typology of actions and strategy for executing the Auditing Programme have taken into account both factors with a significant impact on the management processes derived from Project Íbero, as well as the foreseeable requirements that will emerge for the Auditing Function as the result of the Bank of Spain Circular which, pursuant to the provisions of Act 9/2012, is to regulate particular aspects pertaining to the criteria for the assessment of Sareb’s assets and its process of formulating annual accounts.

In addition, in the second quarter of 2014, within the context of the company’s new organisational structure, Internal Auditing Department management took over the duties inherent to the role of Project Control.

As far as strategic advisory action is concerned, the auditing function has contributed to the design of the company’s structural components in their development stage, in addition to determining requirements for implementation thereof.

² The eligible assurance groups are those which, according to the evaluation of the Auditing Function, demonstrate a sufficient level of independence and suitable development in performing their control functions.

5.2 Internal governance system

Internal system for monitoring norms of ethics ("SCISNE")

Lying within this area are all policies, manuals and procedures that contribute to ensuring that company business is conducted not only in accordance with prevailing legislation, but also upholding the principles of integrity and ethics, toward the primary aim of preserving the company's reputation and consolidating a business culture grounded in honesty and integrity. Due to the singularity and public nature of its purposes, Sareb must act with particular exemplarity in its operations, in its procedures for selecting personnel and in contracting suppliers. The company therefore has a stringent Code of Conduct for employees, which is inspired in the company's three underpinning values: Integrity, Transparency and Civic Commitment. As set forth in the Code of Conduct, the commitment undertaken by all employees to the code has been updated through an express statement on adherence to the precepts contained therein.

In addition, during the first half of the year Sareb implemented a special procedure which establishes how an employee or executive should act in their relations with entities or persons of public relevance that contact Sareb. Sareb's relationship with citizens' organisations, NGOs, businesses, commercial organisations and other types of institutions is frequent, legitimate and necessary to conducting its business. Such contacts usually involve exercising their own competencies or the defense of collective interests; it has nevertheless been deemed advisable to draw up a specific procedure to support decision-making in these situations.

Sareb approved a **third-party relations procedure** to be activated when an individual or entity of public relevance or with privileged access to Sareb personnel for reasons external to their professional activity approaches Sareb with a request for adoption of a decision, be it strictly regarding business, contracting or recruitment or, generally speaking, to initiate relations with the company.

In these cases employees are to communicate such circumstances to the Department of Regulation and Compliance in order for this body to take the steps needed to ensure that Sareb's action is rigorous and impartial. Among the measures to be adopted are, for example, the possibility of raising the level of decision and even including soliciting the opinion of an independent expert.

Implementation of Sareb's control model pertaining to standards of ethics in other lines also continued over the first half of 2014. On the one hand, was the commencement of validation by an outside expert of the **penal risk prevention model**. This consists of a process which will yield the company a contrast over the penal risk control model based on residual risk and integrated into the company's risk map, which will facilitate a clearly defined distribution of duties and functions and the existence of a catalogue of control mechanisms whose effectiveness is evaluated under the model itself.

Outside expert examination of the **Money-Laundering Prevention Model** also took place. In this area, recent approval of the Regulations of Act 10/2010 (R.D. 304/2014 of 6 May) introduced changes in legislation requiring modifications to manuals and procedures for the prevention of money laundering and financing of terrorism that have already been implemented. Noteworthy here is Sareb's role as an instrument for improved monitoring in the prevention of money laundering in the real estate sector by applying and promoting other market players with whom Sareb interacts, as well as best international standards and practices.

Additionally, in order to prevent inappropriate use of **privileged information**, a list of insiders was drawn up to establish strict control of the information pertaining to Project Íbero. Inclusion on the list has been communicated to all persons affected, and they have received guidelines for protecting information. Furthermore, additional reinforcement was approved to ensure that competitive concurrence in any tendering process announced by Sareb (involving both selection of providers and disinvestment) is not altered by the fact that personnel from an eligible company participating in such processes may have access to privileged information as the result of having had a prior working connection to Sareb.

Finally, with respect to **protection of personal data**, efforts dedicated to preparing and implementing the processes for proper management of Sareb's information and to ensure the necessary confidentiality and integrity of the same continued over the course of the first half of 2014.

Training activities were also conducted for all company personnel with the aim of raising awareness of proper handling and treatment of the data they access in performing their day-to-day tasks.

Internal system for monitoring business risk management processes ("SCIR")

Implementation of Sareb's business risk control model continued in the first half of 2014 primarily through two major courses of action.

On the one hand, the **development of written procedures** for a significant portion of corporate processes reinforces identification of the risks inherent to the same and in establishing specific mitigating control mechanisms at different levels, at both the point of process execution and out of the Internal Control area.

On the other hand, the **methodological development of the control model itself** in line with the directives emerging from the Committee of Sponsoring Organisations (COSO) is moving forward. Based on the map of processes deemed strategic, business- or support-related, Sareb is identifying risk events inherent to each one of the same and implementing or validating-in the case of those already in place-the first-level controls; that is to say, at the point of process execution. These risk events have been categorised in accordance with the taxonomy of corporate risks and prioritised according to their estimated potential risk depending on the risk category in which they fall. For each one of these risk events, controls have been implemented and are being executed directly by the Internal Control area; in other words, of second-level control, in order to validate the extent to which the risks identified are being mitigated.

In accordance with the "three lines of defense" model, subsequent supervision by Internal Auditing as a third control level will reinforce the validity and strength of the control model.

This involves a process that has yet to reach its culmination, in both identifying risks by processes and in implementing control mechanisms. As it progresses, however, the process will render a control model based on residual risk, that is, taking into account mitigating controls with respect to the current model based on inherent risk.

All of this information is being added to a database that is anticipated to evolve toward a specific support mechanism to reinforce the development of the internal control functions.

Internal system for monitoring financial information ("SCIIF")

As of the 2013 year-end close, internal controls were formalised regarding financial information in line with the model suggested in the **recommendations for listed companies** and backed by document support in all internal controls and auditing department supervision.

In the first half of 2014, the company proceeded to update system documentation for the purpose of continuing the process of compiling and validating all proof of controls performed so that, in conjunction with the other specific controls executed throughout 2014 and those performed at the year-end close, it will enable the company to render due contrasting and reinforcement of the process involved in preparing financial information for subsequent auditing supervision by the auditing department.

5.3 Internal policies

Based upon the specific legal framework governing the company's business and taking into consideration the range of market, operational and financial conditioning factors with which it was formed, Sareb developed its performance rules and regulations on the basis of the following components:

- **General Performance Principles:** In keeping with Sareb's vision, mission and values and strategic underpinnings, the General Performance Principles determine the basic fundamentals that must govern all activities conducted within the company's framework and which apply to the company's different stakeholders (regulators and observers, shareholders, transferring institutions, investors, suppliers, employees, etc.).

The General Performance Principles set out the foundations of Sareb's way of working for all stakeholders and which must prevail in any decision, considering the market, operational and financial conditioning factors derived from the creation of Sareb, namely:

1. Principle of orderly liquidation
2. Principle of value maximisation
3. Principle of integrity in conduct
4. Principle of transparent operational effectiveness
5. Principle of civic commitment
6. Principle of collaborative vocation
7. Principle of exemplary conduct
8. Principle of efficient performance

- **General Policies:** in accordance with the General Performance Principles, the General Policies establish the guidelines for Sareb's performance in sound implementation of its strategy, fulfilment of the expectations of its stakeholders and effective management of company risks. It is therefore the point of reference for the deployment of the other directives governing Sareb's business.

- **Other Directives:** in accordance with the General Policies, the remaining documents and guidelines consist of all performance regulations needed for suitable development of Sareb's business and activities, including manuals, protocols, procedures, instructions, internal operating communications, announcements and others.

In furtherance of the process of preparing and structuring policies initiated in the previous year, the following policies were drawn up in the first half of 2014 and are expected to be presented and approved during the second half of the year:

Disinvestment Strategy. Defining the general guidelines for preparing the strategy for maintaining, developing and commercialising assets for the purpose of optimising the portfolio in terms of orderly and profitable liquidation with the aim of fulfilling the company's institutional mission.

Management and administration of financial assets.

Regulating sound management and administration of financial assets (assessment of loans and collateral, customer ratings, management strategies, etc.) with the aim of maintaining and increasing their value on the balance sheet and making them available for sale. As a supplement to this policy, Sareb approved the policy on **management of payment default** in the second quarter of 2014. This policy seeks to define the general framework for managing, monitoring and controlling the delinquency stemming from the financing contracts acquired or conferred by Sareb.

Management and administration of real estate assets.

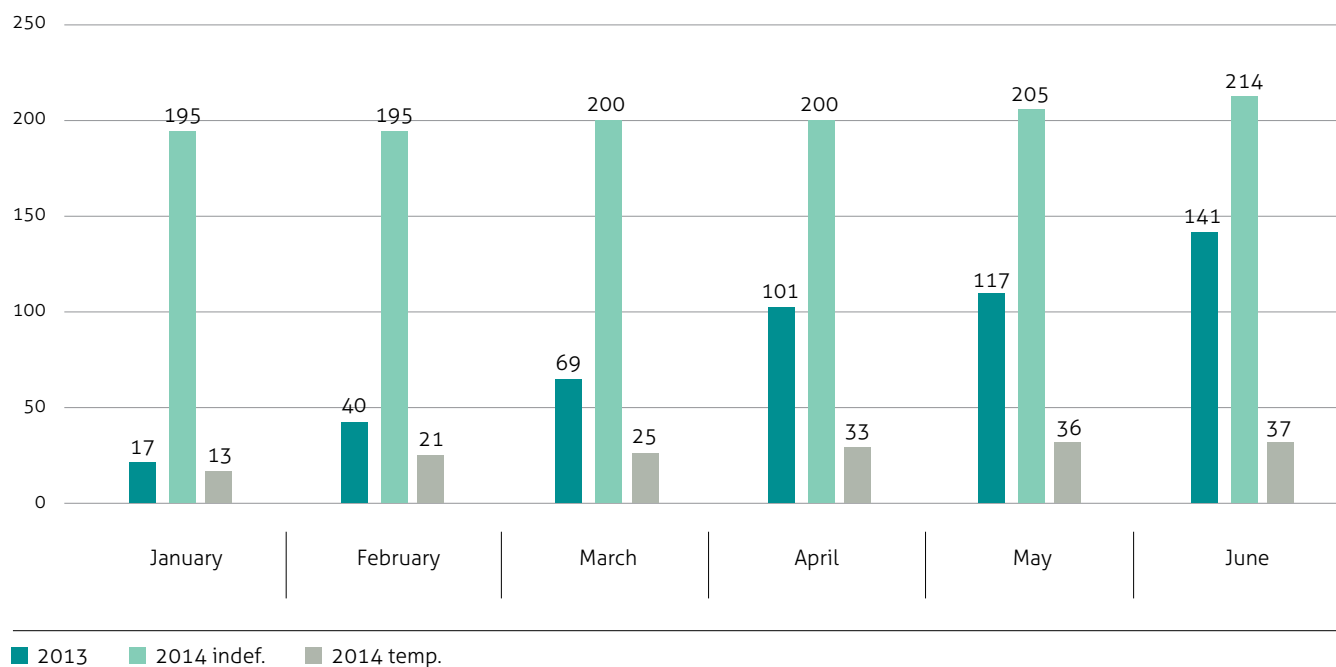
Regulating sound management and administration of real estate assets (assessment of assets, development and investment criteria, insurance policies, etc.) for the purpose of maintaining and increasing their value on the balance sheet and making them available for sale.

Commercialisation. Defining the general guidelines to facilitate orderly disinvestment of assets (portfolio selection, market development, marketing channels, "FAB" creation, etc.) with the aim of carrying out asset sales within the timeframe stipulated for this process.

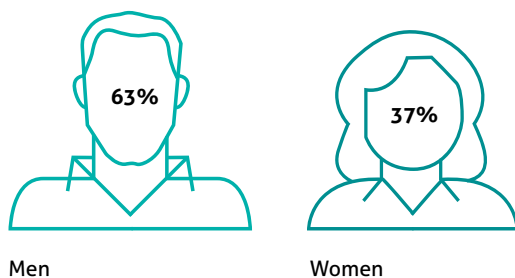
5.4 Human resource management

As of 30 June 2014 Sareb's staff comprised 251 people (including permanent and temporary employees).

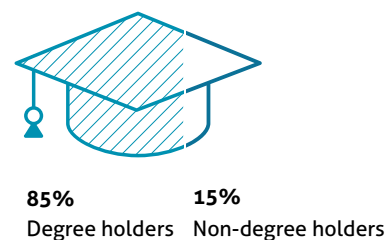
Workforce Evolution (number of employees)



Breakdown by gender (% in June 2014)



Breakdown by qualification (% in June 2014)



Organisational development

Throughout the first half of 2014, Sareb implemented an advanced business model that involved a new organisational structure, with the creation of new organisational areas and the transformation of some areas already in place.

An important part of this organisational development within the framework of policies and procedures for managing talent was the development and implementation of the **Internal Promotion Policy**, which resulted in the opportunity to promote 15 employees.

Also part of enhanced **talent retention** was the development and implementation of tools for strengthening the retention objective. Along these lines, an **Employee Loyalty Plan** was unveiled, albeit not applicable to the senior management team, as well as a **Flexible Compensation Plan** for all company staff.

Average workforce experience

Sareb's staff brings to the project a track record amounting to an average of **17.3 years** of experience in a variety of sectors, particularly noteworthy among which is expertise in the financial and real estate sectors. The figure for the same period of 2013 was 16.4 years.

Analysis of personnel expenditure and workforce growth

In terms of comparison to the first half of 2013, Sareb's average headcount grew by 140 employees to a total average staff figure as of the end of June 2014 of 221 employees, representing an average increase of 173%.

This staff increase was mainly the product of two major milestones:

- The logical hiring of objective personnel inherent to an organisation of such dimensions in the process of creation.

- The process of internal organisation evolution carried out by the company during the first four-month period of 2014, which necessitated certain positions additional to those originally envisaged.

In the first half of the year, personnel expenditure increased by 126% with respect to the first half of 2013, a ratio that is lower than that of average staff growth in this period, which totalled 173%.

Productivity analysis conducted among Sareb employees provides the following indicators:

- The average rate of income generated per employee at the end of the first half of the year stands at 2.6 million euros, 5.5 times more than the average figure for Ibex-35 companies in the same period, according to information provided by financial agencies.
- While the average size of Ibex-35 companies is 1.7 times that of Sareb's in terms of asset figures, the proportion of personnel costs over the total amount of assets is 70 times higher.

Shown below is a comparison between the average annual compensation figures found in companies listed on the select index and Sareb for the duties of Executive Chairperson, Chief Executive Officer, Executive and Non-Executive Director and member of Senior Management.

Comparative analysis shows the salary caps the company has imposed upon itself by virtue of its public commitment. The company's remuneration framework was established in accordance with the provisions of Royal Decree-Act 2/2012, dated 3 February pertaining to restructuring of the financial sector, given the connection of the company's purpose with the banking institutions that had received public assistance.

Ibex 35 vs actual Sareb (2013) Thousands of Euros



Source: Data gathered from the Annual Report on Remuneration of Boards and Corporate Governance presented by IBEX35 companies to the Spanish Stock Exchange Commission ("CNMV").

5.5 Supplier relations

Sareb approved its **General Procurement Policy** in January of 2013 and applied a general procedure of mandatory compliance. The company also proceeded this year to fully automate the procurement process with the aim of maintaining effective control over purchasing and optimising sourcing efficiency.

The main lines of this procedure are grounded in a stringent **process of approval and panelisation**, by means of which each supplier is identified according to purchase type. This ensures competitive concurrence and rotation as key principles of the policy. In addition, during Sareb's first year of existence, a series of supplier panels was identified for relevant purchasing categories.

The general principles underpinning the development of the procurement function are as follows:

- **Ascertaining the expectations of internal customers** as a basic condition for meeting their needs and adding value.
- Boosting transparency, competitive concurrence and non-discrimination by establishing an honest and open professional framework with suppliers.
- **Lowering the overall cost of products and services to be contracted** to contribute to fulfilment of the objectives set, at all times ensuring the utmost quality of the goods and services required by Sareb.
- Establishing **information and management and communication tools** within the company to ensure that all departments participate in the planning and execution of procurement process activities and the receipt of goods and services.
- **Encouraging collaboration** to achieve optimal contractual conditions.
- **Promoting rotation and non-concentration** by establishing groups of pre-selected suppliers for each category of goods or services to be procured by Sareb.
- **Promoting stable relationships** based on the pursuit of continuous improvement and mutual benefit.

The activity conducted over the first half of 2014 by the purchasing division materialised in:

- 571 procurement projects managed
- Nearly 400 supplier invitations
- 233 signed contracts
- 69 approved suppliers



A teal-tinted background image showing a close-up of two hands shaking over a laptop keyboard. The handshake is the central focus, with the fingers interlaced. The laptop keyboard is visible in the lower portion of the frame, with keys slightly out of focus. The overall image has a professional and collaborative feel.

6



Sareb's commitments

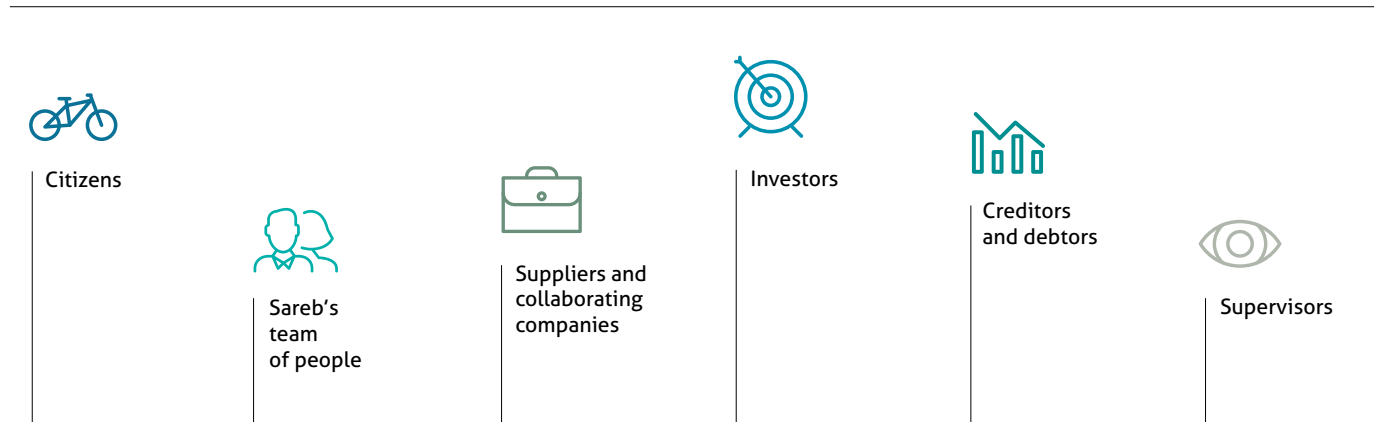
Since its inception, Sareb has understood that it must approach its mandate through asset management aimed at ensuring **sustainability for society as a whole and upholding a responsibility toward its stakeholders.**

Due to its particular characteristics, Sareb views sustainable management not as a way of ensuring its own survival, for it must cease to exist by November of 2027, but rather as a way to benefit its environment. Accordingly, Corporate Social Responsibility (CSR) at Sareb means conveying company values to a set of commitments undertaken with its stakeholders, under the general premise that these commitments are at all times subordinate to fulfilment of the legal mandate to be upheld by the company, which entails its bigger and better contribution to Spanish society as a whole.

Sareb has already demonstrated its commitment to the application of the contents of the **Universal Declaration of Human Rights** and the **United Nations Global Compact**. Since 2013, Sareb is formally signed up to the same and has reaffirmed the company's commitment to these principles in its 2013 Progress Report.

In its first year of business, Sareb laid the foundations for company performance in the realm of CSR by means of the approval of company policy. Over the course of 2014, Sareb has been working on drawing up an Executive Plan which may serve as a roadmap for all areas of the company.

Stakeholders



Commitment 1: to ethics and good governance

- Sareb complies with **100 per cent** of the recommendations that would apply to the company according to the **Unified Code of Good Governance**, which formulates recommendations in this area for listed companies.
- Sareb demands compliance with standards of conduct of all of its employees. These standards are listed in the company's **Code of Conduct**. The ethical standards extracted from the contents of this code are grounded in the values upon which Sareb underpins its business culture. Noteworthy among these principles are the following:
 - respect for human rights and people's dignity;
 - fair treatment and the eradication of any discriminatory attitude for reasons of ethnic origin, creed or political ideology, gender, age, disability, sexual orientation, nationality or citizenship, marital status or family situation or economic status;
 - strict observance of lawfulness and the commitments undertaken with third parties;
 - professional objectivity and impartiality in all of our decisions and actions;
 - honesty in all of our relationships; and
 - intolerance of any form of corruption.
- As a particular characteristic resulting from its singular corporate purpose and the public interest of its activity, Sareb has a **regulatory corporate governance regime in place that is more stringent than that which applies to a public limited company** in reference to the obligation to have a given number of independent directors on the Board of Directors and the requirement of setting up various committees that depend upon the Board of Directors. In addition to this, the members of the Board of Directors must meet specific requirements of professionalism, honourableness and experience and expertise.
- Due to its particular importance, the company has adopted a specific policy for managing any **institutional conflicts of interest** occurring within its governing bodies. The content of this policy complements the provisions of the Code of Conduct. This policy was applied fifteen times over the first half of the year.
- Beyond its regulatory regime of corporate governance, the company seeks to progressively adopt advanced **practices in corporate governance in line with the recommendations for Good Governance that are widely recognised in international markets**, based on business transparency and mutual trust with shareholders and investors.

Commitment 2: to transparency, accountability and stakeholder dialogue

- **Publishing its main policies and procedures**, in other words, the criteria governing its businesses and operations and the way in which they are administered and monitored.
- **Disclosing relevant information** on company performance through:
 - Periodic meetings and gatherings with the Monitoring Committee
 - Six-Monthly Activity Reports
 - Annual Reports
 - Information available to the public on the company's most important operations and milestones.
- **Maintaining ongoing contact with the media** through public notices and by managing requests for information.

Commitment 3: to the social environment

- Sareb **supports, to the greatest extent possible, the initiatives of governments** aimed at addressing the social problem associated with housing in Spain.

In the first half of 2014, Sareb announced an agreement for temporary transfer of 600 homes to the Generalitat of Catalonia and continues negotiating with other regional governments.

- Sareb welcomes **communication and dialogue with the different stakeholders with whom it interacts** related to the activities of the company and which propose constructive and respectful dialogue to achieve harmony between business values and social expectations.

Commitment 4: to the natural environment


- Sareb upholds a commitment to respecting and protecting the environment in accordance with the principles and perspectives contained in its **Environmental Management Policy**, approved in January of 2014. The principles governing actions in this realm are as follows:
 - Priority of quality in the execution of services and works, elimination of costs without added value and application of the measures needed to prevent and rectify any negative impacts which company activity may have.
 - Orientation toward preventive actions over corrective actions.
 - Employee awareness-raising and training in environmental conservation.
- Continual improvement of internal processes for compliance with environmentally friendly procedures and in the prevention of pollution, promoting the pursuit of innovative and effective solutions.

Temporary housing transfer to the Generalitat of Catalonia

In 2013, Sareb announced its intention to temporarily yield between 1,500 and 2,000 homes to Autonomous Communities to contribute to their policies on socially-driven housing and help them to alleviate the serious problem involving a lack of access to housing. In July of 2014, a first agreement with the Generalitat of Catalonia was formalised to transfer 600 homes under a temporary scheme

(four years). This initiative enables the company to collaborate with pertinent authorities without diminishing the mandate with which it has been entrusted by law, consisting of the liquidation of the portfolio of assets received within 15 years. Sareb's interlocutors in this area are regional governments, given that, together with city councils, they have the responsibility of helping to facilitate

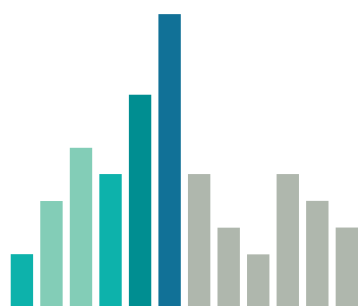
access to decent housing for less advantaged members of the community. Sareb particularly seeks to collaborate with the communities in which it operates and where there is a greater need for living quarters. This is the first agreement of its kind reached by Sareb, although the company is in the process of negotiations with other autonomous communities.



For more information,
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