



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

ACTIVITY REPORT

FIRST HALF 2017



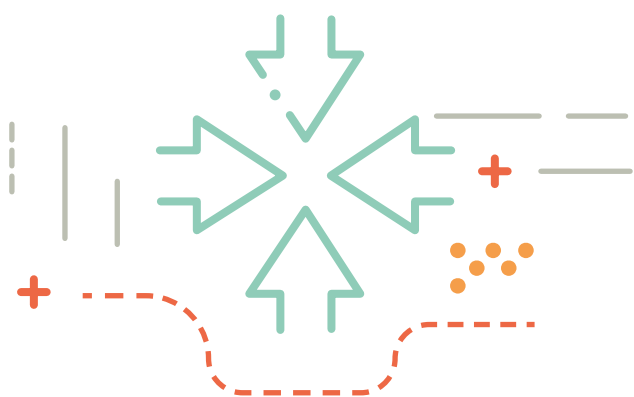


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1 EXECUTIVE SUMMARY



Sareb increased its income by 21% during the first six-month period of 2017

During these first months of the year, Sareb has carried out its business in a positive environment as a result of the consolidation of the recovery process in the Spanish property market, accompanied by positive growth rates in the Spanish economy and a recovery in employment.

With this, its turnover in this first half-yearly period stands at €1,710 million, an increase of 21% on the result obtained for the same period the year before.

The company continues adapting its annual business plan to this scenario of expectations boosting its business activity through the four real estate servicers on which its business is based: Altamira, Haya, Servihabitat and Solvia. These initiatives, which provide us with access to new investors, have been designed to enable us to take the maximum advantage of the tailwinds of the macroeconomy and the real estate market.

In line with the current composition of the company's asset portfolio, revenue from loans accounts for 68% of the total income, and also increased by 13% compared to the first six months of 2016, reaching €1,163.6 million.

Proactive management of our borrowers has made it possible to improve on the repayment and sale of the loans in which we are the creditors, and, amongst other things, has brought about a seven point increase on the revenue coming from this line. Also worthy of mention is the settlement and specifically the evolution of agreements with debtors, which we refer to as Sales Growth Plans.

In sum, during this half-yearly period we have managed to handle over 5,800 proposals for financing, 4% more than during the first six months of 2016. Our financial management, apart from accounting for the bulk of our income, can be summarised by saying that since we began, some 2,500 debtors have sorted out their problems with us.

The key aspects for the half-year period in respect of our loans portfolio have been going ahead with strategies for segmentation of debtors and clients, and gaining efficiency in management promoting improvements in information and procedures.

In turn, the management and sale of properties has generated around €535 million of total revenue, 40% more than in the same period for the previous year. This improvement was based on a 71% increase in the number of properties sold.



The company has continued to develop its strategy of creating value, with a plan for finishing developments under construction and developing land belonging to Sareb. At the close of the first half-year period, we were developing 4,326 residential properties

With greater stock on the market, in the first half of the year the company professionals managed to close the sale of 9,744 properties, of which 5,558 were assets belonging to Sareb and the rest were in guarantee of their loans. The sale of Sareb properties, of which around two thirds were residential, entails a growth of 74% in respect of the same period for 2016. This positive figure shows that the marketing efforts are following the right path. This is partly due to the seven marketing campaigns put into operation with regard to the retail market, which resulted in the sale of 880 properties and €114 million of revenue at the close of June.

With regard to sales of properties from the developers' books, the marketing of 4,186 properties is also an encouraging piece of information, as it represents growth of 84% on the first half of the previous year. It is worthwhile remembering that this line of business, based largely on the Sales Growth Plans, helps developers to sell their properties so that they can meet the payments on their loans with Sareb. This policy not only improves the repayment of the financial assets held by this company, but it also brings forward the repayment of the debts held by many developers with Sareb.

Under the heading of real estate, we should not forget the divestment in plots of land, which in the past two years has delivered

very positive results for the company. With regard to the first half-year of 2017, Sareb completed the sale of over 533 of its own units.

In line with the strategy designed in 2014 to enhance the value of assets with less prospects of return, during the first half of the year the company delved further into its plan to complete developments under construction and develop plots of land belonging to Sareb. At the close of the first half-year period, we were developing 4,326 properties, of which 1,131 units have already been sold or reserved.

The reactivation of the economy, although not geographically equal, is a reality that must be seized. Following this principle, this spring Sareb began a campaign to revitalise the portfolio of commercial premises, offices and industrial warehouses, stimulating the recovery of the corporate fabric with a policy of leasing with up to six-month grace period. With this, the company anticipated the increase in the demand for tertiary properties that took place with the arrival of important logistics operators.

Also, the good holiday season that Spain experienced this summer was consistent with the broad range of products offered by Sareb. Apart from the traditional campaign for coastal properties, this year the company wagered on boosting its portfolio of hotels, placing 37 properties of this type on the market.

The company has to explore new formulae for fulfilling its mandate. Two projects are specifically highlighted, the launching of a loan sales channel and the preparation of the REIT T  mpore Properties

As can be seen, Sareb's traditional business lines show positive performance. But far from searching for self-congratulation, the company has to explore new formulae for fulfilling its mandate. To this end, it is currently developing some innovative marketing tools that will take their first steps in the coming months. Two projects are specifically highlighted, the launching of a loan sales channel and the creation of the REIT T  mpore Properties.

The loan sales channel is an innovative approach, although it is still at an early operational stage. During the first half-year, a presentation was made to qualified investors, with a view to performing a pilot test, with their collaboration, in order to fine-tune the technical aspects and speed up the marketing process. In the coming weeks we will obtain the initial information from that test, the results of which will be essential for taking the next steps.

Furthermore, the teams are working on setting up the REIT, T  mpore Properties, which will make it possible to place part of the rental properties which it currently owns on the market.

With the initiatives under way and the rate of sales achieved, Sareb faces the final stretch of the year with moderate optimism. We are aware that the panorama is increasingly more complicated due to numerous operators competing in the market with a huge range of assets very similar to our portfolio. However, we place our full confidence in the professionalism of our team and the wager for innovative, flexible channels. These bases are the foundation for our confidence that we are fully prepared for continuing to be a reference in the sector.



Half-Year Milestones



JANUARY

Sareb and ASPAC* launch a Best Practice Guide for insolvency proceedings

This contains a series of recommendations applicable to processing procedures – based on criteria that have been repeated by the courts in the past–, aimed at avoiding discrepancies in valuation and speeding up the processes, minimising costs and time for the parties involved.

FEBRUARY

Collaboration agreement between Sareb and the Board of Arbitration for Rentals in the Region of Madrid

Arbitration is nowadays one of the most rapid and effective mechanisms for settling rental disputes in the Region.

The object of the agreement is to coordinate the work of both institutions on rental issues.

MARCH

Support for enterprise with six months rental free of charge in commercial premises, warehouses and industries.

Through the new campaign for the rental of tertiary properties with exceptional lease conditions (for SMEs, self-employed people and new businesses) which includes a grace period of up to 6 months.



* Spain's Professional Association of Insolvency Administrators.



Creation of the area for Development, Promotion and Investment to enhance the value of the portfolio.

This new area will help to enhance the value of the properties making up the Sareb portfolio and increase their profitability, stimulating actions for developing plots of land, promoting rentals and urban land management.

Your home by the sea

Presentation of a new edition of the marketing campaign 'Tu casa a toda costa' (Your home by the sea) which places a total of 3,000 properties as second homes on the market, located in 20 coastal provinces around Spain.

Témpore Properties, the REIT promoted by Sareb

Sareb announces the creation of a REIT, which will be provided with a selection of more than 1,500 properties for rental with a value close to €190 million; it is intended to attract new investors.

Sareb is present at the International Real Estate Fair in Madrid (SIMA) and launches two new campaigns

Sareb embarks on a new edition of the campaign 'Casas de Estreno' (New-Build Homes) –with 3,716 new properties distributed over 16 autonomous regions– and launches the campaign 'Casas al Alcance de Todos' (Homes that everyone can afford) with almost 1,500 new properties and resales, for less than €60,000. Furthermore, Sareb is present at the SIMA property fair, marketing 1,800 properties.

Innovation in the sale of loans

During the month of June the pilot test has been prepared for the new online channel for selling loans, to be launched in July through the Sareb website. Intended for institutional investors, this is a novel way of gaining access to the range of Sareb loans and speeding up their sale, while at the same time contributing to greater transparency in the market for this type of operation.

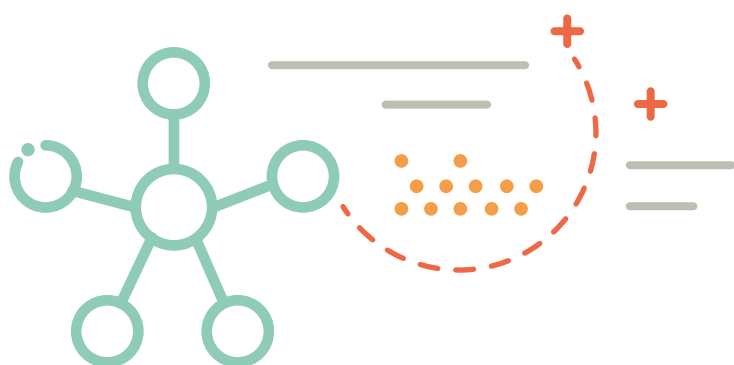
New marketing campaign for tertiary properties

Sareb launches a new marketing campaign through which it will put 209 properties intended for different types of business up for sale. Amongst the tertiary properties, which include commercial premises, warehouses and offices, special mention is made of a portfolio of 37 hotels mainly located inland.



More information on www.sareb.es

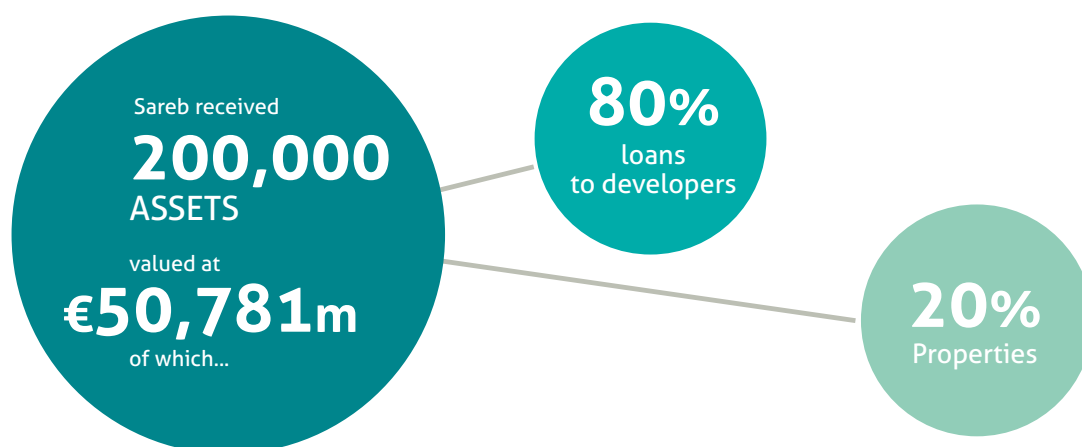
2 WHAT IS SAREB?



A key instrument for the recovery of the financial and real-estate sector in Spain

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

The agreement established that a management company would be set up to which the properties awarded and developer loans would be transferred from banks undergoing difficulties due to their excessive exposure in the real-estate sector, so that they could liquidate their assets in an orderly manner over a 15-year period, until November 2027.



Mission

Divesting assets over a maximum of 15 years, until 2027, optimising their value. Sareb has to guarantee its viability as a company in order to meet the commitments assumed with shareholders, investors and Society as a whole.

Vision

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

Values

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

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

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



More information on www.sareb.es

An international reference

Since it was created, the work carried out by Sareb has become a reference for countries undergoing similar difficulties who are searching for an efficient model for restoring their financial system to good health.



In its last report¹, the International Monetary Fund recognises the progress in divestment and payment of debt made by Sareb up until now, using “an effective approach to management”.

According to this international institution, “so far, Sareb has been quite successful in achieving its objectives, and the review of its business strategy seems to be well designed”.

The European Commission has also made reference on occasions to the important role of Sareb in the resolution of the financial crisis in Spain, thanks to being rapidly created and put into operation, which has contributed to the recovery and reactivation of the housing market².

The Sareb business model has become an example to be followed in other European countries looking for formulas

similar to the one applied in Spain for restoring the health of their financial systems.

In the first half-year of 2017, the Economic and Financial Affairs Council of the European Union (ECOFIN), agreed that the European Commission (EC) would set up a common framework for creating future asset management companies in the Eurozone, following the example in Spain (Sareb), Ireland (NAMA) and Slovenia (BAMC), amongst others.

Sareb, along with other European asset management companies, is participating actively in the working groups to define the common criteria to be shared by those companies, i.e. from the type of assets to be included in the perimeter for transfer, to the shaping of the most suitable capital structure and the criteria for good governance that are to govern companies of this kind.



* Asset Management Companies (AMCs)

¹ Spain. Financial Sector Assessment Program. September 2017

² Evaluation of the Financial Sector Assistance Program. Spain 2012-2014 y What makes a good ‘bad bank’? The Irish, Spanish and German Experience.

01 SWEDEN

Setriva and Securum

- Created: 1992
- Perimeter: Real estate assets
- Nominal Value: 5,800*

05 IRLANDA

NAMA

- Created: 2009
- Perimeter: CRE, land and property developments
- Nominal Value: 74,000*

07 SPAIN

Sareb

- Created: 2012
- Perimeter: 80% developer loans and 20% real estate assets
- Nominal Value: 107,000*

02 DENMARK

Finansiel Stabilitet

- Created: 2008
- Perimeter: Developer loan
- Nominal Value: 2,280*

06 SLOVENIA

BAMC

- Created: 2012
- Perimeter: Non Performing Loans (NPLs) and developer loans.
- Nominal Value: 3,300*

03 SWITZERLAND

SNB StabFun

- Created: 2008
- Perimeter: Subprime mortgages, CREE and securitised loans
- Nominal Value: 30,000*

04 GERMANY

FMS

- Created: 2006
- Perimeter: All types
- Nominal Value: Target: 70,000*



3 CORPORATE GOVERNANCE

The supervision, structure and operating rules of Sareb guarantee the transparency and integrity of its actions

Sareb meets the specific requirements for governance required under applicable legislation and acts under strict rules of ethics that safeguard its integrity at all times –as well as its transparency, commercial reputation and professionalism–. The special features of its corporate purpose and the public interest associated to its activity mean it is also subject to strict supervision by the Bank of Spain, the Spanish National Securities Market Commission (CNMV) and the Monitoring Committee, formed by the Bank of Spain, the European Central Bank (ECB), the Ministry of Economy, Industry and Competitiveness, the Ministry of Finance and Public Administrations and the CNMV.



Supervision

National and international



Bank of Spain

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



Monitoring Committee

Fulfilment of general targets:

- Bank of Spain
- Ministry of Economy, Industry and Competitiveness
- Ministry Finance and Public Administrations
- CNMV
- ECB (as an observer)



Spanish National Securities Market Commission (CNMV)

Issuer of fixed income and registration authority for Banking Asset Funds (FABs)



More information on www.sareb.es



Governance

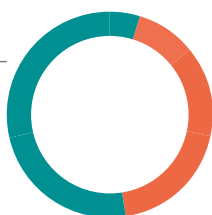
Monitoring of the best governance practices applicable to listed companies



Composition of capital

54.1%

Private capital



45.9%

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



Board of Directors

15 directors

1/3 independent directors

- ▶ **Executive Committee**
 - 6 members
 - 2 independent
- ▶ **Auditing Committee**
 - 8 members
 - 5 independent
- ▶ **Remuneration and Appointments Committee**
 - 8 members
 - 5 independent
- ▶ **Support committees**
 - Management Committee
 - Risks Committee
 - Investments Committee
 - Assets and Liabilities Committee



Compliance and regulation

Strict regulatory regime: which helps to ensure that the business is carried out according to legislation, with integrity and ethics, in order to uphold its reputation



Internal control system

Strategic processes and government (SCEG*)

- Strategy and reputation

▶ Ethical standards (SCISNE*)

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

▶ Risk management (SCIR*)

- Credit
- Property price
- Liquidity
- Operating
- Interest rate

▶ Financial Information (SCIIF*)

- Risk of reliability of financial reporting

*SCEG: Sistema de Control y Evaluación Gubernamental

*SCISNE: Sistema de Control Interno sobre Normas Éticas

*SCIR: Sistema de Control Interno sobre Riesgos

*SCIIF: Sistema de Control Interno de la Información Financiera

4 BUSINESS MODEL

BALANCE SHEET PERFORMANCE*



ALTAMIRA

Servihabitat

Solvía



STRATEGIC PRIORITIES STRATEGIC PLAN 2017-2027

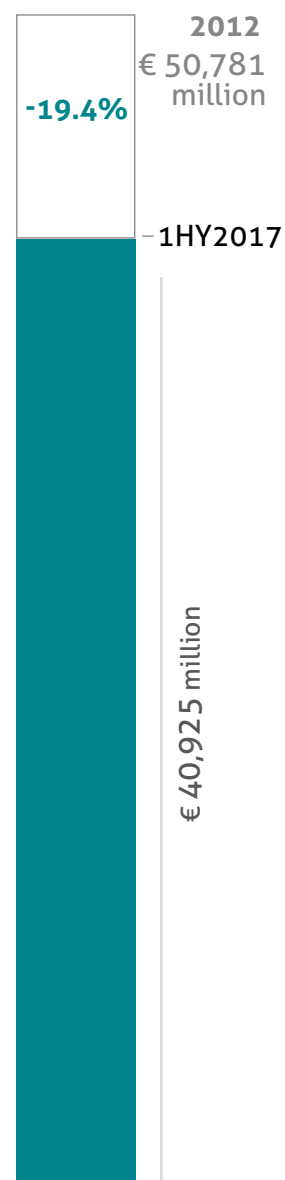


* The balance sheet is provisional information at the close of the 1st Half-Year of 2017 and the outstanding debt is at the close of 2016.

DIVESTMENT MODEL



REPAYMENT OF SENIOR DEBT*



5 MAIN FIGURES ³

■ 1st Half-Year Period 2017

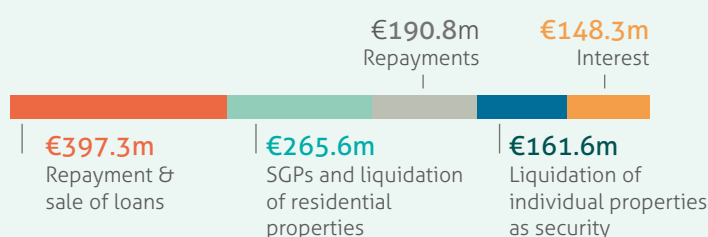
REVENUE

€1,710.7m
Total Income⁴

+21%

€1,163.6m
Revenue from loans

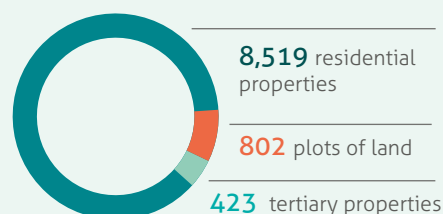
+13%



ACTIVITY

5,800
financial proposals managed
14,875
debtors

9,744
properties sold ⁵



PORTFOLIO

€38,933m**

** Provisional data at close of 1H-2017

€26,674m

76,648** Total financial assets



DEBT

€40,925m

Balance of outstanding debt*
*Figure at close of 2016

€2,169m

Repayment of debt booked to 2016

³ Financial and management information

⁴ Includes other revenue for the amount of €12.1 million.

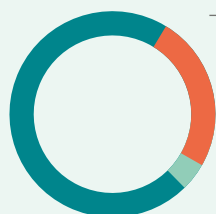
⁵ Own properties and others coming from the sale of security

Figures accumulated since inception

€535m

Revenue from properties

+40%



317.6 Sale of residential stock and others

188.6 Sale of non-residential stock and land

28.8 Income billed from real estate assets and others

€18,575m

Total Income



44,037
financial proposals
managed

2,470
fewer debtors

59,097
properties sold

4,326
housing under
construction

€296m

investment foreseen in
development and promotion

4,558
housing stock
for renting

Stock of 4,000
affordable homes

15 Agreements with
Autonomous Regions and
Town Councils

€12,259m

118,648 Total real estate
assets

€-11,848m

Reduction of the portfolio

-23%

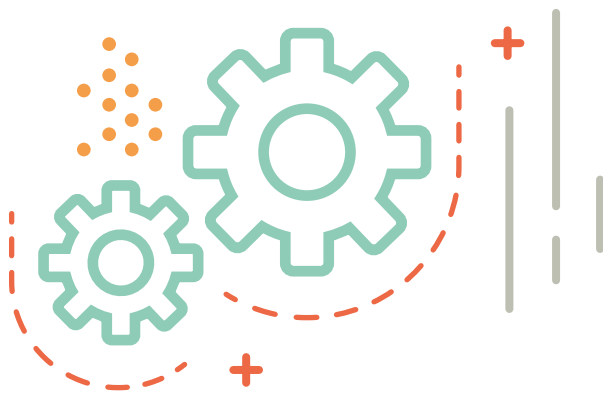
€-9,856m

Reduction of the debt
guaranteed by
the central Government

-19.4%

6

BUSINESS PERFORMANCE



6.1. Business Plan

The business lines are seen to have developed positively during the first months of the year

The compulsory review of its Business Plan that Sareb has to make every year considers both the experience accumulated through the initiatives put into effect in previous updates of the plan, and the current environment and expected evolution of the housing market, interest rates or legislation.

The reflection made during this first half-year period clearly shows the need to address certain issues on which Sareb has been working with greater emphasis over the past two years, with the aim of maximising the value of the assets and contributing to speeding up the process of divestment and full repayment of the debt issued with the guarantee of the Treasury.





Focus on creating value

Since it began operating, Sareb has identified the need to make investments in the asset portfolio aimed at maximising its value in the medium term in order to make the properties more attractive to the market and consequently make them more profitable.

The creation of the area of Development, Promotion and Investment (DPI) in the first half-year of 2017 allows an efficient response to this need. This new area encompasses those activities with greater perspectives and opportunities for creating value and which in the future will concentrate the company's investment efforts. The area comprises the development of plots of land, the completion of building work in progress, the promoting of rentals and the urban management of land.

These lines of work also give rise to new channels of collaboration and revenue generated for Sareb, for example in the field of promoting real estate through co-investment initiatives together with developers. The imminent launch of the REIT will also contribute to revitalising the rentals market, at the same time as making it possible to attract a greater number of investors.



Revitalisation of business activity and operational maturity

The recovery of the real estate market in Spain -and especially for residential property- clearly shows the consolidation of the favourable cycle that the sector is going through.

However, that recovery is only happening in some sub-markets and is not yet seen in those which have historically had the greatest difficulties. Sareb also needs to take a deeper look at its marketing strategy in those less dynamic areas and accelerate the divestment of the large stock it holds in many of them.

This work is being carried out jointly with the servicers which, under the direction, control and support of Sareb, are engaged in the sales and management activity, with close monitoring of the perimeters that were assigned to each one.

From the operational perspective, this is made possible due to the stability and maturity attained in the processes for management of information, workflows and document management.

Also noteworthy is the wager on encouraging marketing and transparency in the loans market through the creation of a new channel that will be consolidated at the end of the year and aspires to broaden Sareb's investor basis.



Intensification of the transformation of the balance sheet

The transformation of the balance sheet consists of converting assets that are less liquid -loans- into those that have greater market liquidity -properties-.

The new Business Plan contains the need to accelerate this transformation process by resorting to legal action in those cases in which there is an evident lack of collaboration on the part of the borrower to reach an amicable agreement.

During this first half-year period a series of measures were adopted with the intention of accelerating this transformation process.

In this way, the conversion will take place maintaining the focus and prioritising the actions on those assets more suited to being transformed, as it should not be forgotten that properties are more liquid when it comes to selling, but they also have higher maintenance expenses associated to them. In any case, Sareb's priority at all times is negotiation and collaboration to achieve solutions that allow assets to be liquidated before the conversion procedure has been completed.



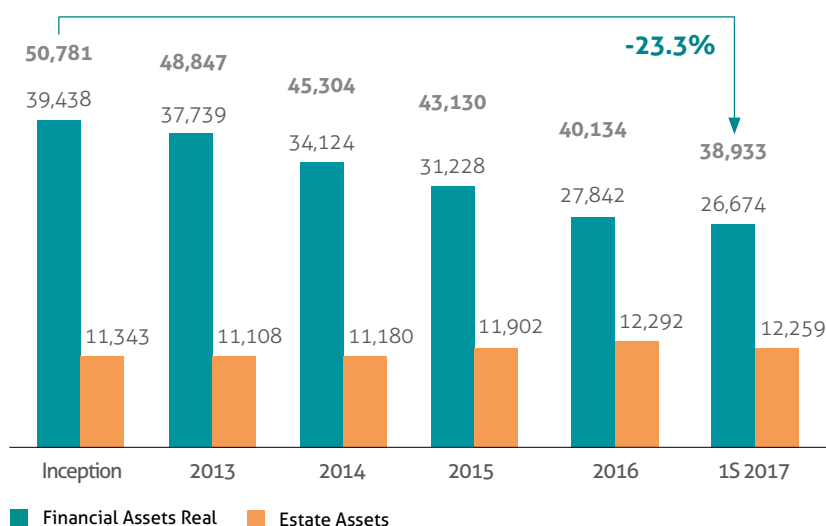
6.2. Divestment of the portfolio

Sareb's asset portfolio has decreased by **-23.3%** since it began

Sareb's asset portfolio at 30 June 2017 stands at €38,933 million. Compared to the close of 2016, that figure means a decrease of €1,201 million during these first months of the year. Taking

into account the total lifetime of Sareb since it started operating in November of 2012, the asset portfolio has decreased by €11,848 million, i.e. 23.3%.

Portfolio performance (€m) * 6



* Provisional data at a close of 1H-2017

Portfolio breakdown (% of €m)

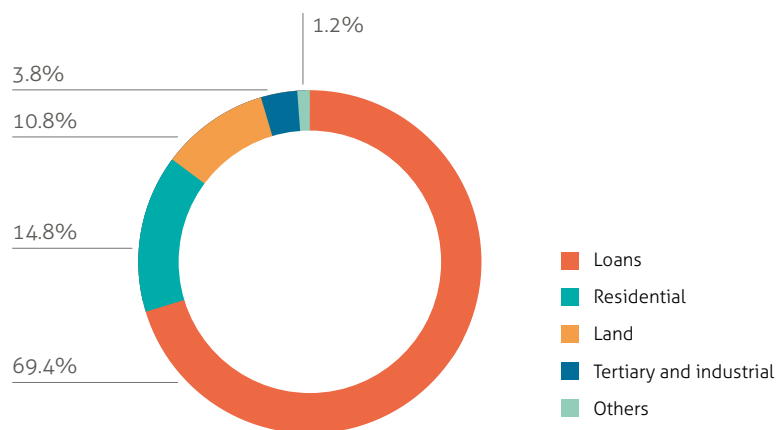


⁶ Financial assets are shown without impairment and with accrual of interest. Real estate assets do not include accumulated depreciation.

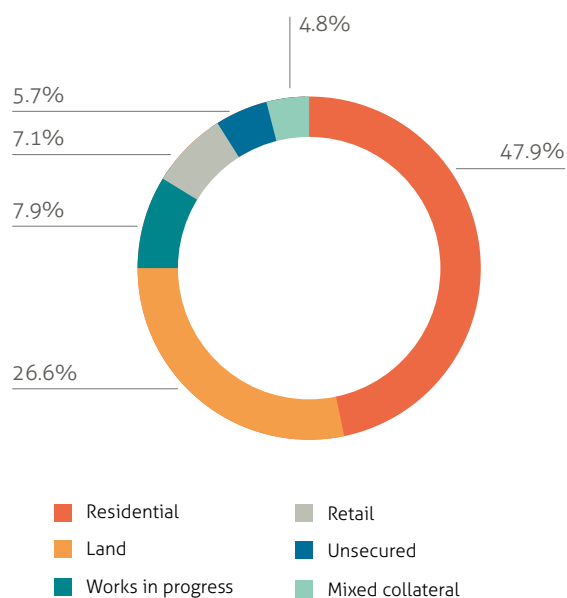
Portfolio (no. of assets) **



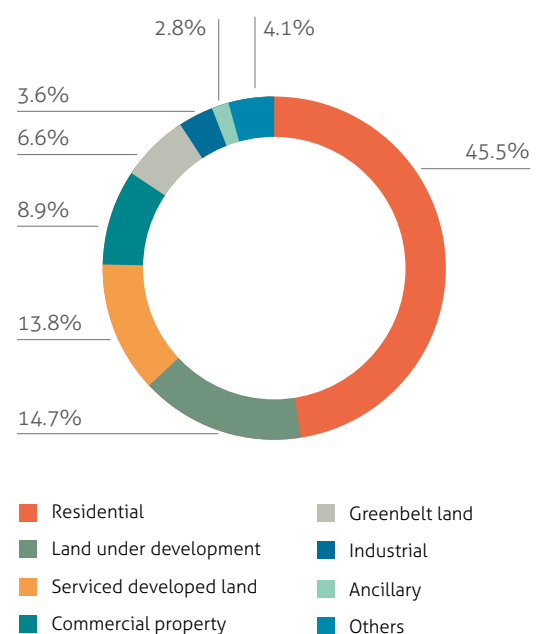
Breakdown per type of asset (% of €m) *



Financial assets per type of collateral *



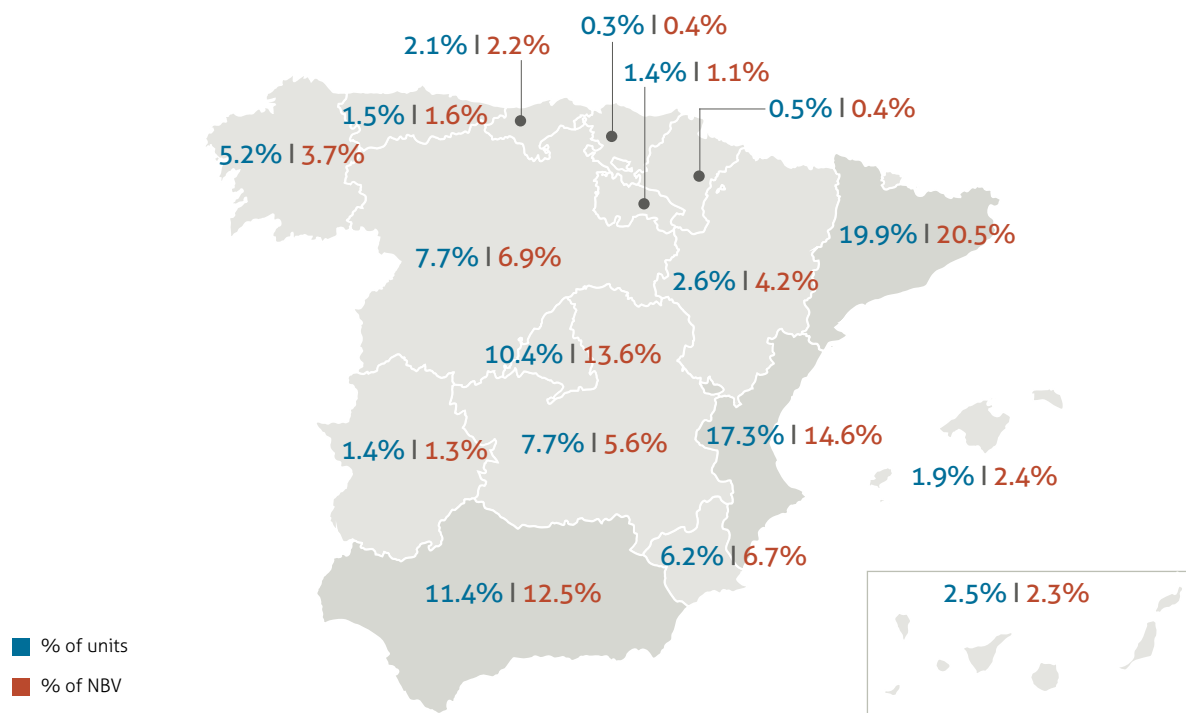
Real estate assets per type *



* Figures at close of 2016

** Provisional number at close of 1HY 2017

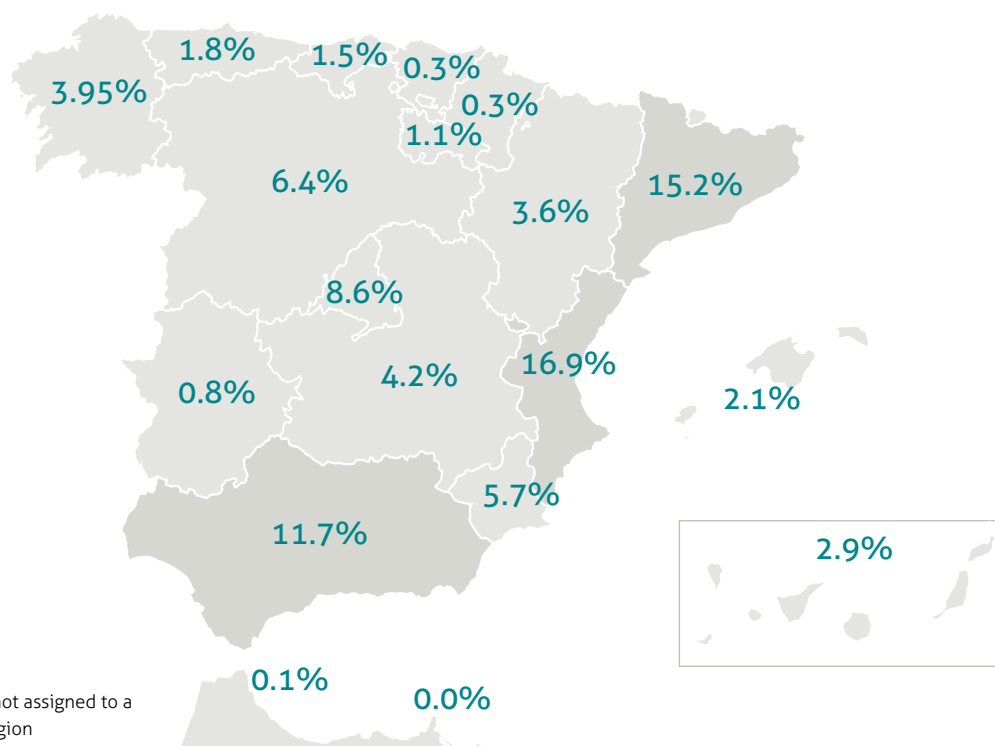
Breakdown of the portfolio of real estate assets per autonomous region (% of units and of NBV) *



• NBV: Net book value

• Figures taken from deeds up until December 2015 which have a certain timing difference with the accounting information.

Breakdown of the portfolio of first borrowers per autonomous region (% of €m based on debt)*



• 13.1% of the debt is not assigned to a specific autonomous region

* Figures at close of 2016

6.2.1. Financial assets: management and sale of loans

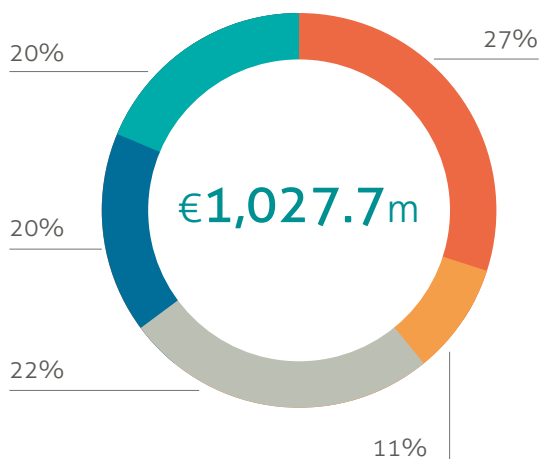
Loans account for the main part of Sareb assets

2017 began with a portfolio of 79,640 loans for a total of €27,842 million of total debt – representing 69.3% of the assets that make up the Sareb balance.

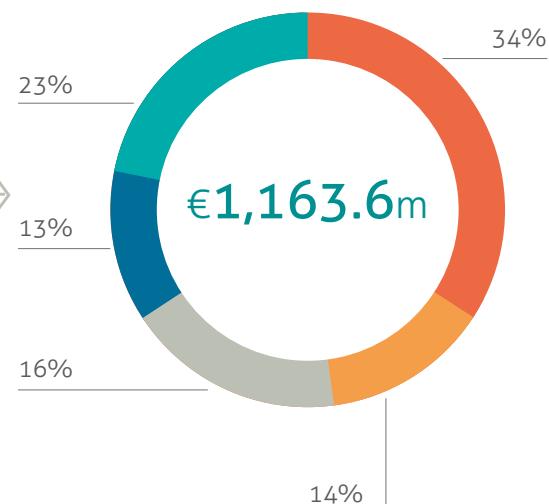
At the end of the half-year period, this percentage has gone down slightly to 68.5%, and stands at €26,674 million of debt, as a result of the process of selling and paying off loans, as well as converting those financial assets into property, which is more liquid.

Breakdown of the revenue from financial assets (% of €m)

1st half-year period 2016



1st half-year period 2017



+13.2%

- Repayment and sale of loans
- Interest
- Liquidation of individual properties as security
- SGPs and liquidation of residential property as security
- Repayments

Financial assets account for 69% of the total income, a 13% increase on the first half-year of 2016.

The turnover figure has continued to evolve naturally over these months, with the lines of interest and of repayments being relatively less important –they went down slightly compared to the first months of 2016– as Sareb advances with its task of divestment.

In contrast, mention is made of the improved results obtained in the scope of the repayment and sale of loans, which went up by seven points in its contribution to income compared to 2016, and also the proper functioning of the liquidation of properties held as security –and specifically the Sales Growth Plans– which continue to have greater importance on the final result of the income figure.

Active management of the loans portfolio

Sareb is continuously seeking to collaborate with debtors to arrange a joint strategy that will make it possible to recover the debt. During its four and a half years of life, it has actively managed its debt portfolio with over 44,000 management proposals approved. On other occasions, the arrangements with creditors can be through debt restructuring or simply by selling off the debt, repayments or dations in payment.

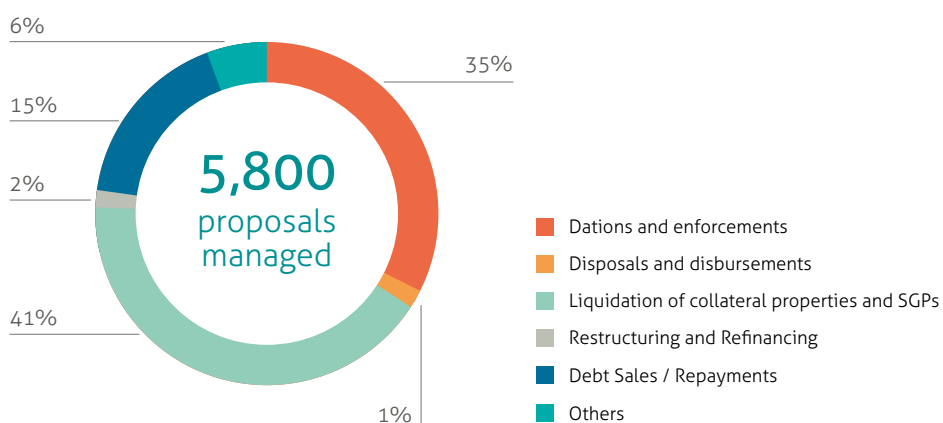
During the first half-year of 2017 some 5,800 proposals were approved, 4% more compared to the same period of the previous year.

Most of those proposals were associated with procedures for liquidating the collateral from the debtors balance sheet, both for

single properties and for entire developments –also known as Sales Growth Plans–, amounting to 2,369 proposals, 40.5% of the total approved (of which 12.9% are Sales Growth Plans).

The Sales Growth Plans make it possible to sell the properties that appear as the security associated to the debtors of the company. These plans continue to be a very relevant strategic line for Sareb due to the opportunity they offer for industrialising the processes and generating recurring revenue.

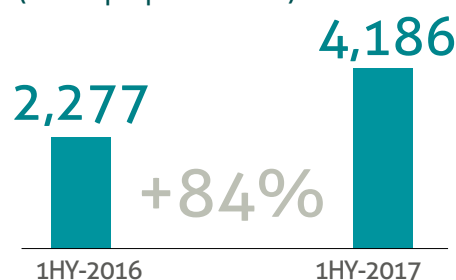
Breakdown of proposals per type (% of proposals managed)





Sales Growth Plans and liquidation of property given as collateral

SGPs and liquidation of collateral
(No. of properties sold)



During the first half-year period of 2017 a total of 4,186 security properties were sold, which was seen as a significant increase compared to the same period of the previous year, with 84% more units sold.

The higher sales volume corresponded to properties located in Madrid, the Region of Valencia and Galicia.

The properties sold through this method were securities on loans that were generally in a default situation since the time when they were transferred to Sareb, although the agreements entered into with the developers make it possible to unblock the situation and provide an outlet for their properties. The properties are sold on the retail market, to private buyers. This type of transaction is beneficial for Sareb, as it provides a positive operating margin.

Geographical breakdown of the sales under Sales Growth Plans and liquidation of security properties per asset type (% of units)

Residential



89.8%

Land

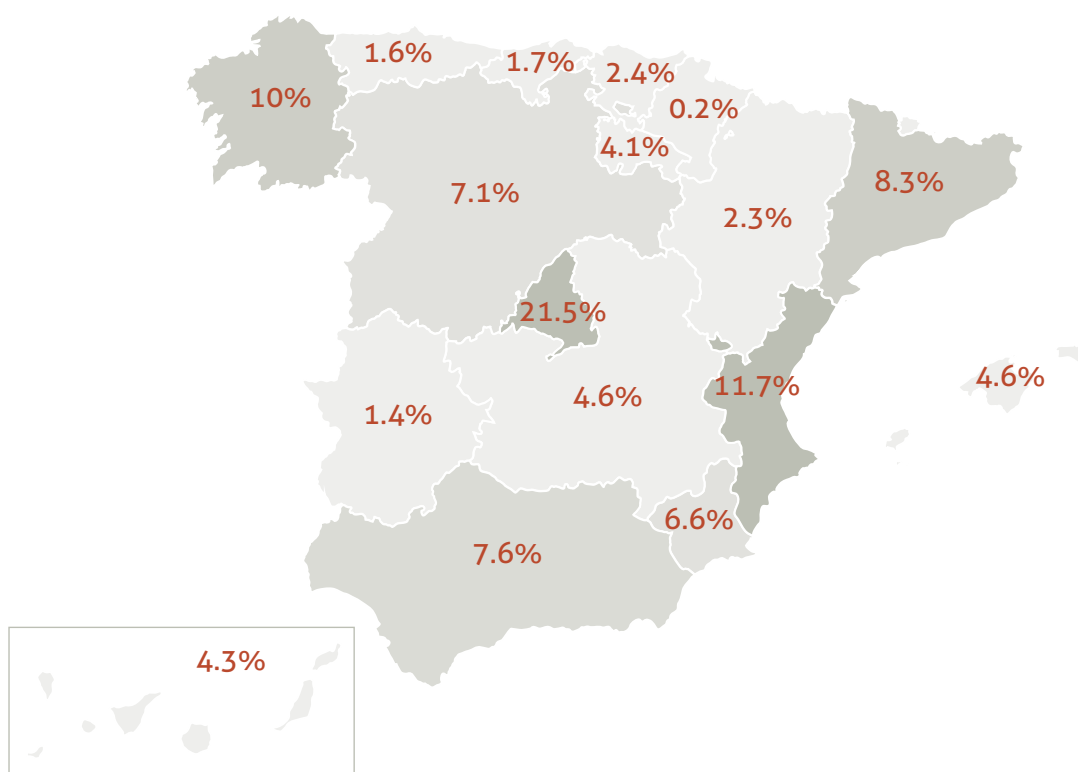


5.9%

Tertiary



4.2%



These operations make it possible for Sareb to recover the value of the collateral through its sale. In this way there are none of the costs or deadlines which might be caused by a mortgage foreclosure process and it makes it possible for the company to continue in business, and occasionally contribute resources to collection when selling the properties or at a later date –by way of an acknowledgement of debt by the company, which will be repaid following the sale of the properties—.

Also, it is a very satisfactory way of repaying the debt, especially for SMEs, since most of the collateral belongs to companies of this type.

In cases where it is not possible to obtain the cooperation of the borrowers for the sale of the assets, strategies are generally

applied which make it possible to take possession of them, through foreclosures, -or in other cases, through payment in kind, which do need such cooperation-.

Regardless of this, the initiation of a process of mortgage foreclosure places no limits on seeking other methods of recovering the investment, such as reaching agreements with debtors who, once foreclosure has begun, seek other alternatives or selling on the loans to investors who are interested in taking ownership of the properties. As regards this type of proposals, during the first half-year period of 2017 2,044 procedures were approved, 35% of the total.

The second largest group of proposals are those which aim to collect by way of selling or

paying off the loan, of which 894 procedures were approved, 15.3% of the total.

On other occasions, negotiations with the borrowers can lead to proposals being made for restructuring the debt, which they believe can prove more valuable to Sareb than other collection strategies.

This type of operation is normally associated with large companies with greater complexity in the type of operations and collateral properties in which Sareb holds an interest.

During this first half-year 105 procedures were approved which related to restructuring and refinancing.



Type of borrower

During the first half of 2017, proposals have been processed from almost 3,800 different borrowers. Sareb's portfolio of borrowers demonstrates the complexity involved in managing 14,875 debtors, with a very significant range of risk volume. 22.4% of borrowers have exposure below €0.5 million, while around 41.4% have debts of less than one

million euros. Also, 39.3% of borrowers have are exposed for amounts above two million euros.

As regards the distribution of debt among borrowers, a certain concentration can be seen, since 2,179 borrowers represent 60% of the debt.

Debt range (mill. of €)	No. of borrowers	%	Percentile	No. of borrowers
Debt <= 0.5	3,328	22.4%	20%	520
Debt > 0.5	2,832	19.0%	40%	907
Debt > 1	2,869	19.3%	60%	2,179
Debt > 2	5,846	39.3%	80%	11,269
Total	14,875	100%	100%	14,875

Progress in managing the loan portfolio: efficiency and innovation

During the first half of 2017, we have continued to look further into the methodology of segmenting the portfolio, which was begun in 2016, taking into account multiple characteristics of both the debtors and the properties backing the loans (security or collateral), such as the experience of cooperating with the borrower and the progress of court and bankruptcy proceedings.

This has made it possible to concentrate efforts of the servicers on a priority portion of the portfolio for each of the main

lines of action which make up the management and sale of loans:

- Greater cooperation with the borrowers in settling loans by way of the sale of collateral for the amount of the debt, both in the case of individual assets and complete housing developments –by way of Sales Growth Plans in the latter case–.
- Identifying those debtors with the greatest payment capacity in order to carry out campaigns to recover and pay off the debts.
- Marketing of loans suited to the on-line sales pilot project
- Accelerating the process of transforming into property those debts for which the collateral property is more attractive due to its commercial appeal, or due to the possibility of continuing to develop it by way of urban planning actions or property development.

Progress in segmenting the portfolio and the focus on specific activities have facilitated more proactive management by the servicers.

In this way, new work perimeters have been prioritised, which due to their characteristics make it possible to get closer to our targets by optimising how resources are assigned.

As a result, during this first half-year, the volume of proposals processed and formalised in those perimeters has greatly exceeded the rest of the portfolio.

In line with this effort to industrialise and make loan management more efficient, Sareb is currently working on a project which will make it possible to carry out thorough evaluations of priority loans, instead of priority loans by targeting.

This will facilitate the negotiating work of the managers, and will, in part, delegate part of the decision making and, in all cases, shorten times throughout the divestment process.

Sareb also continues to make progress with its divestment process and has committed itself to a loan market which is more dynamic and transparent by launching a Loan Sales Channel which can be accessed through its website and which is targeted at investors and professionals with the aim of boosting divestment of financial assets and making it easier for third parties to contact us and make offers.



Sareb launches a pilot project for an online Loan Sales Channel

In this second half of the year, Sareb has already launched a pilot project for the online sale of NPL⁷ loans through a channel aimed at investors and professionals in order to facilitate sales and boost divestment from its portfolio of financial assets.

By way of this channel, which is available through the Sareb website, a series of financial assets are published, together with their associated guarantees –collateral–, which are mainly made up of finished residential product, buildings under construction and land.

In 2017, we hope to provide visibility for a total volume of €900 million as part of two separate sales processes, while in 2018 it is estimated that

the processes launched will reach a minimum volume of €3,000 million.

This is an innovative channel for selling of debt, which, in addition to creating an access route to the products that Sareb has in its portfolio, also increases the transparency of this type of operation and contributes towards making the market more mature, both in Spain and at European level.

The company's objective then is to continue making progress with its search for innovative, transparent and diverse channels which assist in speeding up the divestment process and fulfilling its mandate.

⁷ NPLs por sus siglas en inglés (*non performing loans*).

Institutional sales

During the first half of 2017, Sareb has increased its knowledge of its institutional investors and adapted more to their needs in order to adequately respond to their requests by way of a large catalogue of assets spread throughout Spain.

It is precisely this large offer which has, over these first months, aroused the interest not only of large investment funds, but also that of smaller investors, such as family offices, which can contribute to speeding up the process of divestment from the financial asset portfolio.

Mention should be made of the number of smaller operations as a result of the greater direct participation of the servicers in the process of institutional sales.

Among the main debt sale operations, we would make special mention of 'Amanda' Project, which consists of divestment to the nominal value of €91.9 million, the collateral for which was mostly made up of finished residential developments and a number of serviced development plots of land. Grouped according to their location, the majority of the developments are in Catalonia and Madrid, followed by Andalusia, the Balearic Islands and the Region of Valencia.

Also, 'Olive' Project, has also been concluded, which consists of the sale of debt for a nominal value of €84.2 million, backed by properties in Catalonia, the Region of Madrid and Region of Valencia.

Another of the most significant sales operations concluded by Sareb in the first half-year has been the divestment of a package of loans with a nominal value of €79 million as part of the 'Gordon' Project. In this case, the debt is guaranteed by serviced development plots of land situated in the Villajoyosa municipal area, in Alicante.



6.2.2. Real estate assets: management and sale of properties

At 30 June 2017, the portfolio of real estate assets has risen to a total of 118,648⁸ properties with a value of €12,259 million.

Despite the fact that the volume of property sales has increased significantly during these first months of the year, the total of real estate assets which make up the current portfolio has remained similar to the figures for the portfolio at the close of 2016. This is in line with the double effect of the sale and transformation of financial assets into properties, which have greater liquidity for divestment.

The income from managing and selling properties has increased by 39.5% this first half-year –in relation to the same period last year– and the income figure amounts to €535 million.

During these first months of 2017 there has been noticeably

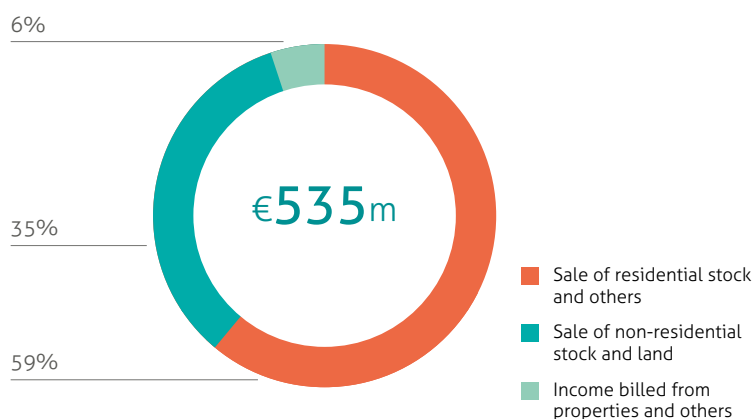
more activity in the market. This is confirmed by the increase in the number of property sales operations, largely boosted by Sareb's sales activities.

Sales of residential properties have continued to be the main line of activity and contribute 58% of the income from management and sale of properties. Good progress has also been made in the sale of non-residential assets (land and tertiaries) due to more proactive commercial management.

Income from rental activities deserves a special mention in this period due to the substantial number of properties rented and also the improvement in how Sareb's property portfolio is managed.

Breakdown of income from managing and selling properties (% of €m)

1st half-year period 2017



⁸ Provisional figures

Property sales

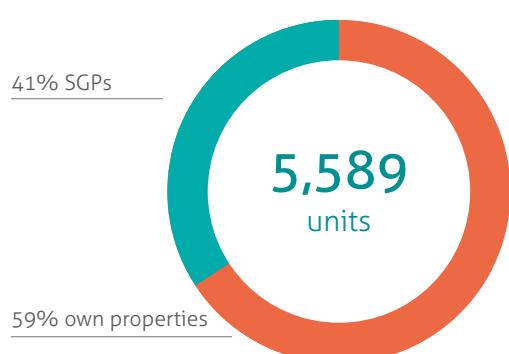
Property sales have developed very positively during the first half-year period of 2017. Until June a total of 9,744 properties were sold, of which 5,558 units related to the sale of own properties, which has increased by 68% compared to the same period of the previous year. The

declared price of the sale of own properties has also grown by 42%, reaching €502 million.

The rest of the units sold were real estate assets associated to Sareb loans sold from the developers' books through the liquidation of collateral and Sales Growth Plans⁹.

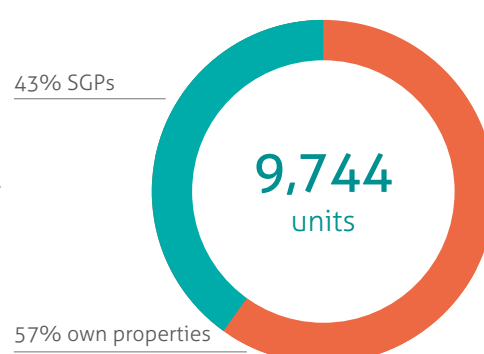
Property sales (% of units)

1st Half-Year Period 2016



+74%

1st Half-Year Period 2017



Sale of own real estate assets per type (% of units)



⁹ See Sales Growth Plans on page 29

Geographical breakdown of sales of own properties (% of units sold)¹⁰



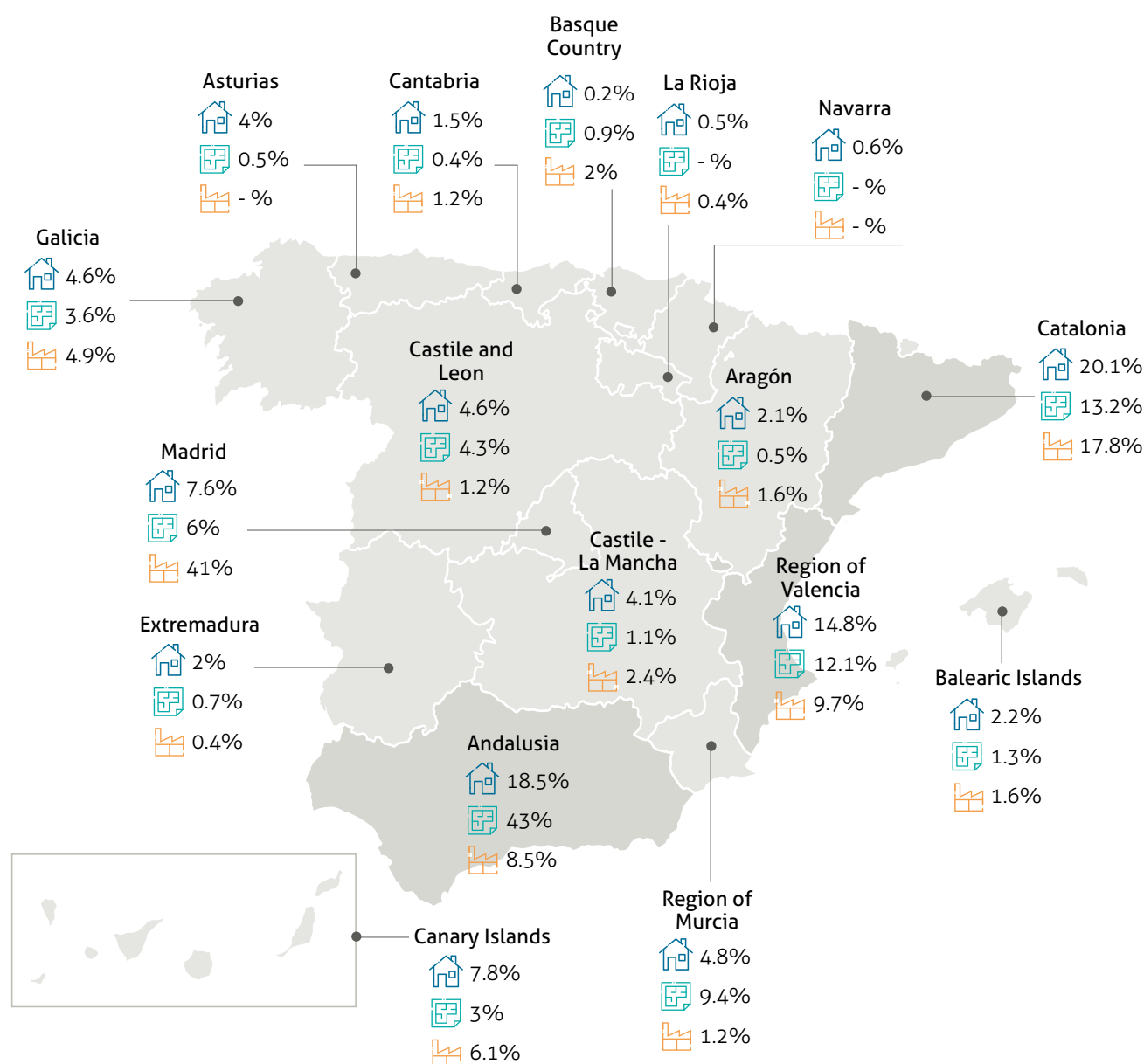
Residential



Land



Tertiary



¹⁰ Does not include work in progress per Autonomous Region

Geographical breakdown of sales of own properties (% of sales volume)¹⁰

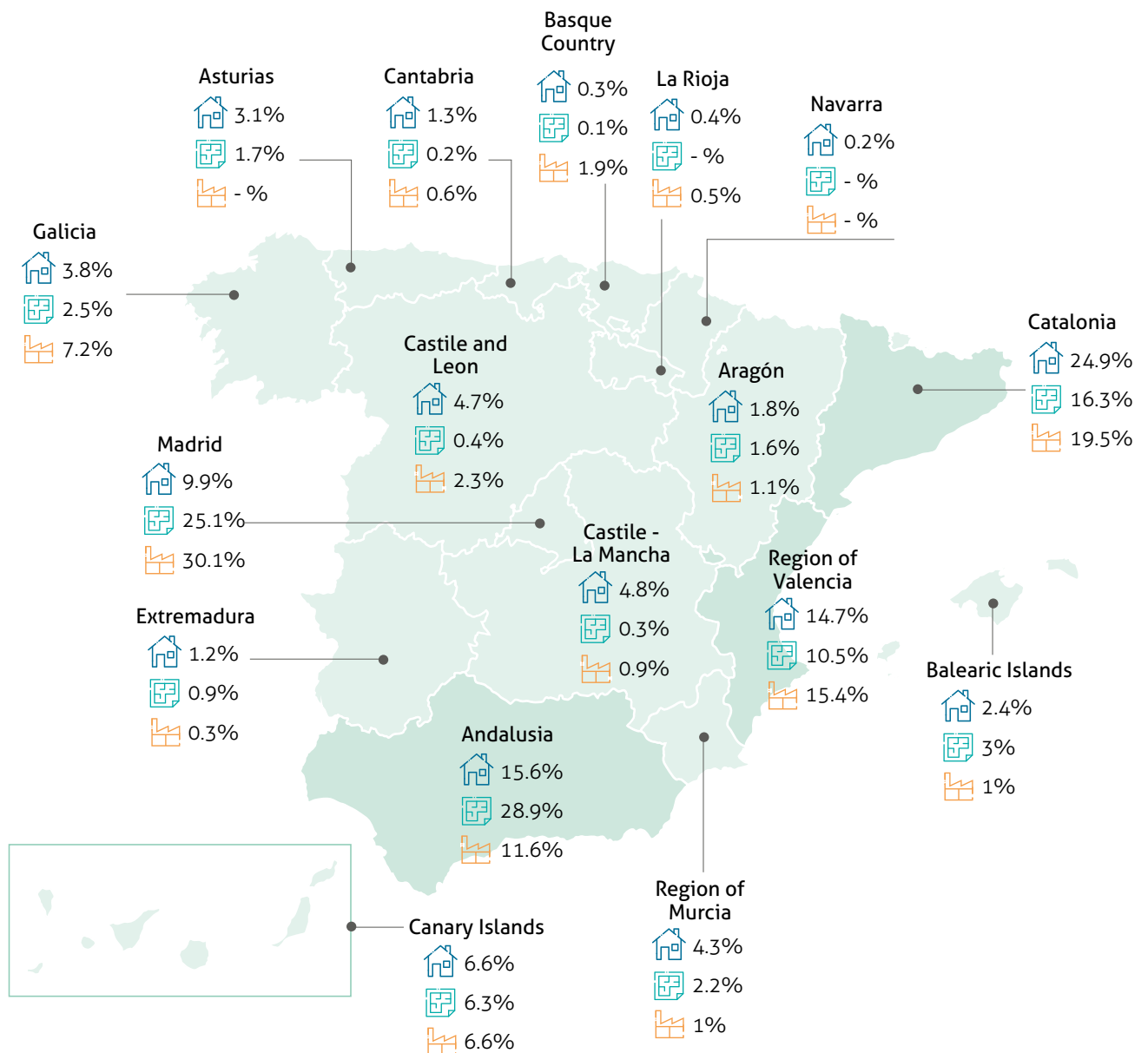
Residential



Land



Tertiary

¹⁰ Does not include work in progress per Autonomous Region

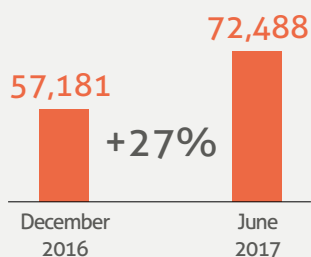


Marketing of properties

The divestment process is based on careful product preparation for marketing and sale. At present, Sareb is concentrating its efforts on how to make the marketing process faster and more efficient, in order to increase the number of assets advertised both on the corporate website and on the webs of the servicers and other real estate portals.

The number of properties placed on the market went up by 27% during the first months of the year, increasing from 57,181 properties at the beginning of the half-year period to 72,488 at 30 June, currently representing 61% of Sareb's portfolio of real estate assets.

Number of assets advertised

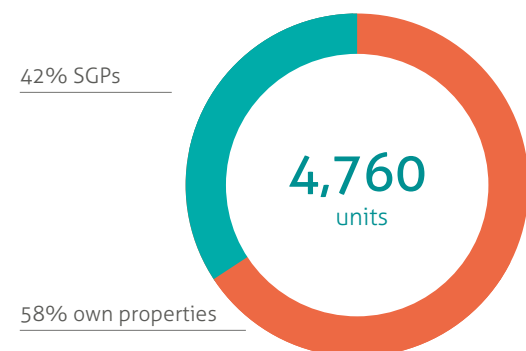


Residential

During the first six months of the year, a total of 8,519 properties were sold, i.e. 79% more compared to the cumulative sales of the first six months of 2016. The increased figures are largely due to the increase in the number of residential units sold from the developer's balance, the Sale Growth Plans, which in the residential sector have grown by 88%.

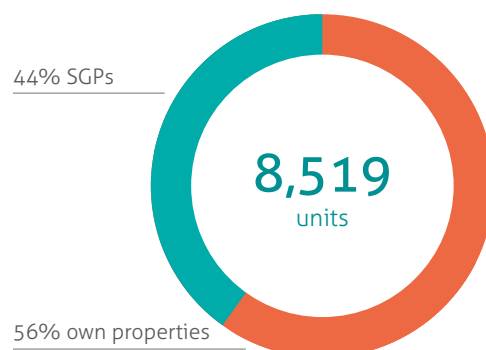
Sales of residential property (% of units)

1st Half-Year period 2016



+79%

1st Half-Year period 2017



The evolution of sales of our own residential properties has also been positive thanks to the cooperation of the servicers and the control and monitoring of their activity, which has permitted an improvement in the joint relationship and has resulted in the sale of a total of 4,758 units for a value of €314 million. These figures reflect an increase of 72% and 47% respectively in relation to the first half-year of 2016.

The average price of the properties is around €108 thousand as a consequence of the greater network of sales.

Commercial activity has improved substantially, with sales in more provinces and more municipal areas than in the same period last year.

The improvement in product knowledge among the sales teams and the increase in the area of action have made possible this greater coverage, which considerably improves closeness to the end client and, therefore, also improves the sales results.

Profile of the buyer of residential property (our own properties)*

The profile of the residential property buyer has changed considerably with regard to the previous year, with greater weight being given to the total number of units sold to Spanish buyers in the retail sector, which represents 72% of the sales for the half-year (9 percentage points more than the first months of 2016).

The importance of overseas buyers, who account for 19% of global sales, varies significantly depending on whether we are talking about provincial capitals or local areas. This trend can be largely explained by the interest shown by this type of buyer in vacation products situated in tourist areas.

On the other hand, buyers who are companies represent 9% of the total.

Profile of the buyer

Individuals
 **72%**

Foreign
 **19%**

Company
 **9%**

* In reference to the sales of own properties.

Land

The experience accumulated by Sareb during its four and half years of operations has shown that, contrary to expectations, the sale of land has shown a steady overall evolution year after year.

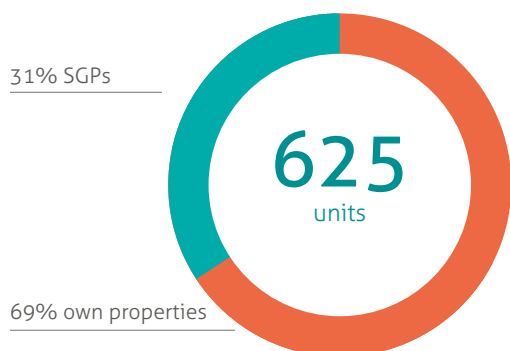
In the first half-year period of 2017 a total of 802 plots of land were sold of which 533 related to its own units of land, 28% more compared to the previous year. In terms of declared price, sales of own land increased by 23% to reach €140 million. The rest of the land sold, 269 units, belong to the Sales Growth Plans.

Per autonomous region, the most significant operations took place in Andalusia, Catalonia, Madrid and the Region of Valencia, although, the same as with residential property, the operations completed are seen to be more widely dispersed in geographical terms, as a result of greater proactivity in the management of land sales.

It is precisely this proactive management and a closer relationship with local developers and business clients, which has given a boost to the volume of revenue coming from retail land sales during the half-year period.

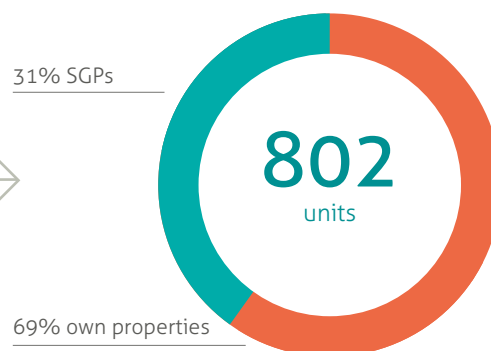
Land sales (% of units)

1st half-year period 2016



+28%

1st half-year period 2017



These figures are a very positive sign for the future and are key to making strategic decisions that will go hand-in-hand with more effective marketing in the coming years.

At the same time there is an increasingly more marked trend in interest in land under development. Although in general the preference continues to be for ready-to-build land, there are investors -mainly those with a long-term business plan-, who are starting to be interest in land with

different degrees of management, something which was very infrequent a few years ago. In the first half-year period of 2017 the revenue per sale of plots of land under development accounted for 26% of the total of land sold, against the 12% recorded for 2016.

It is also important in this first half-year period to highlight the increase in revenue generated through the operations carried out on the online platform, which accounted for 33% of total sales.

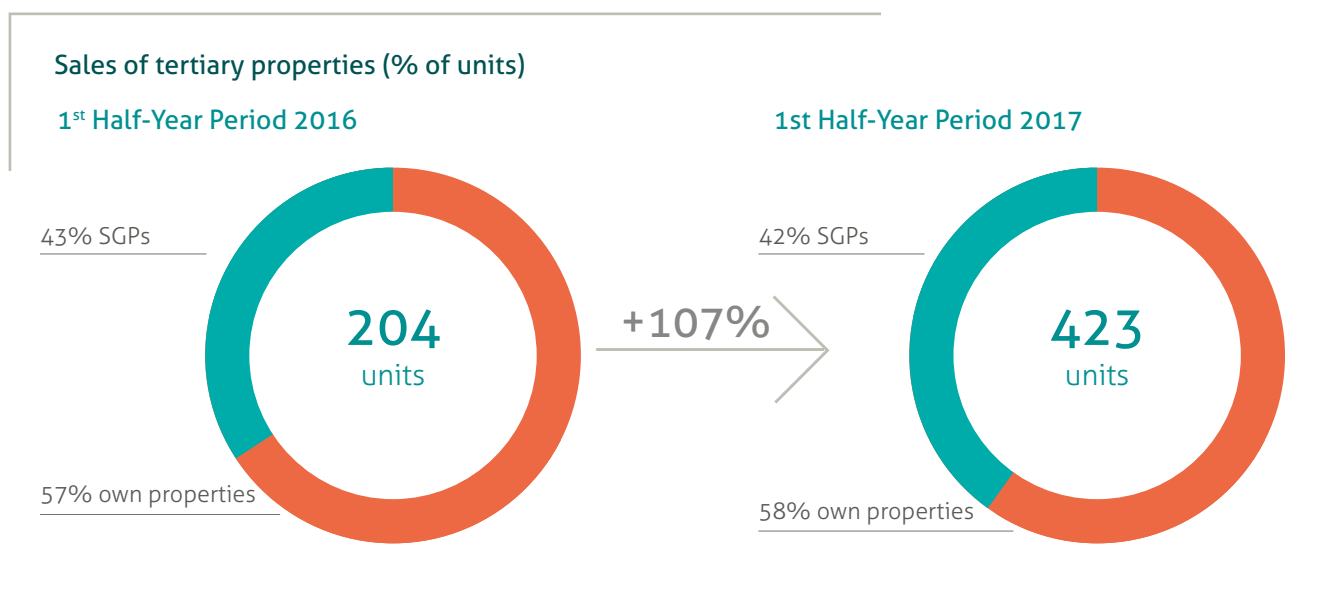


Tertiary

The recovery of economic activity continues to be substantially favourable to the sale of offices, commercial premises, industrial and logistics-related properties and, particularly, hotels. As such, during this first half-year period of 2017 a total of 423 tertiary properties were sold, amongst which own properties and guarantees associated to loans.

The sale of own tertiary properties during these first months amounted to 247 units with a total value of €49 million, representing an increase of 113% and of 81% respectively, in respect of the same period for the previous year.

Per autonomous region, the higher sales volume for tertiary properties was concentrated in the Region of Madrid, Catalonia, the Region of Valencia and Andalusia.



Breakdown of sales of own tertiary properties per asset type (% of units)



Marketing campaigns

Sareb is continuously exploring new marketing channels with the aim of increasing sales. In total, until 30 June 2017 properties worth more than €114 million have been sold, which represents an increase of 63% in comparison with the same period in 2016.

During the first half of 2017, Sareb has launched a total of seven sales campaigns. Through using these, support is given to the servicers in the sale of all product lines. As part of these campaigns, more

than 15,000 properties have been advertised, of which the majority were residential products.

The success of Sareb's sales campaigns lies in the design of the marketing action in coordination with the servicers (for the design of the perimeter by location, property type, etc.) aimed at a very specific target audience through the company website and the specific microsites designed for each campaign.

Mention should be made, during these first months of the year, of the success of the 'A house made to measure' residential rental campaign, through which it was possible to rent 539 of the 1,020 properties which made up the perimeter, guaranteeing an annual income of more than €2.5 million.

Corre a por tu casa (Go for your home)¹¹ Properties for sale	<ul style="list-style-type: none"> ■ Duration: October 2016 – January 2017 ● Perimeter: 2,200 residential properties 	<ul style="list-style-type: none"> ▲ Stock sold: 180 properties in 2017 (387 properties in total) ● Sales: €13m in 2017 (€28m in total)
Una casa a tu medida (Homes that everyone can afford) Residential rentals	<ul style="list-style-type: none"> ■ Duration: Nov. 2016 – May 2017 ● Perimeter: 1,020 properties for renting 	<ul style="list-style-type: none"> ▲ Rented stock: 539 residential properties ■ Annual income: €2.5m
Commercial rentals Tertiary rentals	<ul style="list-style-type: none"> ■ Duration: February 2017 – June 2017 ● Perimeter: 419 assets 	<ul style="list-style-type: none"> ▲ Stock sold: 11 assets ■ Annual income: € 206,000
Tu casa a toda costa (Your home by the sea) Second home (holiday home)	<ul style="list-style-type: none"> ■ Duration: April 2017 – June 2017 ● Perimeter: 3,145 second home and holiday properties on the coast 	<ul style="list-style-type: none"> ▲ Stock sold: 407 residential properties ● Sales: €38m
Land and halted building sites Campaign for land and halted building sites	<ul style="list-style-type: none"> ■ Duration: January 2017 – December 2017 ● Perimeter: 950 plots of land 	<ul style="list-style-type: none"> ▲ Stock sold: 54 ● Sales: €49m
Casas de estreno (New-build homes) New-builds	<ul style="list-style-type: none"> ■ Duration: May 2017 – December 2017 ● Perimeter: 4,006 new-build properties 	<ul style="list-style-type: none"> ▲ Stock sold: 318 residential properties ● Sales: €26m
Tu negocio empieza aquí (Your business starts here)¹² Tertiary sales	<ul style="list-style-type: none"> ■ Duration: July 2017 – December 2017 	<ul style="list-style-type: none"> ● Perimeter: 209 commercial premises, offices, industrial warehouses and hotels

¹¹ The campaigns "Corre a por tu casa" and "Una casa a tu medida" were launched at the end of 2016.

¹² The information on sales and revenue generated for the latter campaign is omitted as it began at the end of the first half-year period. This information will be available in the next edition of the report.



Participation in the Madrid International Real Estate Fair (SIMA)

Sareb attended, as an exhibitor, the SIMA International Real Estate Fair held in Madrid during May.

The properties on offer at the fair are made up of 13 developments (414 homes) located in and 17 developments (with around 1,400 homes) situated on the coast.

In this way, Sareb has positioned itself as a leading player the sector and has contributed to greater visibility of the product portfolio marketed by the servicers.

Innovation has played a leading role at the Sareb stand, where we have opted for the latest technology applied to the real-estate sector in order to bring Madrid the properties we offer to investors, professionals from the sector and the general public using virtual reality, the use of 3D glasses and tablets, on which one can consult the more than 42,000 assets published in on the company website.



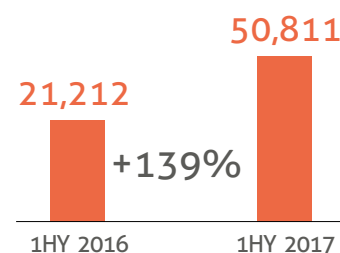
Sareb Responde: customer service channel

Sareb Responde is consolidating itself as a channel through its work in dealing with, solving and following up the enquiries and requests from the various groups which have dealings with the company.

During the first half-year period the number of sales managed was doubled compared to the same period for the previous year, largely as a result of the increase in requests about buying.

The new corporate website, with over 42,000 properties advertised, is positioned as the preferred channel for consulting and making requests about buying. During the first half-year period of 2017 alone it received a total of 1.7 million visits and over 24,000 leads were generated every month which were subsequently forwarded to the servicers for handling.

No. of inquiries received



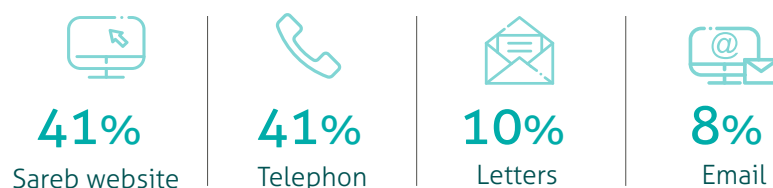
Types of enquiries received

(%) 1st Half-Year Period 2017

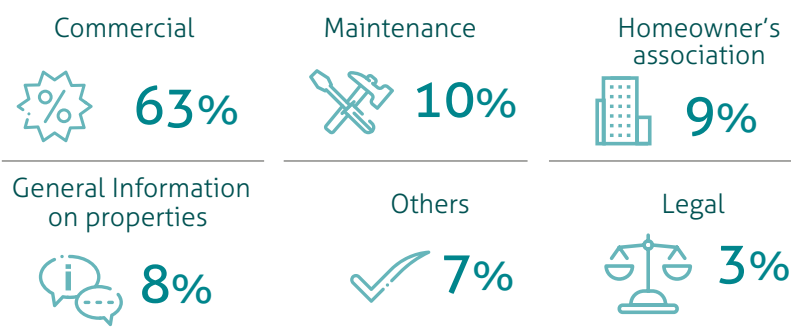
Per type of client



Per input channel



Per type of consultation



Satisfaction surveys

The company makes quarterly surveys to assess the satisfaction of the buyers of Sareb properties. Between April and June, 81% of the clients said they were satisfied with the general process for buying through Sareb, a two per cent increase on the first three months of the year. This progress is an improvement compared to the close of 2016, when the percentage of satisfied buyers was 76%.

Investing to create value

The creation of value by Sareb has arisen from the need to increase the value of the assets received in order to prepare for the divestment in the medium term to obtain greater profitability, which speeds up fulfilling the company's mandate. All this is done taking into account that, amongst other assets, Sareb received in its portfolio plots of land at various stages in the town planning process and buildings not yet completed.

In this context, Sareb has created the new Development, Sales and Investment department during the first half-year. Over the next few years, the company will invest 296.5 million in developing the land and finishing the halted construction work, which will help towards these aims and add a total of 4,326 new properties.

Real estate development and land management

Since Sareb began operating, it has finished a total of 1,374 properties –corresponding to the portfolio of halted building work it received following its creation– of which 1,191 are already in a position to have the deeds signed.

As regards developing its own land, Sareb continues to work on obtaining the necessary permits and licenses in order to increase the value of its assets. In this way, up until now, building work has begun on 34 plots, which will mean the construction of 1,933 properties. It is worth pointing out in this regard, that up until June of this year 613 units have already been reserved.

Many of the marketing and development projects are being carried out in collaboration with developers and local partners who are bringing to Sareb their knowledge and experience in the real estate development.





Rentals

In line with Sareb's aim to maximise the value of its real estate portfolio, the portfolio of properties for rental has increased, in this half-year, by 66% compared to the same period last year, to reach a total of 7,604 properties available for rental, of which 6,695 are residential and 909 tertiaries. This increase is due to the optimisation of management processes and the development of new marketing plans with the servicers.

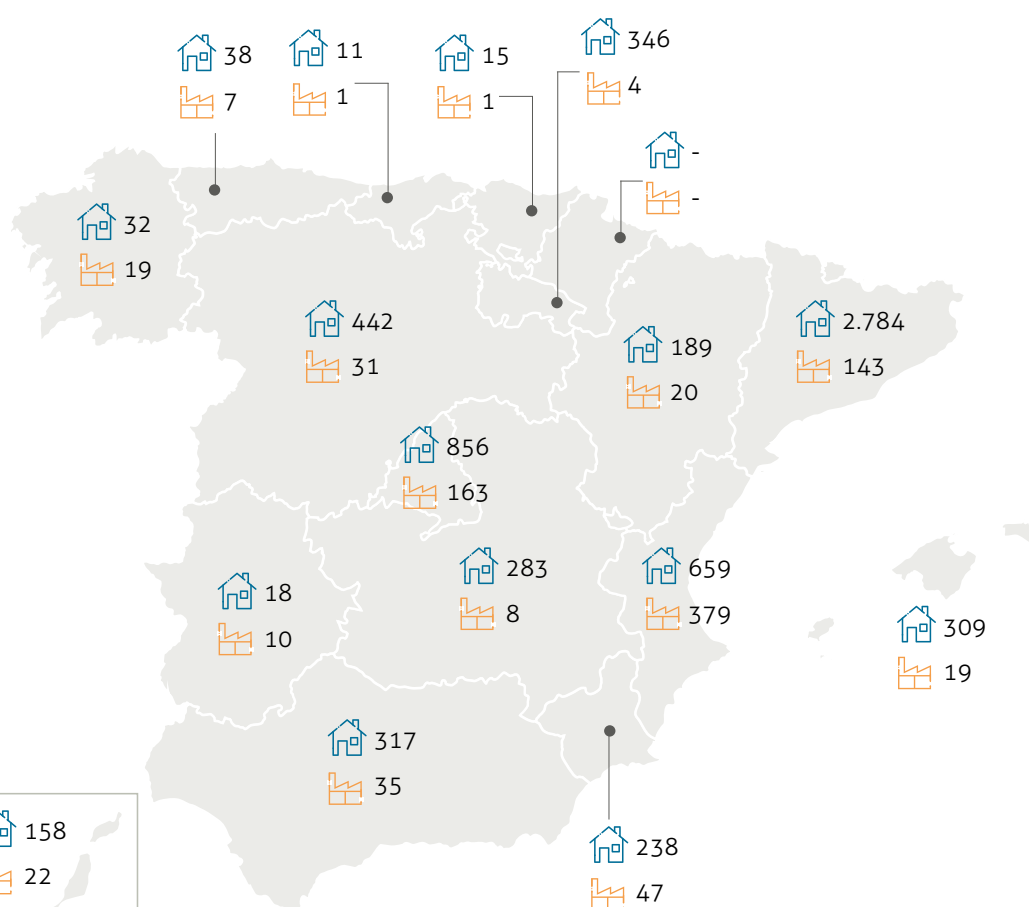
Number of properties for rental



Residential



Tertiary



Affordable homes

Sareb has an additional stock of 4,000 properties intended for rental for social purposes, which is a voluntary extension of its commitment to Society.

To date, close to 8,000 people have benefited from the affordable homes programme thanks to the different agreements signed between Sareb and the Administrations. In total, a total of 10 agreements were signed with the Autonomous Regions and 5 with Town Councils; new agreements being drawn up will soon be added to this number.

The courses of action regarding affordable homes take place under three programmes:

- Affordable Homes Aid Programme: with Autonomous Regions, it involves granting a temporary use of properties to alleviate the situation of groups at risk of social exclusion.
- Programme of Aid to groups in a situation of social emergency: with Town Councils, it allows a temporary use of residential properties by certain groups who are in exceptional circumstances.
- Programme for Alternative Affordable Rentals(AAR): in collaboration with the social services of the Autonomous Regions and Town Councils, it is proposed as an alternative housing solution for families who are socially vulnerable.



Making the properties available for renting allows Sareb to recover part of the maintenance costs in those real estate assets that will not be absorbed onto the market due to the short term demand. Furthermore, once rented, a higher future value is generated for the divestment of the assets, especially in tertiary properties such as commercial premises or offices. At the same time, Sareb continues with its strategic approach on the recovery of the debt of existing rentals with a high degree of efficiency.

New REIT as a vehicle for divestment

In the first half-year period Sareb has started working on the creation of T  mpore Properties, a listed real estate investment trust. The launching of this investment vehicle, which is expected to be listed on the Alternative Stock Market (ASM), is an effective tool for contributing to the divestment of the properties, and also an element of internal discipline as a commitment to investors with guarantees for future growth.



Launching of the REIT T  mpore Properties

T  mpore Properties will include a selection of the most attractive rental properties whose value will be around   190 million.

The aim of the REIT is to attract the greatest number of investors and promote the gradual divestment of its assets.

The valuation of the assets that will be included in the REIT was performed by the consultants

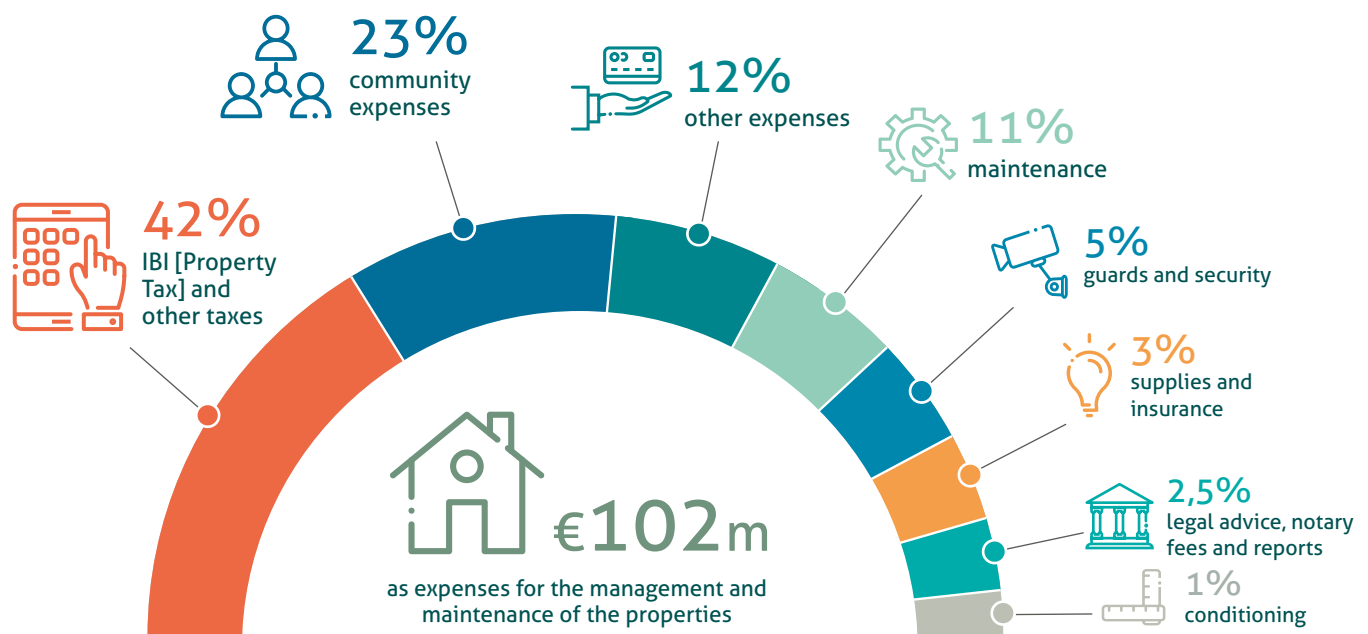
CBRE. In addition, Renta 4 has been selected as an overall consultant, for its ample experience in creating and putting this type of vehicle on the market. Clifford Chance handles legal and tax advice.

T  mpore Properties is expected to be listed in the next few months, once all the formalities required by the Alternative Stock Market (ASM) have been completed.

Conservation and maintenance of the portfolio of real estate assets

The management and maintenance of the properties making up the Sareb asset portfolio gives rise to a number of very high costs which the company assumes up until the time they are sold. During the first months of 2017, this expense stood at €102 million.

Expenses for the management and maintenance of the properties (% of €M)



Sareb follows a policy of good relations with the owners' associations. The proactive handling of the relationship with the owners' associations ensures two basis issues:

- Firstly, that Sareb properties remain up-to-date with all payments, particularly with Property Tax (IBI) and service charges, which account for almost 65% of the management

expenses for its properties. During the first half-year period alone the expenses arising for these items amounted to over €67 million.

- Secondly, it ensures that the properties are kept in adequate condition. For this reason, Sareb also allocates a considerable item for improving and keeping the real estate stock it has received in optimum conditions.

This includes, for example, clearing plots of land or putting suitable security measures into place for building work in progress or halted by installing systems for monitoring alarms, dynamic and on-site guard service, and installing security services in the stock of assets for each of the servicers.

As a new feature for this half-year period, it is worth mentioning the creation of a new budget item intended for adapting the properties for marketing¹³ and which covers minor repair work on the asset portfolio with building work finished with the aim of

increasing their value for sale or rental.

In addition, Sareb has also entered into an agreement with Ferrovial Servicios for handling the maintenance of one of the portfolios of the servicers,

optimising the costs and guaranteeing the supervision of the condition of the properties. Along these same lines, the company expects to close two new maintenance contracts during the second half-year period.



First overall refurbishment

In line with the strategy of creating value in the assets to obtain the maximum return and fulfil their mandate for divestment, during the first six months of the year, Sareb approved the first overall refurbishment of one of its buildings located in the centre of Barcelona.

The building, which had previously functioned as a car park, will be converted into a block of newly-built apartments, as this is a consolidated area with a scarcity of this type of product.

The refurbishment project contemplates creating 29 apartments and 41 garages.

The conversion work is planned to begin in January 2018, while sales will commence in December 2017, one month before.

The launching of this project, paves the way for developing and generating property values, and it is expected that new initiatives along these lines will be announced during the coming months.



Insurance cover

Insurance policies are a key element in Sareb's measures for ensuring total cover for all possible damage that could occur to the properties. With this, following its risk policy, Sareb is obliged to take out ample cover with reduced excesses and to sign policies with highly reputable companies with acknowledged solvency. Similarly, the company has to also insure its civil liability to cover damage of any nature caused to third parties as a result of its activity.

Following these criteria, during the first half-year period of 2017, Sareb has renewed its programme of insurance for damage to property, civil liability, comprehensive construction and directors and senior management liability; and it has updated its claims management protocols.

¹³ A distinction should be made between work carried out for adaptation for affordable homes (in association with the Public Authorities) and adaptation for marketing (sale and rental), which is the case concerning us here.

7

REPAYMENT OF SENIOR DEBT



The payment of the debt backed by the central Government is Sareb's principal mandate

The activity performed by Sareb over its four years of life through the sale of its various assets, as well as collecting and recovering financial assets have enabled it to generate sufficient funds to pay off 19.4% of the senior debt. This means that, up until the date covered by this report, Sareb has reduced its debt by a total of €9,856 million, of which €2,169M correspond to debt repaid in 2017 but booked to 2016.

This pace of debt repayment, together with the expectations for the reactivation of the housing market and the strategies set out in the company's Business

Plan, allow us to think that Sareb will cover the final payment of the debt within the deadline established.

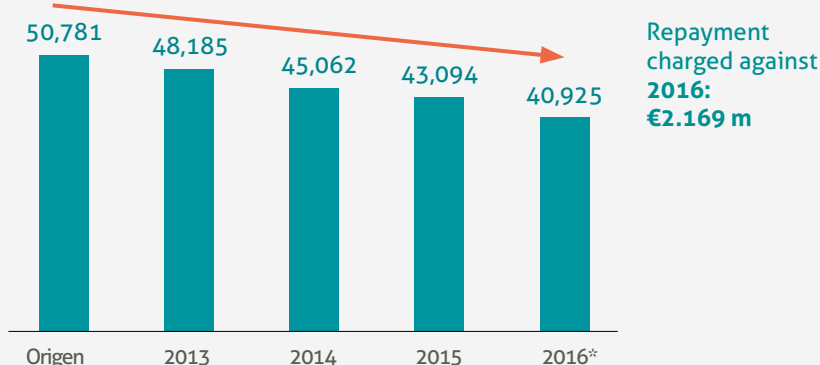
Rectifications

During the first half-year period of 2017, the company has continued to rectify the perimeter to return properties that did not meet the standards established for their transfer to Sareb. Such rectifications involved the return of the asset and the recovery of the corresponding bonds paid at the time.

These are therefore assets that did not fall within the perimeter of transfer at the effective transfer date and, therefore, were outside of the scope of application of the legal obligation to transfer set out in the 8th and 9th Additional Provisions of Act 9/2012 which gives rise to the Contract for Transfer.

In this period no rectifications have been carried out affecting the bonds of Group 1. As for Group 2, the nominal amount of the bonds was reduced by €23.6 million.

Evolution of senior debt



* Includes 671.9 million repaid in 2017 charged against 2016

Rectifications to bonds in the first half-year period of 2017 (in thousands €)

Group 2

MATURITY

28/02/2018	28/02/2019
7,100	16,500

TOTAL

23,600



The information relating to the evolution of the repayment of debt is updated with the publication of the Annual Report



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