ANNUAL REPORT 2014

Sareb

Contents

After two years of existence, SAREB is continuing with its roadmap. Our activities in that period have contributed clearly towards cleaning up the financial system and normalising the Spanish property market, making us a benchmark in these two industries.

In our second year we continued to work towards achieving our primary objective, namely to sell the assets we bought from the financial institutions that needed government aid, at the lowest possible cost for the citizens of Spain and without triggering the use of the State guarantee. Following two years of work there are now 189,783 units of these property and financial assets with an acquisition cost of EUR 44,263 million, as compared with EUR 50,781 million when the work started.

2014 proved to be a key year for the future of our activity, as we were able to lay the foundations of an advanced business model that will make it possible for us to work with greater returns and efficiency. The creation of value and focus in the sale of our assets are the means for making progress in improving the management of our portfolio and achieving higher returns from its sale. For that reason, in 2014 we promoted the development and completion of work in progress, converted more land for its sale, expedited recoveries and property management and initiated a process to foster rentals for industrial use.

In order to cultivate this business model, we set up three fundamental areas: Restructurings and Recoveries, Assets and Transactions. We also embarked upon a process to increase professionalism in the management of our asset portfolio, the most extensive in Spain, with a change in the service relating to the administration and management of our properties and loans. It should be borne in mind that the portfolios had hitherto been managed by banks, which were contractually obliged to provide that service when they transferred their assets to SAREB. The replacement of this system with a vocational and more specialised system will make our management and marketing efforts more effective.

The move towards progressively professionalising the management of our portfolio has not ended with the engagement of Altamira Asset Management, Haya Real Estate, Servihabitat and Solvia as our servicers. Rather, it has only just begun. In the coming months our organisation will migrate more than 168,000 assets, with more than four million associated documents. Around 200 SAREB professionals, led by Global Transformation, the area set up to guarantee the transition process, will have to work hand in hand with the more than 1,000 employees of the servicers who will be responsible for managing the portfolios.

We are facing, therefore, a critical, demanding, global and transformative project. Critical, because it will enable us to adapt to our new business environment and will facilitate the fulfilment of our selling mandate. Demanding, because of the coordination and management capacity required. Global, because of its transversal nature. And transformative, because it entails a qualitative leap in our relational sphere: we will cease to have suppliers and will begin to advance conjointly with our partners.

In parallel with this decision-making process, the performance of our businesses in 2014 made it possible to report revenue of EUR 5,125 million and EBITDA of over EUR 1,000 million. 15,298 property assets were sold, surpassing the daily sales volume benchmark set some months ago, and we continued with our debt repayment process, with repayments of EUR 3,416 million in 2014, up by more than 50% on the amount repaid in 2013.

Consequently, we consider that the results attained confirm the business plan and reaffirm once again our capacity to generate sufficient funds to service the interest on our debt and reduce the outstanding debt principal. The portfolio write-downs of EUR 719 million will also enable us to prepare for the recovery of the property market from a more solid position. The prospect of having a new accounting framework in place in 2015 will eliminate one of the uncertainties that has been affecting our bottom line up to now.

The Company has continued to make progress with a model that requires responsible and sustainable management as a tool with which to be able to respond to the expectations of our stakeholders and to guarantee that our actions will benefit society as a whole. In 2014 we strengthened our governance rules and protocols, our internal codes of conduct, our channels of active dialogue and our social action, combining the management of our business activities with the promotion of forums for communication and initiatives that facilitate access to social housing for the most disadvantaged groups in society and those at risk of social exclusion.

At the beginning of 2015 SAREB completed the first phase of its existence with the resignation of its then Chairman, Belén Romana. Her leadership, dedication and hard work have been key to being able to lay the foundations of and launch, in record time, what SAREB is today. As the present Chairman I would like to acknowledge her commitment, hard work and generosity, qualities which have all played a key role in turning a project that is fundamental for Spanish society and the Spanish economy into reality.

We must also thank our shareholders for their support; everybody who has worked and cooperated with us for their commitment to the project and our professionals, for their dedication, efforts and endeavours. It is this last group who I constantly remind of what they can achieve if they have the courage to pursue their goals.

Jaime Echegoyen

Chairman

2 Corporate governance

2.1. Governance bodies

SAREB's governance bodies are the General Meeting, composed of the shareholders of the Company, and the Board of Directors, which in 2014 comprised 15 members, five of whom were independent: José Ramón Álvarez-Rendueles Medina, Emiliano López Atxurra, Isidoro Lora- Tamayo Rodríguez, José Poveda Díaz and Luis Sánchez-Merlo Ruiz.

The rest of the Board of Directors is composed of eight proprietary directors, who represent the main shareholders of the Company -Remigio Iglesias Surribas, Rodolfo Martín Villa, Antonio Massanell Lavilla, Miguel Montes Güell, José Ramón Montserrat Miró, Ana María Sánchez Trujillo, Rafael de Mena Arenas and Antonio Trueba Bustamante- and two executives, Belén Romana (Chairman) and Jaime Echegoyen (CEO).

Following the resignation of Belén Romana, the Board of Directors appointed Jaime Echegoyen as the new Chairman in January 2015. At the date of this report, the vacant position of CEO is yet to be filled. Accordingly, the Board of Directors has comprised 14 directors since his appointment.

Also, Ana Sánchez Trujillo, proprietary director representing the FROB, resigned from her position, and Jaime Ponce (representing the FROB) was appointed as proprietary director under the resolution of the General Meeting held on 14 April 2015.

In 2014 the Board of Directors of SAREB met on 21 occasions.

The Board of Directors of SAREB has, in turn, two committees -the Audit Committee and the Nomination and Remuneration Committee- both of which are chaired by independent directors. Each committee has nine members, all of whom are non-executive members and the majority independent directors.

The structure, operational rules and main duties of the Board of Directors, the Audit Committee and the Nomination and Remuneration Committee are set out in their respective Operational Regulations, which can also be found on the Company's corporate website (www.Sareb.es). The Audit Committee and the Nomination and Remuneration Committee met on ten and eight occasions, respectively, in 2014.

In addition to the foregoing committees, the Company also has a number of Support Committees, formed by members of SAREB's management team and representatives of the company's shareholders, the main duty of which is to assist the Board of Directors.

The Support Committees are as follows:

- Management Committee: This committee assists with the Company's financial and operational management and the duties of budgetary and management reporting.
- Risk Committee: This committee oversees and proposes actions to respond to situations or activities that may lead to excessive levels of risk.

- Investment Committee: This committee evaluates and proposes investment and divestment strategies or actions.
- Assets-Liability Committee: This committee advises on any factor that could affect the Company’s balance sheet and, in particular, those related to the equity, financing and liquidity structure.

In 2014 the Support Committees met on eleven occasions.

2.2. Supervisory regime

SAREB was incorporated as a public limited liability company and has certain special features relating to its particular company object and the public interest associated with its activity. Consequently, it must carry on its activities in a transparent and professional manner at all times and is subject to a comprehensive supervisory regime.

On the one hand, SAREB is supervised by the Bank of Spain, which, under Law 9/2012, is responsible for overseeing compliance with:

- SAREB's sole object.
- The specific requirements established for assets and, where appropriate, the liabilities to be transferred to the asset management company.
- The regulations relating to transparency and the establishment and composition of the Company's Governance and Control Bodies.

On the other, SAREB is supervised by the Spanish National Securities Market Commission (CNMV) in relation to its business activity as an issuer of fixed-income securities. In addition, the CNMV is responsible for creating a register of Bank Asset Funds (FAB) and overseeing compliance by companies that manage them with the related legislation.

Pursuant to Law 9/2012, a Monitoring Committee was created to oversee fulfilment of SAREB’s general objectives. Its functions include analysis of the Company's business plan and any possible deviations from it, as well as the divestment plans and plans for the repayment of the secured debt. The Company provides the Monitoring Committee with regular reports detailing its activities.

The Monitoring Committee comprises four members, appointed by the Spanish Ministry of Economy and Competitiveness, the representative of which chairs the Committee, the Spanish Ministry of Finance and Public Administration, the Bank of Spain, the representative of which acts as secretary, and the CNMV.

A representative from the European Central Bank also attends meetings as an observer.

In 2014 this Committee met on eight occasions.

SAREB prepares half-yearly reports on its activities, which are subject to an annual Compliance Report prepared by an independent expert. The half-yearly reports on its activities are issued to the Bank of Spain and the Monitoring Community, and are made available to the public via SAREB's corporate website (www.Sareb.es).

3 Portfolio

Portfolio

Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (SAREB) was created as part of the commitments entered into by the Spanish government and the EU authorities in July 2012 that enabled Spain to receive financial assistance in order to meet the capital needs of financial institutions with excessive property exposure.

The agreement, included in the Memorandum of Understanding on Financial-Sector Policy Conditionality (MoU), provided for the creation of an external Asset Management Company to which a portion of these institutions' assets relating to the property sector would be transferred.

Pursuant to the MoU, the scope of the assets to be transferred to the Company was as follows:

- Credit risk exposure to the property development sector with a carrying amount exceeding EUR 250,000 per borrower.
- Foreclosed assets with a carrying amount exceeding EUR 100,000.

On 31 December 2012, the Group 1 institutions, i.e. those in which the Fund for Orderly Bank Restructuring (FROB) held a majority ownership interest (BFA-Bankia, Catalunya Banc (CX), Novagalicia Banco, Banco Gallego and Banco de Valencia), transferred the assets defined in the transfer scope to SAREB.

On 28 February 2013, this process was completed by the transfer to SAREB of the assets of the Group 2 institutions: Banco Mare Nostrum (BMN), Liberbank, Banco Caja 3 and Banco de Caja España de Inversiones, Salamanca y Soria (Banco CEISS).

In total, SAREB received almost 200,000 property and financial assets, and 400,000 collateral assets, which were measured at a transfer price of EUR 50,781 million.

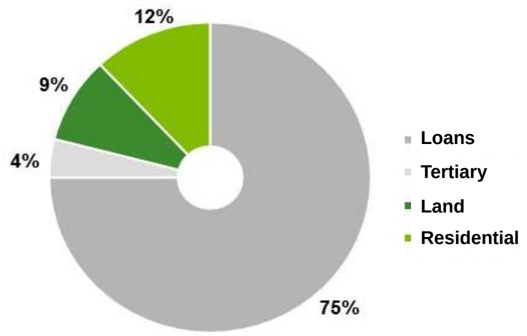
In two years of intense disposal activity, SAREB's portfolio mix has changed, with property assets gaining more weight than financial assets.

This was the result of the gradual, natural transformation of the balance sheet inevitably facing the Company, due to the normal repayment of loans that are current in payment and disappear from the portfolio when fully repaid and the last-resort access to the property guarantees on the portfolio of loans and credit facilities in arrears transferred to SAREB through foreclosures, bankruptcy liquidations and dation in payment.

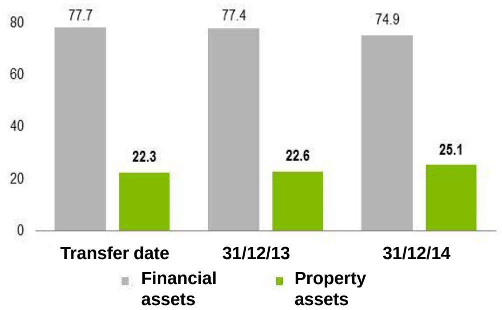
The changes in SAREB's portfolio and the detail at 2014 year-end were as follows:

Changes in the portfolio
(Acquisition cost - EUR million)

Detail of the portfolio
(% of EUR million)

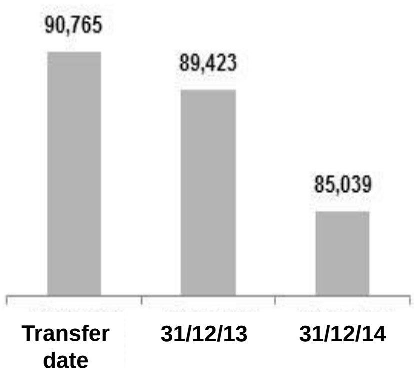


Changes in the portfolio
(% of EUR million)



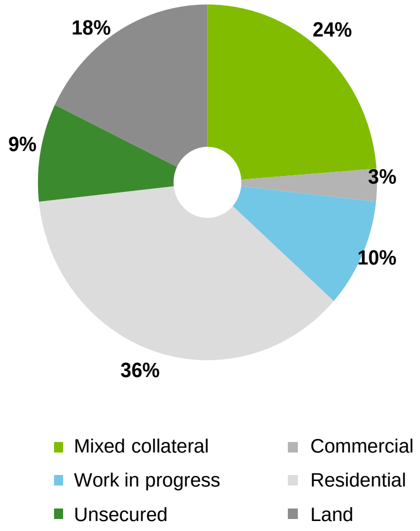
Property assets
(No. of assets)

Financial assets
(No. of assets)

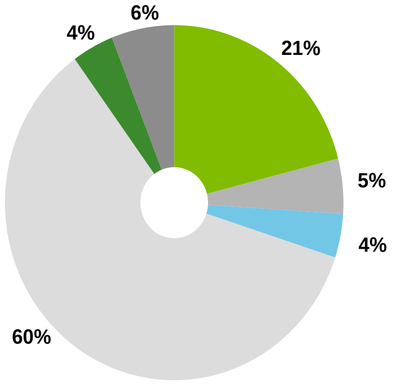


Financial assets by type of guarantee

(% of EUR million)

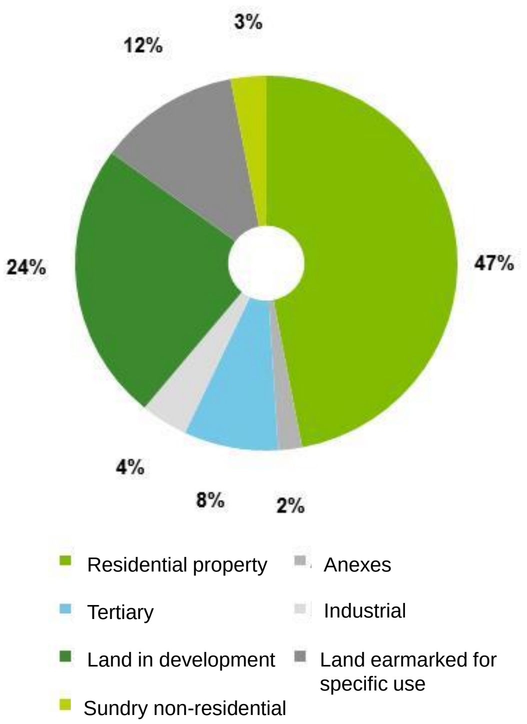


(% of no. of assets)

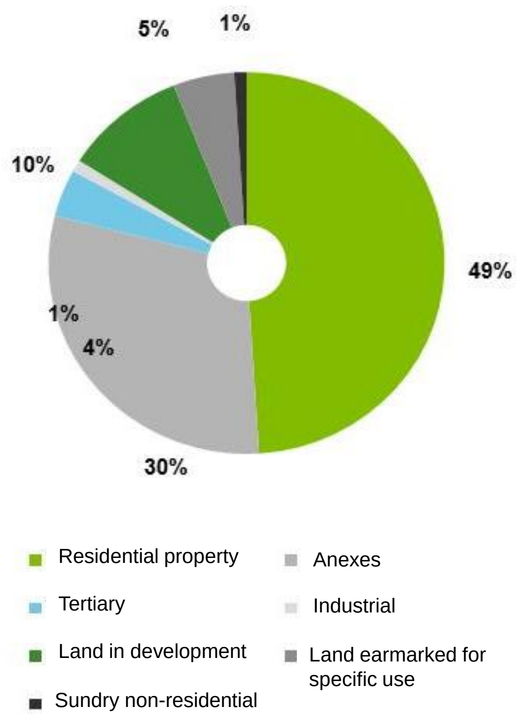


Property assets

(% of EUR million)



(% of no. of assets)



Milestones

	2012
Nov	
28	Incorporation of SAREB
Dec	
12	First capital increase
17	Second capital increase
28	First subscription of subordinated debt
31	Receipt of Group 1 assets
	2013
Feb	
04	SAREB opens sales channels through the transferor institutions
13	Third capital increase
21	Due diligence review awarded
23	Second subscription of subordinated debt: SAREB completes its capital with EUR 4,800 million (EUR 1,200 million of share capital and EUR 3,600 million of subordinated debt)
28	Receipt of Group 2 assets
Mar	
20	Approval of the updated business plan and the Conflict of Interest and Related Party Transactions Policy
May	
20	SAREB's Code of Conduct enters into force
Jun	
16	The first agreement with a bank to finance the purchase of SAREB assets entered into
Aug	
02	Swap entered into
06	First wholesale transaction completed: award of the Bull portfolio
Sep	
25	Joined the United Nations Global Compact
Oct	
22	SAREB's corporate website launched
31	Approval of the plan to transfer homes to autonomous communities
Dec	
30	Teide portfolio awarded
31	At 2013 year-end, SAREB had achieved EUR 3,800 million in revenue, EUR 2,000 million of repaid debt and sold over 9,000 properties

2014	
Feb	
03	Appearance before the Catalan parliament to report on SAREB's activity
23	Announcement of internal reorganisation and appointment of Jaime Echegoyen as CEO
Mar	
27	Press conference to present 2013 results
Apr	
01	Appearance before the Spanish parliament to report on SAREB's activity
22	Íbero Project launch approved
May	
26	First wholesale land sale
Jun	
18	SAREB generates revenue of EUR 1,700 million and sells over 8,100 properties up to June, i.e. 45 transactions per day. Repayment of EUR 1,636 million in debt
Jul	
03	Agreement with Pierre Vacance for the management of tourist assets
14	Agreement to transfer homes to the Catalan autonomous community government entered into
24	Crossover Bank Asset Fund awarded
Oct	
27	SAREB exceeded the target for retail sales, with more than 10,900 properties sold. Appearance before the Spanish Senate to report on SAREB's activity
Nov	
03	Íbero award: Solvia
Dec	
04	Íbero award: Haya, Servihabitat and Altamira
23	Wholesale portfolios and projects (Kaplan, Agatha, Aneto, Olivia, Meridian and Corona), amounting to EUR 1,000 million, awarded
31	At year-end, SAREB had achieved EUR 5,115 million in income, 15,000 properties sold and EUR 3,400 million in repaid debt
2015	
Jan	
26	Resignation of Belén Romana. Appointment of Jaime Echegoyen as new chairman of SAREB
Feb	
05	Agreement entered into with the autonomous community government of Aragón to transfer homes
25	Appointment of Óscar García Maceiras and Manuel Gómez Gilabert as managing directors of SAREB
Mar	
17	Agreement entered into with the autonomous community of Galicia to transfer homes

4 Strategy and advanced business model

4.1. Background

In July 2012, as part of the commitments entered into between the Spanish government and the EU authorities, SAREB (Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria) was incorporated in order to design and execute, over a fifteen-year period, a programme to dispose of assets from the financial institutions receiving State aid. With the additional objective that this initiative would not generate further costs for the taxpayer or triggering the use of the State guarantee on the debt issued by SAREB to acquire the assets.

As a result, SAREB became a complementary instrument in the process to clean up the Spanish financial system and a major actor in contributing to the gradual normalisation of the Spanish property market.

The Company's incorporation represented a pioneering experience in Spain, although other countries had implemented similar initiatives previously. All were successful, albeit with peculiarities. In Spain's case, the project addressed two critical tasks simultaneously: the setting up of a company and providing the project with a structure, strategy and management and operating tools, and the commencement of its disposal activities, which enabled it, in its first twelve months in existence, to cement a position as one of the major actors in the market with regard to property sales: 25 every day, around one every hour.

In late 2012 and early 2013, SAREB completed the following processes: a shareholder structure and a Board of Directors, it set up the organisational structure and the team, it acquired the assets from the institutions that received State aid, issued debt to acquire these assets and established its values, behaviour, internal codes of conduct and conflict of interest resolution protocols. It also gained further knowledge of the transferred assets through an ambitious due diligence review, and designed a sales structure on the basis of agreements with the institutions that generated its balance sheet (the transferor institutions) and other agents in the market.

The figures for the first year of the project's existence cemented SAREB's position as one of the major actors in the market and were the catalyst for change in investor perception: collection flows amounted to EUR 3,900 million, revenue was EUR 2,861 thousand and EBITDA stood at EUR 1,195 million. In 2013 SAREB sold over 9,000 properties through the retail channel, carried out 12 disposal transactions with wholesale investors, entered into financing agreements with the main institutions and held meetings with more than 600 international investors.

As a result, the Company repaid EUR 2,000 million in debt. This amount rose by more than 50% a year later, as the Company repaid debt amounting to EUR 3,400 million in 2014, more than the initially forecast amount of EUR 3,000 million. After completing this process, over two years SAREB had repaid a total of EUR 5,700 million of debt, which is guaranteed by the Spanish population as a whole.

New strategy for creating more value

While in 2013 SAREB demonstrated that it is a key instrument in completing the reform of the Spanish financial system, as the project progressed, a need was identified to progress in a more streamlined and professional manner, through a business plan enabling the generation of more value in the on-balance-sheet assets and a higher return in the sales process.

In order to be more profitable and create more value, in 2014 SAREB worked on the transition from a "warehouse" to a "factory" business model. Thus, the Company progressed from being an asset liquidator, focussed on selling at the best prices and with higher dependence on the economic cycle, to an asset manager concept in which, while the divestment activity continues to be its priority, it focuses on creating value added, so that the return from the transaction increases on the date of sale. All based on a more dynamic, integrated and efficient organisation.

In recent months, SAREB's strategy and the efforts of its teams and staff have focussed on value creation, through:

- Balance sheet optimisation: the development and completion of work in progress, and the preparation of more land for sale, expedition of recoveries and fostering rentals for industrial use.

  Urban land transformation: initiatives to transform land to a more developed stage usually give rise to an increase in value that exceeds the investment made, albeit over longer time frames.

  Development of the work in progress received: SAREB has assets in its portfolio with a level of pending investment and commercial viability that make it advisable to complete the construction work. Accordingly, their value is expected to increase in excess of the required investment and they will be easier to sell.

  Own development of land with commercial opportunities: SAREB will assess the possibility of developing land with high development potential.

  Promotion of an industrial rental policy: SAREB aims to develop a more professional approach for its current rental model over the long term, where rental is understood from a more domestic standpoint. The rental models in other European countries, cultural changes and the entry of new operators in the Spanish market mean that the rental sector will foreseeably develop.

  SAREB's commitment to the rental market will enable it to obtain recurring revenue and to offset maintenance costs until disposal of the assets. The Company is also working on a plan to boost the rental of tertiary property.

- Sales drive: strengthening the current sales channels and implementing new sales tools in order to create new sales platforms (in the search for operating and financial excellence) and driving a more integrated vision of the sales activity to obtain synergies, foster integrated teams and work more closely with external agents.

In order to develop this advanced business model in the best way, in the first half of the year SAREB implemented a new organisational strategy comprising three fundamental business areas: Restructurings and Recoveries, Assets and Transactions.

4.2. New partners: the servicers. Internal transformation

The efforts to professionalise the management of the portfolio of financial and property assets received by SAREB also formed part of this process. One of the first administrative decisions taken when the Company was incorporated at 2012 year-end was to enter into management agreements with the nine transferor institutions. The urgency of the launch the Company's commercial activity and the lack of other operators able to provide this service confirmed the advisability of this decision.

However, the situation has changed in the two years that have passed since then. Many of the entities that provided this service to SAREB sold their property platforms to third parties, thereby giving rise to the appearance of new, professionalised asset managers in the Spanish market.

This factor, coupled with the expiry of the management agreements in December 2014, prompted SAREB to organise a call for tender to select the entities to manage its balance sheet over the coming years. The aim was to apply the principles of competitiveness, transparency and best practices in awarding the contract for the most important service it receives, i.e. the management and administration of its assets.

The ultimate aim of this tender process, which is known as "Íbero" and was supervised by an independent auditor, was for SAREB to obtain a highly professional and efficient service. Accordingly, following a long tender process in which the leading operators in the market took part, in November and December 2014, SAREB awarded contracts for the service of administration, management and sale its assets to Haya Real Estate, Altamira Asset Management, Servihabitat and Solvia.

The contracts, with terms of between five and seven years, will enable the transfer of 169,461 assets, comprising properties and loans, measured at the date of transfer to SAREB at approximately EUR 48,200 million. The new servicers will gradually become operational in 2015, once the migration of these assets has been completed.

The agreements entered into with the new servicers include specific commitments to streamline the sales activity, manage the land on a more hands-on basis and boost the retail market, an area considered strategic by SAREB. The framework of action also requires more intense management of the loans, more direct contact with the property developers that hold the loans with the Company and swifter proposal processing.

From an operational point of view, the changeover to the servicers will enable the Company to increase its ability to control its portfolio by providing management indicators and by making the processes established with the asset managers more automatic and integrated.

The four successful bidders received the following portfolios:

- Haya Real Estate will manage for five years a package of 52,000 loans linked to the property sector originated by Bankia and acquired subsequently by SAREB for EUR 18,000 million.

- The portfolio awarded to Altamira Asset Management consists of 44,000 properties and property developer loans, originated by Catalunya Caixa, BMN and Caja3, for which SAREB originally paid EUR 14,000 million.

- Servihabitat will manage 30,300 properties and loans of NCG, Liberbank and Banco de Valencia that were measured at EUR 9,200 million on the date they were transferred to SAREB.

- Solvia will manage 42,900 assets. These are properties transferred from Bankia and loans and properties acquired from Banco Gallego and Banco Ceiss, measured at EUR 7,000 million on the date they were transferred to SAREB.

The internal transformation process

The project also gave rise to organisational changes that led to the creation of the Global Transformation Area. The latter was set up to ensure an orderly migration of the portfolios awarded and an appropriate transition from the previous managers to the new ones.

In 2015 SAREB faces a complex task called the Hispalis Project, which will involve the migration of over 169,461 assets, with more than four million associated documents, and the movement of 352,000 keys. The migration of assets will be carried out mainly in 2015.

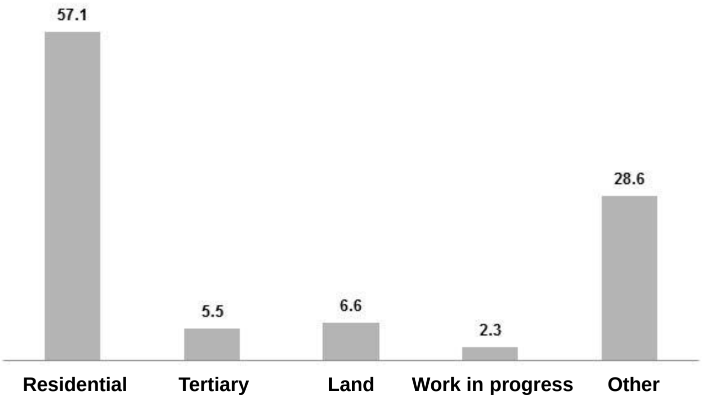
The Hispalis Project will also require the implementation of over 20 sub-projects, the participation of around 200 SAREB employees and the coordination of more than 1,000 employees who will manage the assets at the servicers.

This project is critical for SAREB's progress since it will enable it to adapt to the new business environment and to fulfil its mandate. The Hispalis Project is also one of most demanding, global challenges for SAREB which will transform its processes in view of the management requirements involved, its transversal nature and the change in the relationship model with third parties, which change from suppliers to partners.

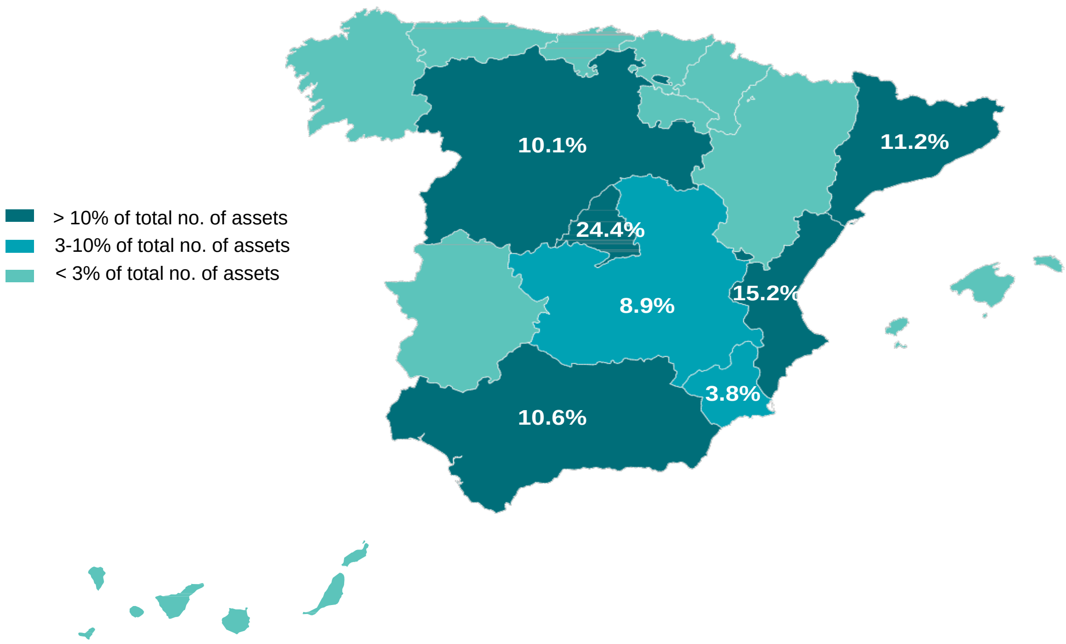
Portfolio awarded to the new servicers
(% of no. of assets)

Total awarded assets by type
(% of no. of assets)

Portfolio awarded to Haya Real Estate
Loans by type of guarantee (% of no. of assets)

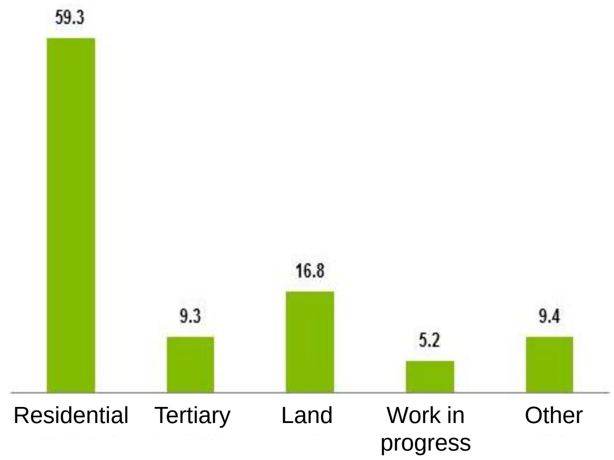


Distribution of loans

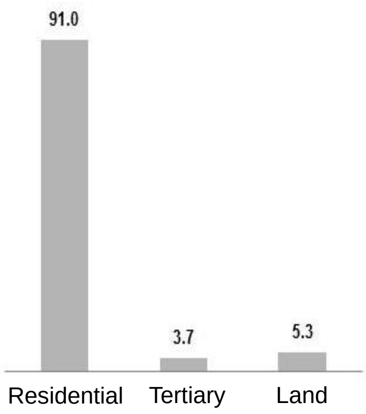


Portfolio awarded to Altamira Asset Management
Type of assets awarded (% of no. of assets)

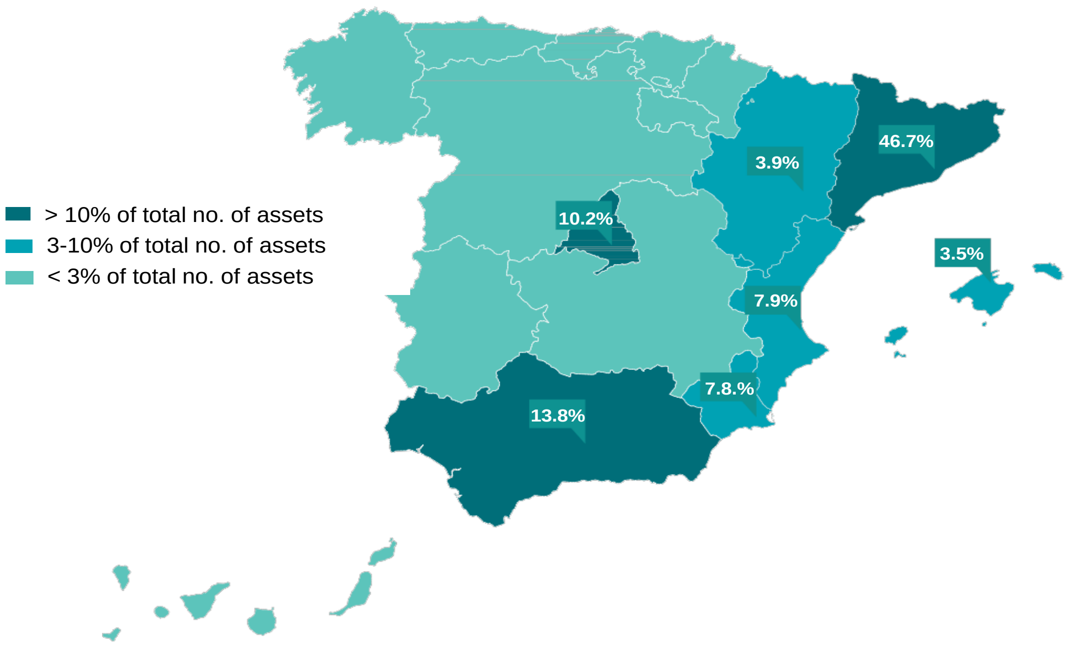
Loans by type of guarantee
(% of no. of assets)



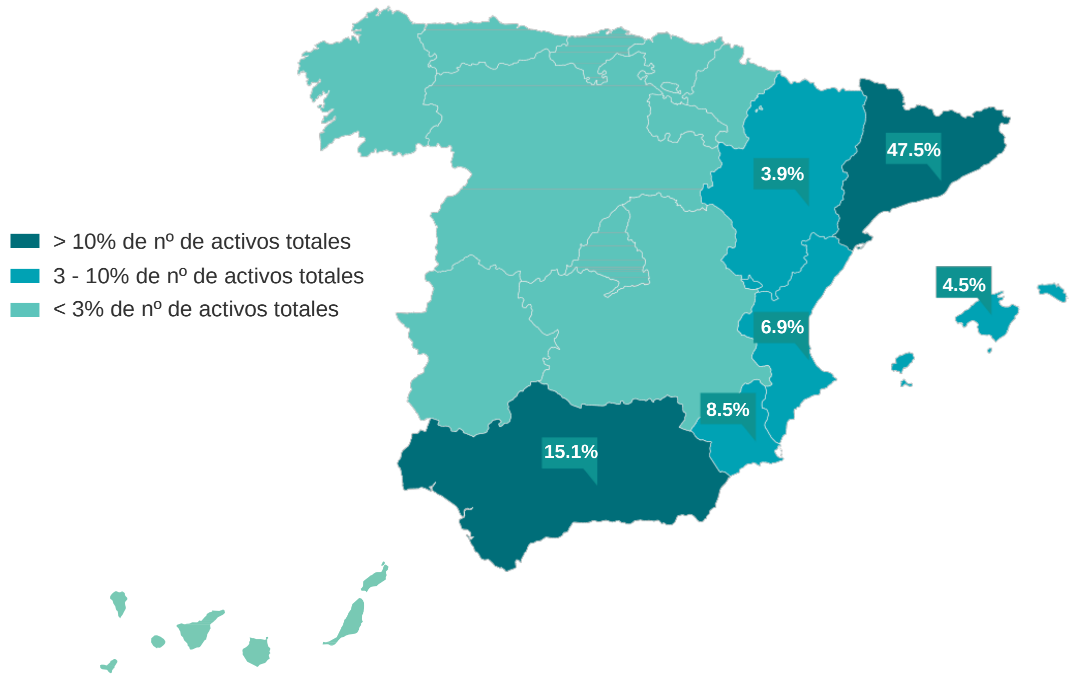
Type of property
(% of no. of assets)



Distribution of properties

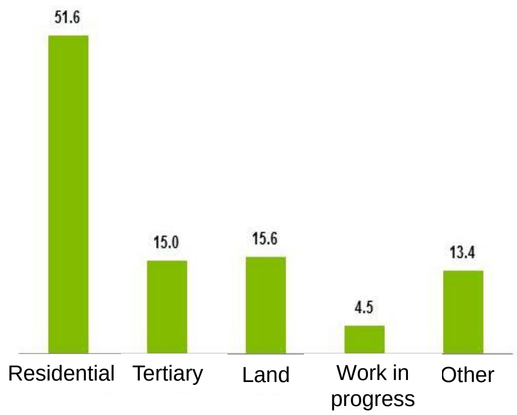


Distribution of loans

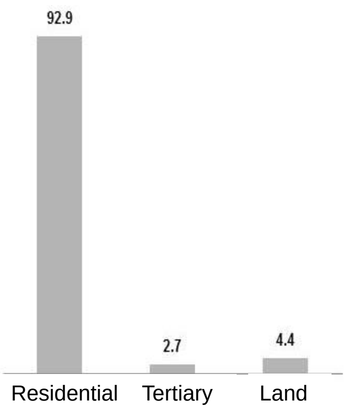


Portfolio awarded to Servihabitat
Type of assets awarded (% of no. of assets)

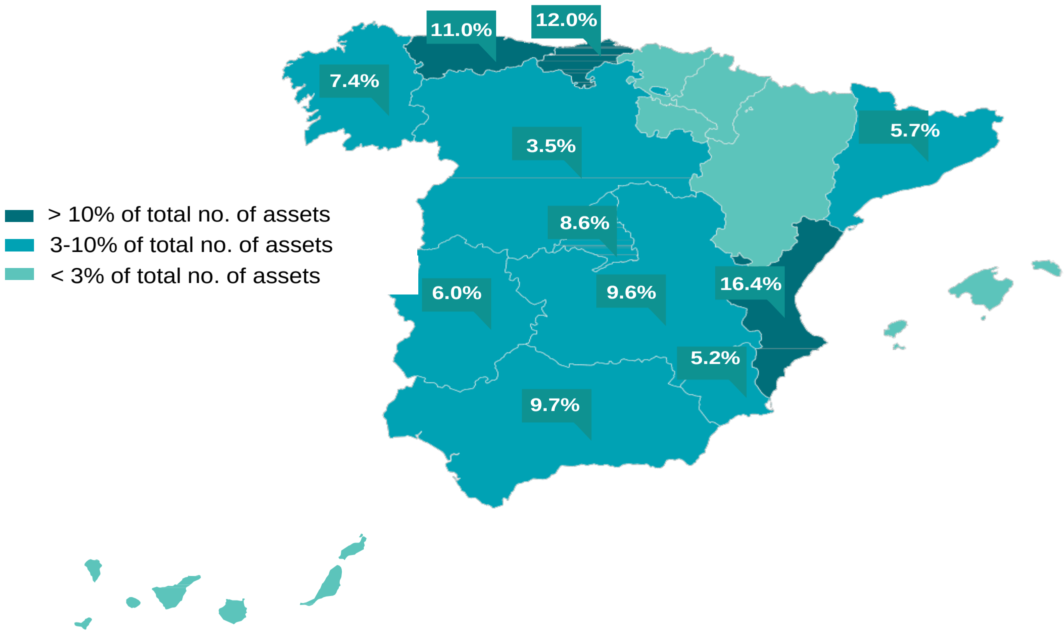
Loans by type of guarantee
(% of no. of assets)



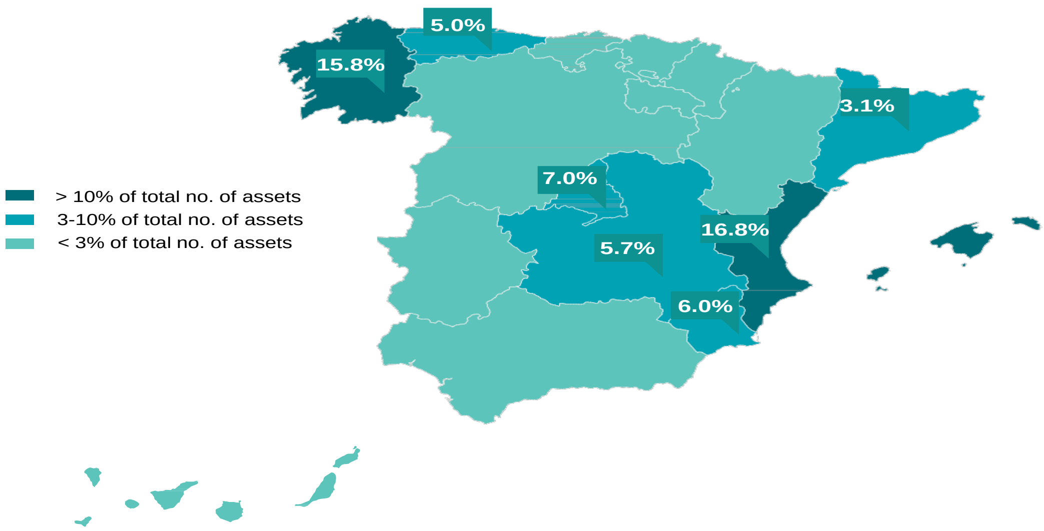
Type of property
(% of no. of assets)



Distribution of properties

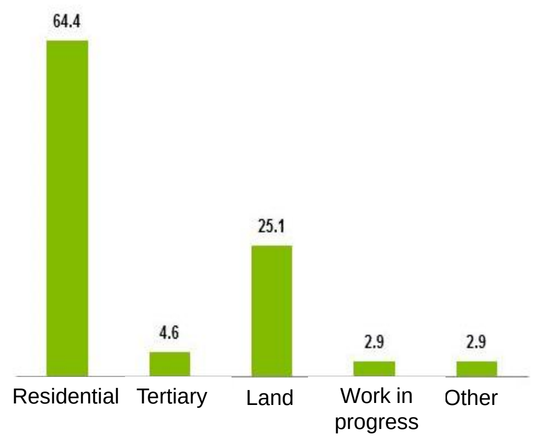


Distribution of loans

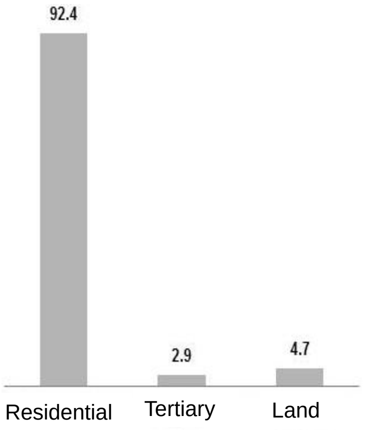


Portfolio awarded to Solvia
Type of assets awarded (% of no. of assets)

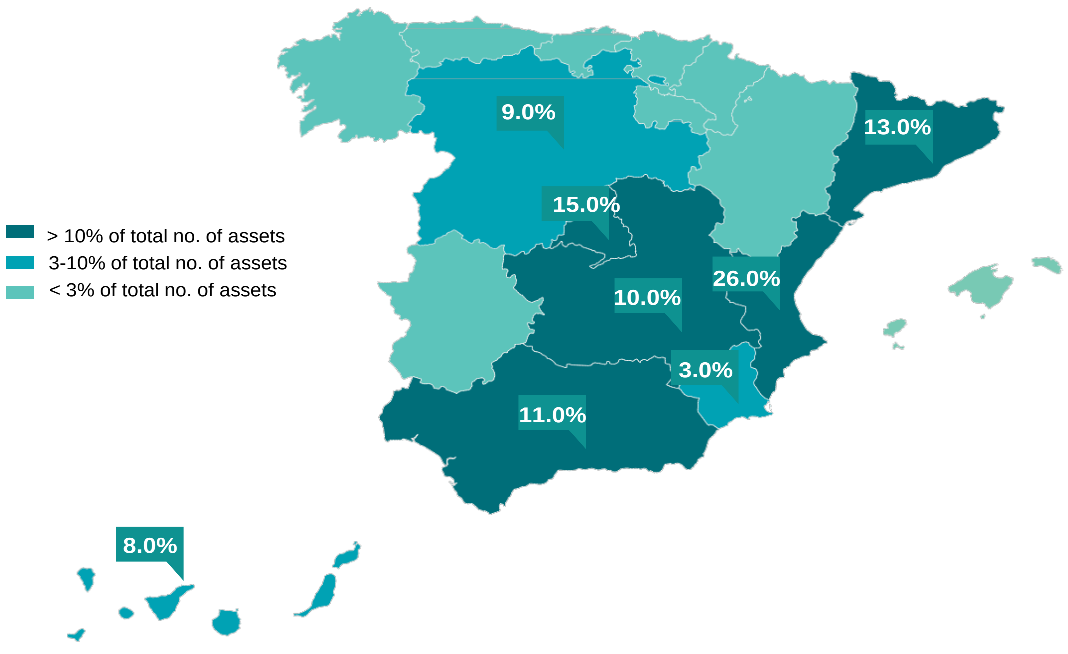
Loans by type of guarantee
(% of no. of assets)



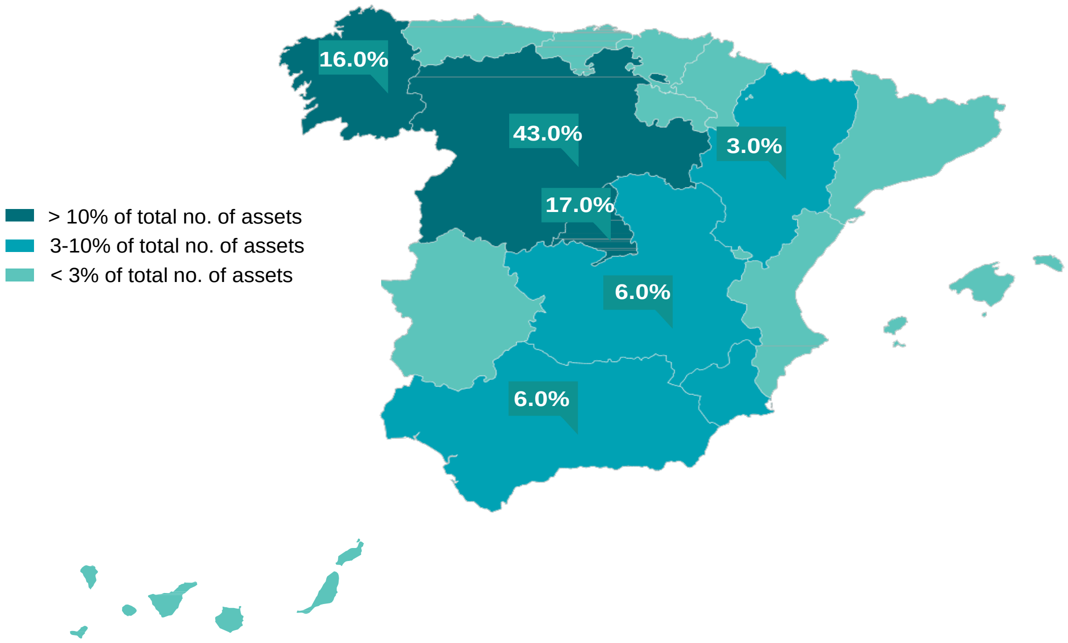
Type of property
(% of no. of assets)



Distribution of properties



Distribution of loans



4.3. Economic and industry context

Economic situation

Economic activity in Spain has been recovering since mid-2013, with GDP once again experiencing positive growth. In the third and fourth quarters of 2013, the quarter-on-quarter growth in GDP was 0.1% and 0.3%, respectively. This trend was consolidated throughout 2014 with positive, increasing, quarter-on-quarter growth that reached 0.7% in the final quarter, which saw annual GDP growth in 2014 of 1.4%, above the euro zone and European Union average.

There was improvement in substantially all the GDP components throughout these quarters. Their decline eased and, in many cases, they experienced positive growth.

From a demand perspective, investment experienced positive growth. Gross fixed capital formation increased from negative year-on-year rates of around -7% in 2012 and at the beginning of 2013 to a positive year-on-year rate of 5.1% in the final quarter of 2014. With regard to property and equipment, construction increased from a negative rate of -11.4% in 2013 to a positive rate of 2.4% in the final quarter of 2014.

In terms of supply, industry, construction and services closed 2014 with positive growth rates of 2.1%, 3.4% and 2.3%, respectively, reversing the negative rates of 2013. Of note is the performance of construction, which increased from a negative growth rate of -8.8% in the first quarter of 2013 to growth of 3.4% in the final quarter of 2014.

Employment, like GDP, is showing signs of sustained improvement. According to the Labour Force Survey carried out by the Spanish National Statistics Institute, the unemployment rate reached its peak, 26.9%, in the first quarter of 2013. It has since fallen to 23.7% at the end of 2014, a decrease of 3.2 percentage points.

In absolute terms, unemployment decreased from 6.3 million people to 5.5 million people between these dates. The number of employed people increased by 619,000 in 2014.

From an international comparison perspective, the most commonly referenced parameter is the interest rate on ten-year Spanish government debt and the spread with respect to its German equivalent.

The interest rate on 10-year Spanish bonds was 1.7% at the end of 2014, reflecting a clear downward trend which saw it fall to 1.3% in mid-March 2015.

The spread against the German bond was below 100 points at that date. This figure is not only positive for State financing, but also affects the entire yield curve, benefiting investment and the consumption of durable goods.

Outlook

This macroeconomic trend change will have a positive impact on the performance of the property sector, and will do so to a greater extent if it continues, as expected in substantially all of the macroeconomic forecasts for Spain.

The main institutions that issue macroeconomic forecasts coincide in assigning positive GDP growth to Spain that is above the average for neighbouring countries.

Internationally, the Spanish economy will be affected by the performance of the global economy and, especially, those of its EU partners. The trends in international indicators are upward, albeit not free of uncertainty or certain risks.

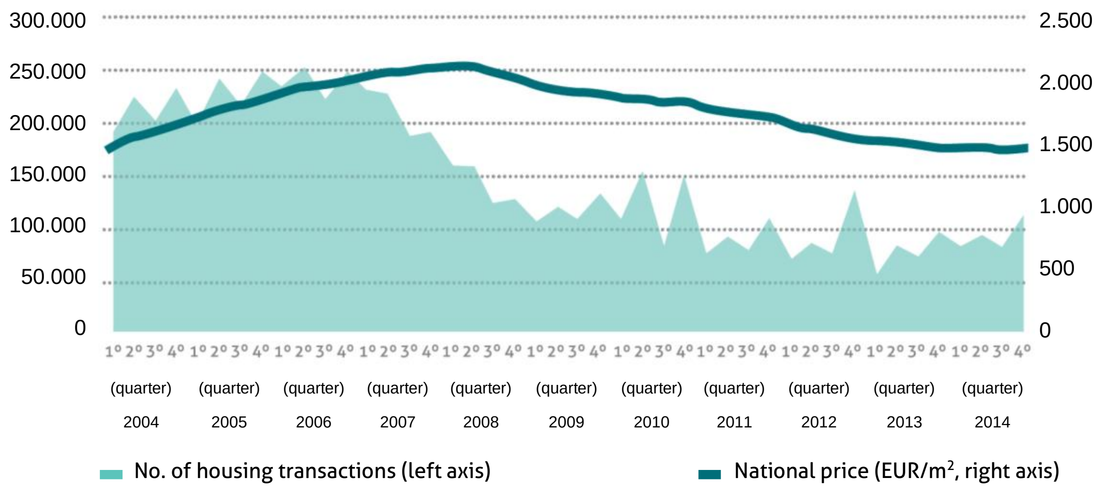
Residential market: prices and transactions

Variations in housing prices

Housing prices in Spain reached their peak in 2007 and at the beginning of 2008. Since then, they have fallen across the board, with this trend continuing into 2013 and 2014. In 2014, according to data from the Spanish Ministry of Public Works, the price of unsubsidised housing remained practically constant, with a year-on-year fluctuation of -0.3%. The fourth quarter of 2014 saw a positive fluctuation of 0.5%.

According to data from the Spanish Association of Property Registrars, housing prices increased by 0.91% in the final quarter of 2014, with annual growth at 2014 year-end of 2.55%. The General Council of the Spanish Notary Profession recorded a slight increase in housing prices of 0.1% in 2014.

Housing: no. of transactions, average price



Source: Spanish Ministry of Public Works and in-house data.

The slight differences between the various sources are a result of the different methodologies used, although all concur that housing prices in Spain have reversed their downward trend, have bottomed out and are beginning to rise.

The cumulative decline in housing prices since their peak is around 31%, according to Spanish Ministry of Public Works data; data from the Spanish Association of Property Registrars calculates this decline at 32% and the General Council of the Spanish Notary Profession at 37%.

According to data from the Spanish Ministry of Public Works, the autonomous communities where SAREB's portfolio is most highly concentrated show year-on-year growth in housing prices: Madrid (0.5%); Valencia (0.6%); Catalonia (0.3%); Andalusia (0.2%).

Housing: national average price of unsubsidised housing

Source: Spanish Ministry of Public Works and in-house data.

Change in housing transactions

There were 365,594 housing transactions in 2014, reflecting a trend of growth following the 2013 year-end lows, when 300,568 transactions were recorded, and the figures for previous years (2012: 363,623 transactions; 2011: 349,118 transactions).

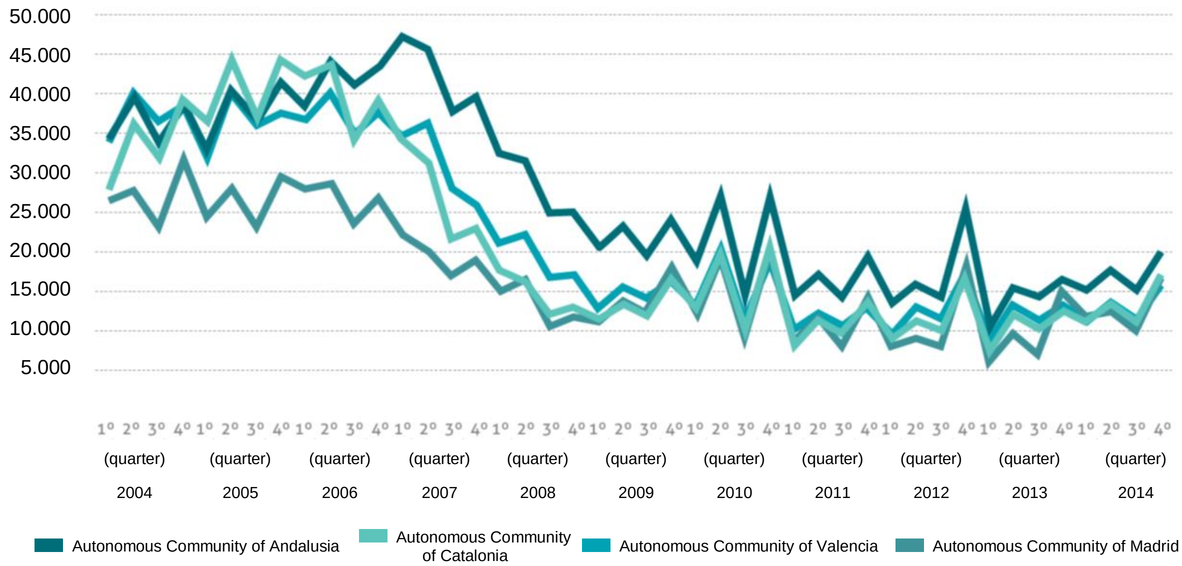
The positive performance of both indicators (housing price and number of housing transactions) supports this trend and is a result of the aforementioned economic indicators: improvement in GDP and domestic consumption and decrease in unemployment, inter alia.

In 2014 the highest number of transactions was recorded in the autonomous community of Andalusia (70,145), followed by Catalonia (55,033), Valencia (54,059) and Madrid (52,761).

SAREB has more stock, both in terms of property assets and financial assets, in these autonomous communities which have proven themselves to be the most dynamic.

Each of these autonomous communities bottomed out at the beginning of 2013 and have since shown sustained growth.

Housing: no. of transactions



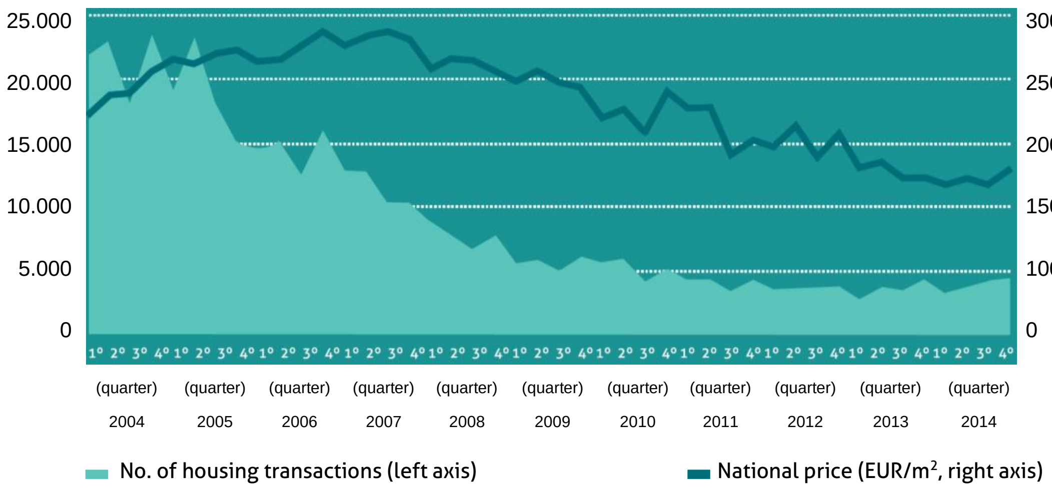
Source: Spanish Ministry of Public Works and in-house data.

Change in land prices and transactions

The land market was affected to a greater extent than the housing market. This can be explained by taking into consideration that land is the raw material for housing. It may be understood that the market will have to wait for excess housing to be absorbed and for housing demand to show signs of optimism in order for a relatively robust land market to return.

The most adverse impact on the land market in relation to housing is the decline in prices and number of transactions.

Land: no. of transactions, average price



Source: Spanish Ministry of Public Works and in-house data.

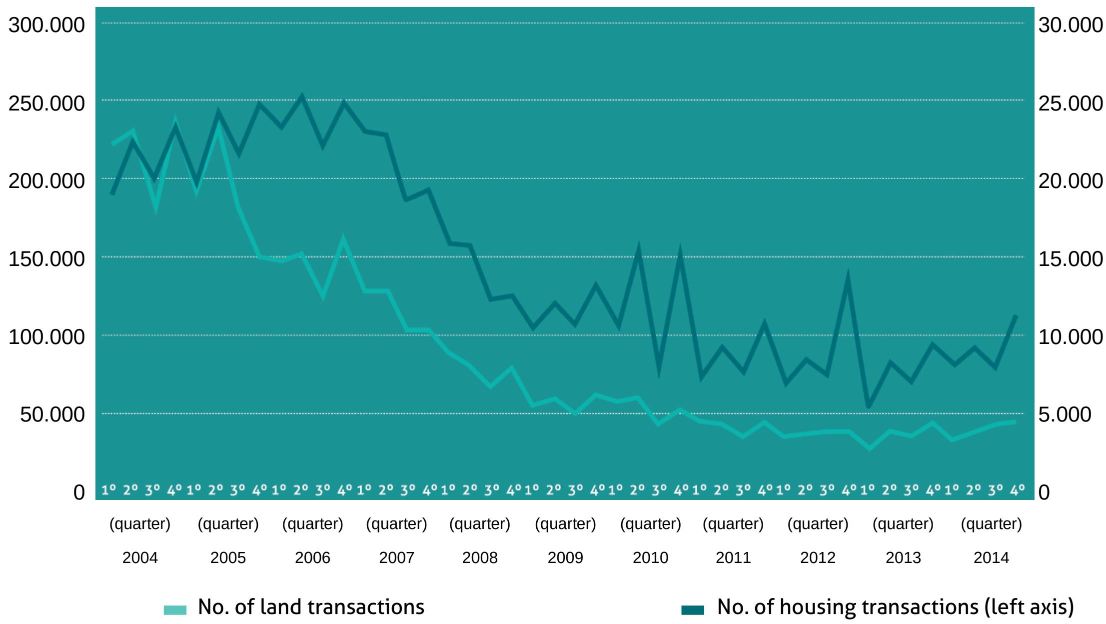
Land prices declined from a high of EUR 280/m^2 in mid-2007 at the pivotal point in the cycle to the current level of around EUR 140/m^2, representing a correction of 50%. On the other hand, the fall in the housing market was around 30%, as mentioned previously. On the positive side, in the final quarter of 2014 land prices experienced a year-on-year increase of 5.2%.

Figures show that the fall in the number of land transactions was earlier and sharper than the fall in the number of housing transactions. The number of land transactions experienced a decline of 85% from its quarterly highs, a sharper decline than the 70% decrease in the number of housing transactions from their peak.

As is the case with housing, the number of land transactions stabilised from mid-2011 to date, but, while the number of housing transactions has experienced sustained growth over several quarters, land transactions have remained stable.

It should be noted that the number of land transactions in the third quarter of 2014 reached a peak since the third quarter of 2009, and that the final quarter of 2014 also represented a high since the same quarter in 2010, although these figures may not be considered, at least for now, as the beginning of a new trend in land transactions.

Housing: total no. of transactions in Spain (housing - land)



Source: Spanish Ministry of Public Works and in-house data.

Non-residential market

The non-residential market includes the other types of properties: offices, industrial/logistics properties, commercial property/shopping centres and hotels. The performance of these products generally follows the same pattern as the macroeconomic variables, given the correlation between the performance of GDP, employment, and economic, industrial and commercial activity.

The available analyses of these products belong to specialised consultancy firms with information taken from their participation in transactions in these markets and figures from their research departments. These focus mainly on Madrid and Barcelona, which are the cities with the most highly structured tertiary product market at national level. The figures generally follow the same trends, although the numbers vary, depending on the source used[1].

Office market

The stand-out areas in this institutional investors' market are Madrid and Barcelona, where more than 80% of the buildings earmarked for use solely as offices are concentrated.

[1] As well as information prepared in-house, reports prepared by Aguirre Newman ("Commercial Real Estate Performance and Outlook in Spain"), Jones Lang Lasalle (Office Market Report Madrid & Barcelona 4Q 2014, Report on the Industrial and Logistics Market in Spain, March 2015) and Knight Frank (Spain Commercial Property Market Report 2014) have been used.

The highest levels of absorption, transactions and prices and the lowest availability rates were reached in 2007. These indicators fell dramatically in 2008 and 2009, then fell more moderately and stabilised in the following years. According to the sources consulted in this market, rental prices showed slight signs of recovery from 2012 or 2013.

Absorption in Madrid was calculated at around 400,000 m^2 in 2014 and that in Barcelona at around 300,000 m^2. These figures are the highest since 2010.

With regard to the appeal of the office market in the international environment, the yield in both cities is at attractive levels for international investors in comparison with other European capitals. The yield in Madrid and Barcelona is around 5% - 6% higher than markets such as Frankfurt, Paris, Milan and London, although economic activity and, therefore, the rental security offered by these cities may be considered superior.

Investment in offices in 2014 was over EUR 2,500 million, four times that of 2013, the higher percentage being due to REITs, investment funds and family offices.

Commercial / shopping centre market

The commercial premises market reached a peak in rentals in 2008 and 2009 and subsequently experienced slow decline which has continued to date.

Availability reached its lowest level in 2007, when the ratio was between 1% and 3% and, since then, has increased to current levels of between 5% and 9%, based on the areas analysed.

Yield bottomed out at between 4% and 5% in 2006 and 2007 and subsequently increased to current levels of between 5.5% and 7%.

Retail premises market volume amounted to EUR 1,325 million in 2014, more than half of which related to REITs. However, family offices performed most of the transactions.

The transactions were performed over a wide geographical area: only 36% of the volume was located in Madrid and Barcelona.

In the case of shopping centres, rental prices reached their peak in 2007 and 2008 and began to fall, except for the top category shopping centres, which have seen increases in rental prices since 2010. Yields fell to a low-point of 5% - 7% in 2007, and began to increase gradually, reaching a current level of 9% for the top category shopping centres.

The shopping centre market represented EUR 2,400 million, far exceeding the figure of EUR 700 million of 2013. The majority of the volume was accounted for by investment funds. Transactions were performed throughout Spain, with less than a third of them concentrated in Madrid and Barcelona.

Industrial / logistics market

There was a significant decline in logistics absorption in 2008, which several sources claim lasted into 2010. Since then, there has been a sustained upward trend. Prices reached a high in 2007-2008 and have since fallen to their current levels.

Prices of industrial buildings reached their peak in 2007 and 2008 and have since suffered decreases of up to 50% according to some sources.

Hotels

The hotels market amounted to EUR 700 million in 2015. Most of the transactions related to hotel operators themselves.

Outlook

A series of positive macroeconomic data were published in 2014 which, initially, gave rise to stabilisation which subsequently evolved into improvements in many property industry indicators. Encouraged by these indicators, Spanish and foreign investors have entered the property market, the most notable investors are investment funds, family offices and REITs, in addition to purchases of housing and other types of property for own use.

The first few months of 2015 continued to show a trend of improvement in macroeconomic indicators, which should continue to encourage investment transactions and, to an increasing extent, purchases for own use.

The figures showing increases in prices and transactions mainly correspond to autonomous communities in which SAREB has most stock, which should have a positive impact on the Company's value generation and divestment activities. Also, the investment market is showing solid signs of strength that will enable SAREB's activities to be complemented.

5 Sareb and its business

5.1. Financial information

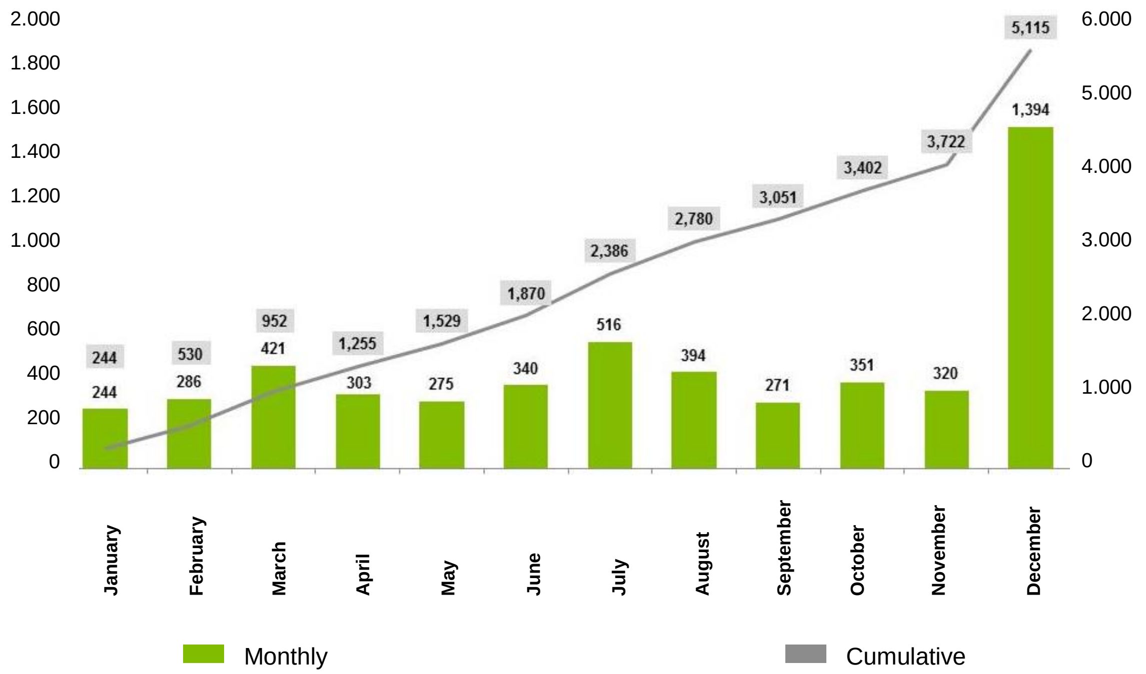
Business performance

2014 was marked by the creation and consolidation of a new business model that combines its ultimate objective -to sell all the assets over 15 years- with the creation of value through activities such as the urban transformation of land, the completion of work in progress, the development of owned land, asset management and a boost to rentals. Also, in 2014 SAREB worked on the roll-out of a new organisational structure designed to implement this business model efficiently.

The materialisation of this new business model in the Company's income statement varied depending on the perspective of the lines of business concerned. At global level, total revenue was EUR 5,115 million in 2014, with gross margin of EUR 1,598 million.

Of total revenue, EUR 3,983 million relate to financial asset transactions and EUR 1,132 million to property asset transactions.

Revenue performance
(Millions of euros)



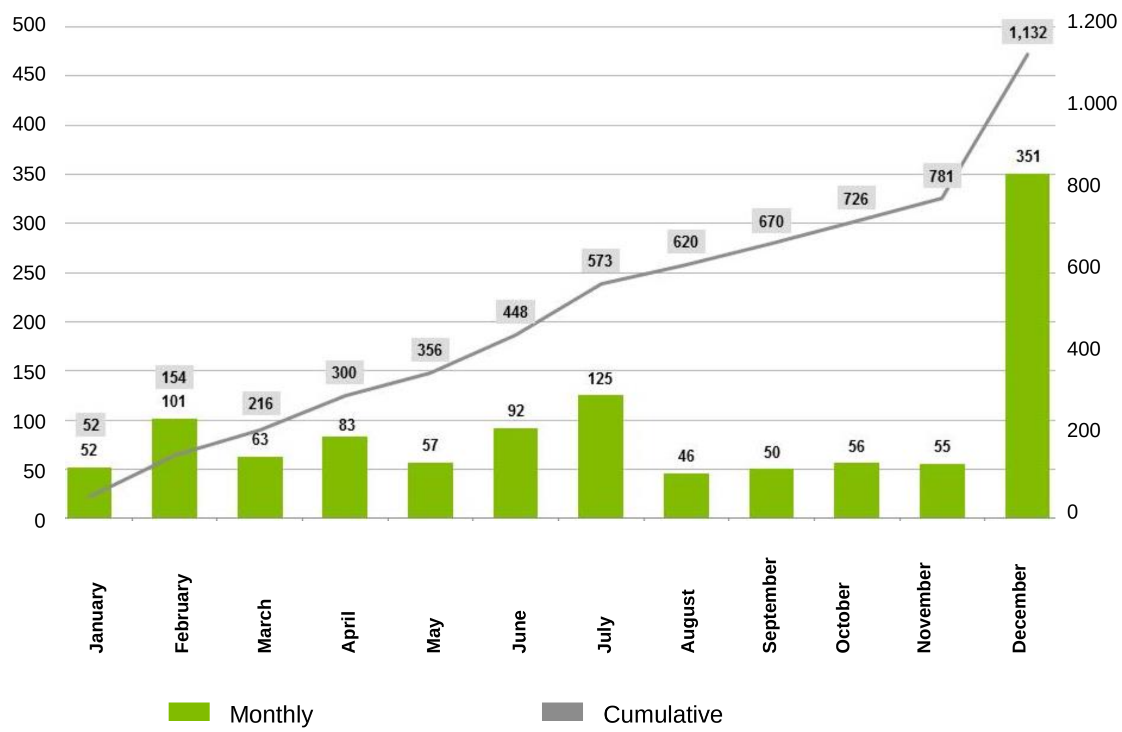
Financial asset revenue performance
(Millions of euros)

On the one hand, the income generated by financial assets was quite regular over the year, except for the effect of the sale of portfolios.

A notable amount of revenue was obtained through the Sales Growth Plans (PDVs), the name given by SAREB to the bilateral agreements reached with its debtors with the aim of facilitating the sale of properties securing loans.

The efforts made to promote this type of agreement, which mainly benefited SMEs, enabled SAREB to facilitate the sale of 8,000 units in 2014, with income of EUR 725 million.

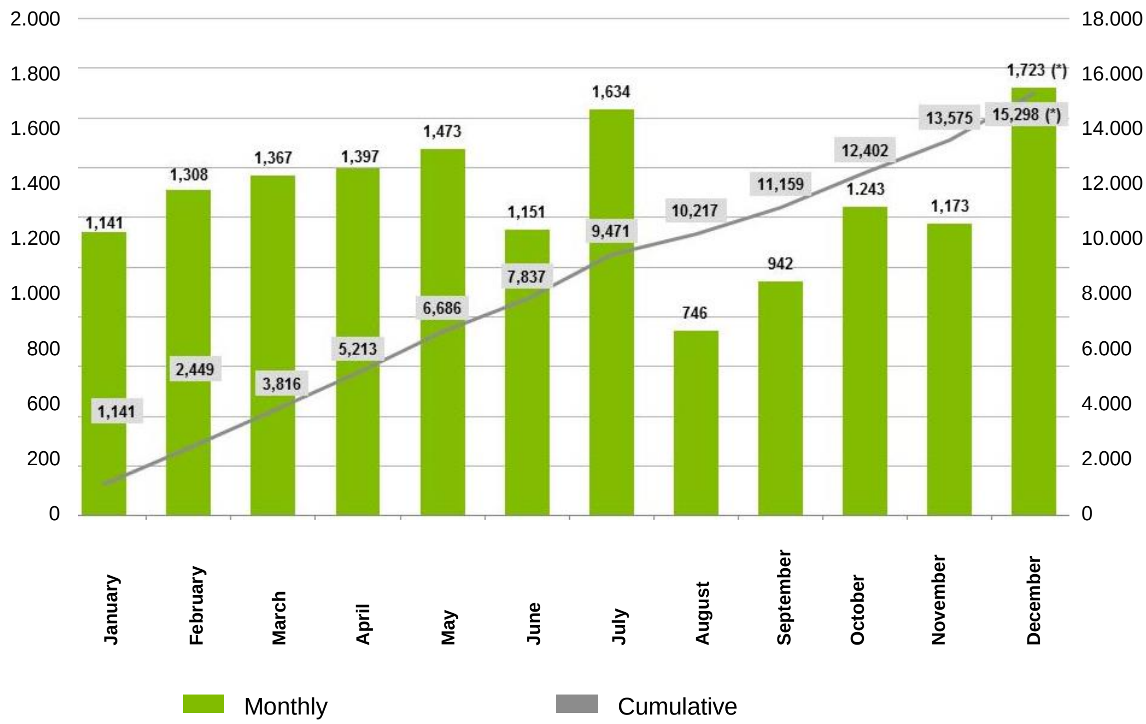
Property asset revenue performance
(Millions of euros)



On the other hand, the retail sale of property assets performed positively with respect to 2013, although margins performed somewhat worse than forecast, due mainly to the slower-than-expected recovery of the property market.

Nevertheless, 7,000 own units were sold for EUR 548 million in 2014, in addition to over 8,000 units sold through PDVs.

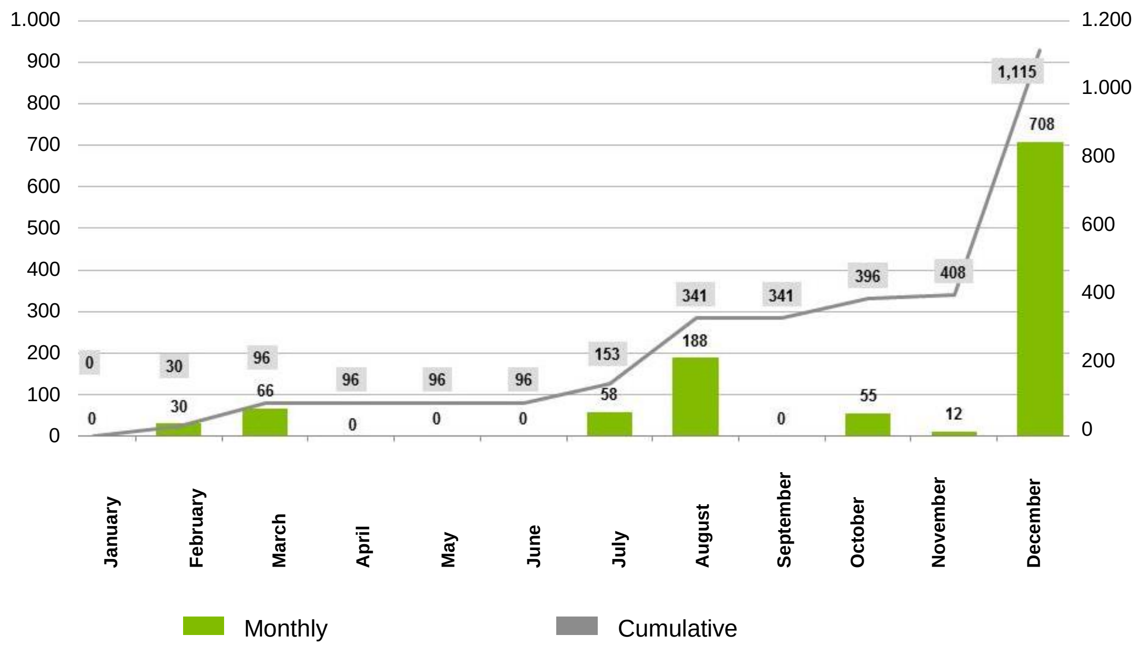
Property asset sales performance
(No. of units)



(*) Including 315 units relating to the sale of the Bank Asset Funds (FAB) May (277 units) and Baech (38 units).

More than 1,000 units were sold every month of the year, except for August and September, for seasonality reasons.

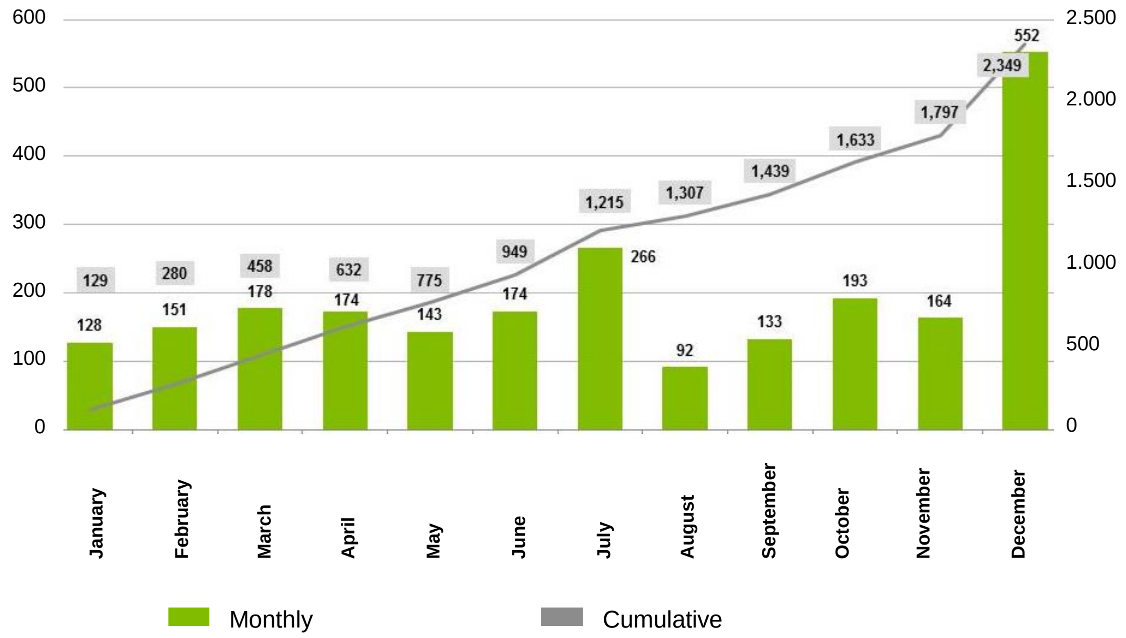
Wholesale sales performance *
(Millions of euros)



(*) Including retail sales of both financial assets and property assets.

Wholesale sales generated income of EUR 1,115 million, 91% of which was concentrated in the second half of the year. This circumstance is a result of the average periods required to prepare, market and close wholesale portfolio sales.

Retail sales performance
(Millions of euros)

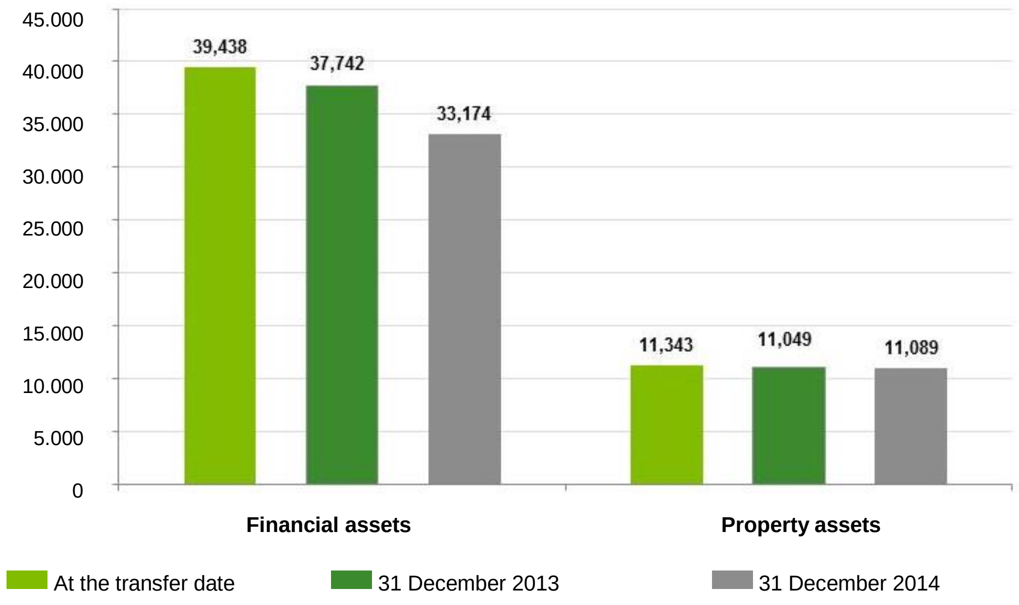


This channel includes sales of collateral and agreements reached for full repayment and sale of loans, retail sales and sales of singular assets, and rental income.

The increase in activity in December 2014 was due mainly to the signing of a high volume of full loan repayment and loan sale transactions, amounting to EUR 283 million, and to the sale of non-residential assets and land, amounting to EUR 40 million and EUR 95 million, respectively.

The detail at 31 December 2014 of the performance of the portfolio in 2014 is as follows:

Portfolio performance
(Acquisition cost in millions of euros)



Financial asset performance
Gross value (millions of euros)

The breakdown of the balance at that date was affected not only by the reduction due to the sales in the period, but also by other changes, including most notably:

- Conversion of financial assets into property assets, due to the foreclosures and dations of assets which to date had secured loans and credit facilities. The mortgage foreclosures and dations in payment in 2014 amounted to EUR 1,021 million.

- Increase in the balance of financial assets due to new drawdowns, since the loans transferred also included transactions with balances yet to be drawn down, in which SAREB was subrogated to the original obligations of the transferor institutions. The transfer agreement established a mechanism for subsequent settlement of the new drawdowns. The new drawdowns amounted to EUR 177 million in 2014.

- Increase in the property asset balance due to investments to develop land or complete construction projects. In 2014 property asset investments were made amounting to EUR 35.6 million, mainly in urban development of land and plots and in the advancement and completion of work in progress.

- Corrections made as a result of a detailed review of the portfolio transferred and the detection of errors or changes in the valuation performed at the transfer date. Corrections amounted to EUR 545 million.

Period earnings

Income statement (millions of euros)	2014	2013
	Amount	Amount
Revenue	**3,173**	**2,861**
Property assets	**1,133**	**887**
Property asset sales	1,074	818
Rental income	49	68
FABs and other	9	1
Financial assets	**2,040**	**1,974**
Financial asset sales (portfolios)	853	765
Interest income on loans and credit facilities (margin)	1,187	1,209
Cost of financial asset and property asset sales	**-1,576**	**-1,267**
- Property assets	-856	-639
- Financial assets	-720	-628
Gross income	**1,598**	**1,594**
Other operating income	1	1
Management, marketing and maintenance costs	-494	-401
EBITDA	**1,104**	**1,194**
Depreciation and amortisation charge and other	-71	-116
Net financial loss	-1,095	-1,222
Loss before tax and impairment losses	**-62**	**-144**
Impairment losses	-719	-259
Income tax	196	142
Net loss	**-585**	**-261**

In 2014, SAREB obtained EBITDA of EUR 1,104 million, and a loss before tax and impairment losses of EUR 62 million, less than half the figure for 2013.

Following a consultation submitted to the Bank of Spain, the Company dealt with extraordinary write-downs amounting to EUR 719 million. After these write-downs, the loss for the year amounted to EUR 585 million.

Detail of the income statement

The top line of the income statement detailed in this section is revenue amounting to EUR 3,173 million. Although total revenue amounts to EUR 5,115 million, in accordance with accounting standards this figure must be reduced by the cost of acquisition of the loans that were divested by the retail channels, giving rise to the net figure recognised in the income statement. In 2014 SAREB obtained gross margin of EUR 1,598 million, of which EUR 277 million arose from management and sale of property assets and EUR 1,321 million from financial assets.

Property asset margin

Property asset sales gave rise to total income of EUR 1,074 million, of which EUR 813 million relate to sales through the retail channel and EUR 261 million to sales through the wholesale channel.

To the income from property asset sales should be added the income generated by assets under leases, amounting to EUR 49 million in 2014, and returns on FABs, amounting to EUR 9 million.

Gross income (millions of euros)	
Retail sales	85
Sales of singular assets and other	134
Rent charged on property assets and FABs	58
Total gross income from property assets	**277**

Financial asset margin

The efforts to reduce the balance of financial assets were constant throughout 2014, although the materialisation of the sales of loan and credit portfolios to investors was concentrated in the latter months of the year.

The sale of financial asset portfolios generated income of EUR 853 million, concentrated basically in the last quarter of 2014, in particular in December.

Within the financial asset activity, EUR 1,187 million of accrued income were a result of interest on financial assets and of the margin obtained on full or partial repayment of loans and credit facilities.

This last-mentioned item includes both ordinary full and partial repayments and those generated by loan recoveries as part of the PDV and other similar initiatives.

Gross income (millions of euros)	
Loan sale and full repayment agreements	191
Full or partial repayments	309
PDVs - Collateral sale agreements	104
Financial asset portfolios	134
Interest on loans and credit facilities	583
Total gross income from financial assets	**1,321**

Operating expenses

The detail of “Operating Expenses” in 2014 is as follows:

Management and sales costs	**208**
Asset management fees	89
Asset sales costs	119
Upkeep and maintenance costs	**114**
Community association charges	49
Property tax (IBI) and other taxes other than income tax	43
Other upkeep and maintenance costs	22
Non-deductible VAT	**71**
General expenses	**101**
Personnel costs	27
Overhead costs	75
TOTAL	**494**

The Company's annual non-financial costs amounted to EUR 494 million. 42% related to fees agreed upon with the asset management service providers, which are largely the credit institutions that transferred the assets to SAREB, while retaining management of these assets until 31 December 2014.

The property asset upkeep and maintenance costs account for 23% of the total, a substantial portion of which relates to community association charges and property tax (IBI).

Financial loss

The financial loss for 2014 comprises:

- Financial income of EUR 45 million, arising basically from interest on the Company's cash management activity, since a liquidity auction process was implemented to optimise the cash available from origin and the cash generated in the year.

- Financial expenses of EUR 1,140 million, relating largely to interest on the debt issued by SAREB through bonds issued as senior debt or subordinated debt.

The activities carried on by SAREB in 2014 generated sufficient cash to meet interest payments and repay a portion of the debt, thereby reducing the Company's liabilities, which is its main objective.

Impairment losses recognised following the Bank of Spain consultation

The Company has in place all the mechanisms required to manage the risks inherent in its nature, in terms of both specific procedures and risk monitoring and control.

As a result of its balance sheet structure, the Company is exposed to credit risk since a high percentage of its balance sheet comprises financial assets.

Aware of this situation, the Company manages its financial asset portfolios with due regard to the credit risk associated with each type of product and customer, identifying the risk specific to each transaction until it is extinguished, measuring and assessing these risks in accordance with methodologies established for this purpose and performing recovery actions in the transactions that so require.

At 31 December, SAREB recognised an impairment loss of EUR 719 million on the participating loan and credit facility portfolio and on the portfolio of loans and credit facilities granted to borrowers that are in insolvency proceedings and are not current in payment and do not have collateral.

This impairment loss was calculated and recognised following the consultation submitted by SAREB to the Bank of Spain. At the date of submission, the Company was awaiting the approval of the circular implementing the criteria forming the basis of the methodology to be used by SAREB to estimate the value of its assets.

In its response to the consultation submitted, the Bank of Spain concluded that, taking into account the methodology for the transfer of assets and the evolution of the economic environment, which is close to the forecasts considered in the stress tests performed on the Spanish financial system, it is reasonable to conclude that there is no evidence of impairment on SAREB's property and financial asset portfolio, if taken as a whole.

The consultation also urged the directors to perform more intense scrutiny of the loans and credit facilities where SAREB's lending position is particularly weak and, in particular, to individualise the treatment of unpaid loans, without collateral, to borrowers in insolvency proceedings.

Accordingly, the Company recognised an impairment loss of EUR 719 million with charge to the result for 2014. The bulk of the portfolio of loans written down (EUR 628 million) relates to the sub-portfolio of uncollateralised unpaid credit facilities to borrowers in insolvency proceedings and which SAREB already projected in its business plan would give rise to losses as a result of divestments over the Company's lifetime. Therefore, the expectation of these write-downs has no impact on the global future projection figures.

The remainder of the write-downs (EUR 91 million) relates to the participating loan portfolio. In 2013 SAREB made a contribution of EUR 259 million to write down this portfolio. In total, the Company performed write-downs amounting to EUR 978 million over two years.

Prudent financial management

In 2014 SAREB made further progress towards fulfilling its primary commitment, i.e. the payment of the debt it issued to acquire its assets, amounting to EUR 50,781 million, which is backed by the Spanish Government.

As well as meeting the interest payments generated by this debt, in 2014 SAREB redeemed a total of EUR 2,980 million of its senior debt, albeit a portion is related to the allocation of the 2013 cash flow surplus. In order to analyse the redemption that actually relates to the 2014 cash flows, regard should be had to the repayment of the senior bonds to Group 1 institutions in December 2014 and the repayment to Group 2 institutions on 2 February 2015. Accordingly, until February 2015, SAREB had repaid a total of EUR 3,416 million with a charge to the 2014 cash flow surplus.

In the first two years taken together SAREB has repaid in full loans amounting to EUR 5,700 million, over 11% of the total debt, which stood at close to EUR 45,527 million at year-end.

In 2014, therefore, the balance of the bonds issued to the institutions was reduced mainly by two means:

- Redemption in cash, which accounted for EUR 2,800 million.
- Corrections, which accounted for EUR 544.8 million.

Also, two special transactions were performed, which permitted the redemption of bonds with a nominal amount of EUR 71.3 million.

Corrections

Within the lists of assets to be transferred, a series of financial and property assets were found to have been incorrectly included as they do not meet the requirements to be subsumed in any of the related asset categories in accordance with Article 48 of Royal Decree 1559/2012, of 15 November, and with the Resolution of the Governing Committee of the FROB on the conditions of the transfer.

In other words, these assets did not fall within the scope of transfer on the effective transfer date and, therefore, were outside the scope of the legal duty of transfer established in Additional Provisions 8 and 9 of Law 9/2012 on which the transfer agreement is based.

Accordingly, the nominal amount of the Group 1 bonds was reduced, due to corrections, by EUR 490.4 million in 2014.

As regards Group 2, the nominal amount of the bonds was reduced by EUR 54.4 million, and, therefore, total corrections amounted to EUR 544.8 million.

The detail of the bonds redeemed by means of correction in 2014 is as follows:

Corrections of SAREB bonds in 2014				
	Maturity 31/12/14	Maturity 31/12/15		Total
Group 1	367,900,000	122,500,000		490,400,000
	Maturity 31/12/14	Maturity 31/12/15	Maturity 31/12/16	Total
Group 2	15,700,000	25,200,000	13,500,000	54,400,000

(Figures in euros)

The correction of the scope of assets transferred will continue in 2015.

Redemptions

With regard to redemptions in cash, in April 2014 the Company decided to perform a reverse auction to repurchase securities issued and to use the call options included in the securities issued (the options are exercisable on 31 December on bonds issued for Group 1 and on 28 February on bonds issued for Group 2) in order to partially redeem those issues.

The amount allocated for these redemptions totalled EUR 2,800 million.

On 10 April 2014, bonds with a nominal amount of EUR 1,400 million were redeemed, of which EUR 1,000 million related to Group 1 and EUR 400 million related to Group 2. All the redeemed bonds related to SAREB 3-year bond issues, i.e. maturing on 31 December 2015 and 28 February 2016, which have the highest spreads.

On 31 December 2014, Group 1 bonds with a nominal amount of EUR 900 million were redeemed. This amount also related mainly to the issue of SAREB 3-year bonds, which is the issue with the highest spread on 3-month Euribor.

The detail of the bonds redeemed in cash on 10 April 2014 and 31 December 2014 is as follows:

SAREB bonds redeemed in cash in 2014		
	Maturity 31/12/15	Total
Group 1	1,900,000,000	1,900,000,000
	Maturity 31/12/16	Total
Group 2	400,000,000	400,000,000

(Figures in euros)

In February 2015, an additional EUR 500 million were redeemed, with a charge to the cash generated in 2014, as follows: Group 1 bonds, EUR 34.2 million; and Group 2 bonds, EUR 465.8 million.

In both cases the redeemed securities were SAREB 3-year bonds.

The detail of the bonds redeemed in cash in February 2015 is as follows:

SAREB bonds redeemed in cash in 2015		
	Maturity 31/12/15	Total
Group 1	34,200,000	34,200,000
	Maturity 31/12/16	Total
Group 2	465,800,000	465,800,000

(Figures in euros)

The performance of the balance of Group 1 and Group 2 bonds in 2014 was as follows:

Performance of Group 1 bonds issued and delivered in 2014						
Nominal amount issued	Balance as at 31 December 2013	Maturity	Coupon	Corrections	Redemptions in cash (*)	Balance as at 31 December 2014
11,008,100,000	10,481,300,000	31/12/14	3-month Euribor + 0.656%	147,100,000	49,300,000	10,284,900,000
16,512,600,000	15,722,300,000	31/12/14	3-month Euribor + 2.562%	220,800,000	74,000,000	15,427,500,000
9,173,600,000	8,734,600,000	31/12/2015	3-month Euribor + 2.964%	122,500,000	1,989,600,000	6,622,500,000
36,694,300,000	**34,938,200,000**	**-**	**-**	**490,400,000**	**2,112,900,000**	**32,334,900,000**

Performance of Group 2 bonds issued and delivered in 2014							
Nominal amount issued	Balance as at 31 December 2013	Maturity	Coupon	Corrections	Redemptions in cash (*)	Balance as at 28 February 2014	Balance as at 31 December 2014
4,225,900,000	4,217,600,000	28/02/2014	3-month Euribor + 1.242%	15,700,000	116,600,000.00	4,085,300,000	-
4,085,300,000	-	28/02/2015	3-month Euribor + 0.272%	600,000	-	4,085,300,000	4,084,700,000
6,339,200,000	6,326,700,000	28/02/2015	3-month Euribor + 2.017%	24,600,000	198,000,000.00	-	6,104,100,000
3,521,600,000	3,514,700,000	28/02/2016	3-month Euribor + 2.464%	13,500,000	497,300,000.00	-	3,003,900,000
14,086,700,000	14,059,000,000	-	-	27,700,000	-	-	13,192,700,000

(*) In February 2015 there were additional redemptions of EUR 34.2 million of Group 1 bonds and EUR 465.8 million of Group 2 bonds.

In accordance with the underwriting agreement, on the maturity date of the various senior bond issues, the Company redeemed at maturity the SAREB 2013-4 and SAREB 2012-2 issues by issuing new senior 1-year and 2-year bonds, maturing on 31 December 2015 and 31 December 2016, respectively. The spreads set for these issues were 29.7 basis points and 42.8 basis points, respectively, as compared with 68.6 basis points and 256.2 basis points, respectively, for the redeemed bonds.

Financial expenses

The financial expenses incurred in 2014 amounted to EUR 1,140 million. This is the Company's main expense item. However, in 2014 the Company generated gross cash exceeding EUR 4,000 million, sufficient to meet the debt service payment and to allocate EUR 1,400 million for the redemption of senior debt, as indicated above.

Capital structure

With regard to SAREB's capital structure, its shareholders' equity amounted to EUR 1,200 million at the incorporation date, made up of share capital (EUR 300 million) and a share premium (EUR 900 million). Shareholders' equity was fully paid in February 2013, with the transfer of Group 2 institutions. The largest shareholder is the FROB, with 45% of the share capital, and the remaining 55% is owned privately.

The detail of the share capital is as follows:

	Share capital (millions of euros)	Share capital
SANTANDER	207.40	17.3%
CAIXABANK, S.A.	149.30	12.4%
BANCO SABADELL	83.20	6.9%
POPULAR	71.70	6.0%
KUTXABANK	31.50	2.6%
BANCA MARCH, S.A.	4.90	0.4%
BANKINTER	17.00	1.4%
IBERCAJA	17.70	1.5%
UNICAJA	15.80	1.3%
CAJAMAR CAJA RURAL, S.C.C.	15.00	1.3%
BARCLAYS BANK, S.A.	3.00	0.3%
CAJA LABORAL POPULAR C.C.	7.40	0.6%
DEUTSCHE BANK, S.A.E.	3.70	0.3%
CECA	4.20	0.4%
BANCO COOPERATIVO ESPAÑOL, S.A.	3.90	0.3%
C.C. CAMINOS	0.80	0.1%
MAPFRE	10.00	0.8%
AXA SEGUROS GENERALES	2.00	0.2%
MUTUA MADRILEÑA	6.00	0.5%
CATALANA OCCIDENTE	3.00	0.3%
IBERDROLA INMOBILIARIA	2.50	0.2%
FROB	540.00	45.0%
TOTAL	**1,200.00**	**100%**

The Company's initial shareholders' equity of EUR 1,200 million was reduced to EUR 354 million due to the absorption of losses in 2012, 2013 and 2014.

SAREB also issued subordinated debt amounting to EUR 3,600 million that was underwritten by around 30 investors.

This subordinated debt is convertible into capital in certain circumstances and it bears an 8% coupon payable if there is sufficient distributable profit.

The detail of the investors is as follows:

	Share capital (millions of euros)	Share capital
SANTANDER	598.20	16.6%
CAIXABANK, S.A.	431.90	12.0%
BANCO SABADELL	238.10	6.6%
POPULAR	204.60	5.7%
KUTXABANK	91.20	2.5%
BANCA MARCH, S.A.	14.30	0.4%
BANKINTER	49.20	1.4%
IBERCAJA	51.30	1.4%
UNICAJA	45.60	1.3%
CAJAMAR CAJA RURAL, S.C.C.	43.40	1.2%
BARCLAYS BANK, S.A.	8.60	0.2%
CAJA LABORAL POPULAR C.C.	21.30	0.6%
DEUTSCHE BANK, S.A.E.	10.70	0.3%
CECA	12.10	0.3%
BANCO COOPERATIVO ESPAÑOL, S.A.	11.40	0.3%
C.C. CAMINOS	2.20	0.1%
MAPFRE	40.00	1.1%
AXA SEGUROS GENERALES	8.00	0.2%
GENERALLI	5.00	0.1%
MUTUA MADRILEÑA	24.00	0.7%
CATALANA OCCIDENTE	12.00	0.3%
MUTUA PELAYO	3.00	0.1%
ASISA	2.00	0.1%
REALE	3.00	0.1%
ZURICH	5.00	0.1%
STA. LUCIA	4.00	0.1%
IBERDROLA INMOBILIARIA	7.50	0.2%
FROB	1,652.40	45.9%
TOTAL	**3,600,000**	**100%**

Interest rate hedging

Financial assets represent the bulk of SAREB's portfolio and, accordingly, credit risk management is key to ensuring fulfilment of the disinvestment objective. In view of the volume of bonds that SAREB issued to purchase the assets, and in order to reduce its high exposure, in 2013 the floating rate profile of its borrowings was swapped for a structure with a fixed rate benchmark replacing Euribor for over 80% of the debt.

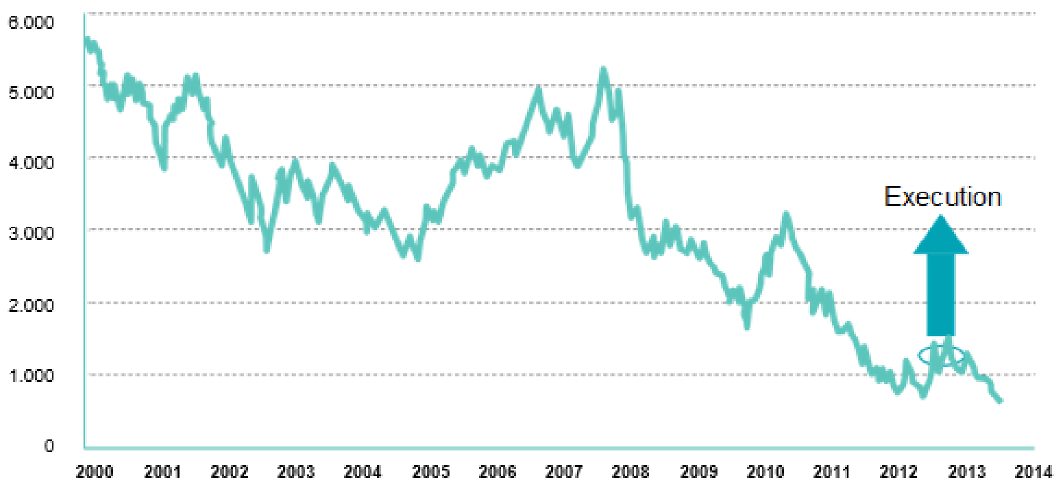
Thus, in the summer of 2013 the Company arranged nine consecutive 1-year interest rate swaps (IRSs) (from December 2013 to February 2023), for which SAREB pays a fixed rate in exchange for 3-month Euribor, which is the benchmark rate for the hedged bonds. The reference initial nominal amount of the derivative was EUR 42,221 million.

The arrangement of this hedge made it possible to reduce uncertainty and risk in relation to a possible interest rate rise, which would have had a substantial impact on the Company's business plan and viability.

In accordance with accounting standards, changes in value of the derivative are recognised in the Company's equity and are taken to profit or loss each year over the term of the hedge. The total fair value, net of tax, of this derivative is recognised on the liability side of the Company's balance sheet at EUR 2,710 million. This makes SAREB's equity negative from an accounting point of view, but has no impact on its activity, since it does not affect results or capital in accordance with Article 36 of the Spanish Commercial Code.

The fall in interest rates in 2014 and, in particular, the reduction in the spread on Spanish Treasury bonds enabled SAREB to enjoy a substantial reduction in the Company's finance charge, since a portion of the borrowing risk was not hedged in 2013. The weighted average fixed rate of the transaction over the term of the hedge is 1.586%.

Performance of 5-year swap rate



From the standpoint of the interest rate risk of the bonds issued, the risk associated with the variable spread on the bonds that depends on the Treasury asset swap at the maturity of the bonds and the 3-month and 6-month Euribor spread is limited to 2%.

The Company's liquidity investment policy has been one of the mainstays in risk management and it was implemented within a strict framework approved by the Board of Directors.

All SAREB's financial risk factors are the subject of ongoing analysis and at the same time the strictest and most sophisticated stress techniques are applied to them, in order to take into account at all times the extreme scenarios with which the Company might be faced.

In 2014 progress was made in the implementation of additional risk valuation and measurement models that strengthened monitoring and specific actions were carried out in all significant risk clusters.

Performance based on the business plan

The objective of SAREB's 2015-2027 Business Plan is to maximise value for the shareholder/bondholder within assumable risk parameters and subject to fulfilment of the regulatory obligations imposed by Royal Decree 1559/2012:

- Minimise public financial assistance.
- Settle the debts and obligations assumed in the course of its operations.
- Minimise possible market distortions that might arise from its actions.
- Dispose of the assets received while optimising their value, within the lifetime limit established for SAREB.

SAREB's Business Plan must be updated annually. The update made to the plan in 2015 did not have a dramatic effect for various reasons.

Firstly, the massive preliminary information on the assets that was collected in the due diligence of the assets in 2013 was essentially the same in 2014 as in the prior year, with certain improvements due to the internal and external valuation of loans and property assets.

Secondly, the property market forecasts made in 2013 were very much in line with the global figures, which did not give rise to major changes in projections. The biggest positive change was the reduction in the Company's finance costs due to the drop in benchmark interest rates on its senior debt and on the Treasury bond spread.

With respect to the 2014-2027 Business Plan and the 2014 Budget (both of which contain almost identical figures for 2014 even though they are presented differently), the Company's performance in 2014 can be deemed satisfactory. Actual revenue was 93% of forecast revenue and the Company's gross income was slightly higher than forecast.

Actual EBITDA in 2014 was 12% higher than forecast in the 2014 budget and net loss before tax and impairment losses was less than half the losses forecast in the two documents. As regards the final net loss after impairment losses, neither SAREB's budget nor its business plan provided forecasts comparable with the actual loss of EUR 585 million.

With regard to the structure of income and margins, the share of the property and financial assets was close to that expected, although within the property assets sales of singular assets (land, large tertiary assets) performed particularly positively, and within the financial assets the PDVs performed somewhat worse than expected.

The up-to-date Business Plan conveys a clear message as to SAREB's capacity to meet its objectives. In fact, it generates a positive combined return for the shareholder or subordinated debt holder and, in addition, sufficient cash flow to:

- Meet all the operational payments of the year.
- Repay the cash disbursed for share capital and subordinated debt at year-end.
- Repay senior debt in full and cover the interest thereon.

The divestment strategy underlying the Business Plan has also remained relatively stable. The Company continues committed to the multi-channel approach, i.e. combining sales channels to maximise the value of the assets and to create value, which consists of:

- Taking full advantage of the absorption capacity of the retail channels by fostering specific initiatives (such as the Sales Growth Plans) and other commercial actions that reinforce the sale of loans and of property assets.
- Giving a boost to the analysis and planning of land development so as to increase the value of such land.
- Consolidating the enhancement of the collateral with the highest revaluation potential and the lowest costs of holding it on the balance sheet.

The SAREB Business Plan is based on reasonable assumptions on the performance of the Spanish property market which, to date, has been in line with these forecasts. However, a caveat should be made that the results of the Business Plan are sensitive to the aforementioned market performance and, therefore, this is the greatest risk facing the Company in fulfilling its mandate.

5.2. Transactions

The Transactions area is one of the pillars supporting SAREB's divestment efforts. Its objective is focused on the sale of assets.

At 2014 year-end, SAREB had a property asset portfolio of more than 104,000 units, with a carrying amount of approximately EUR 11,089 million. 63% of the carrying amount and 60% of the assets are concentrated in Andalusia, Catalonia, Madrid and Valencia:

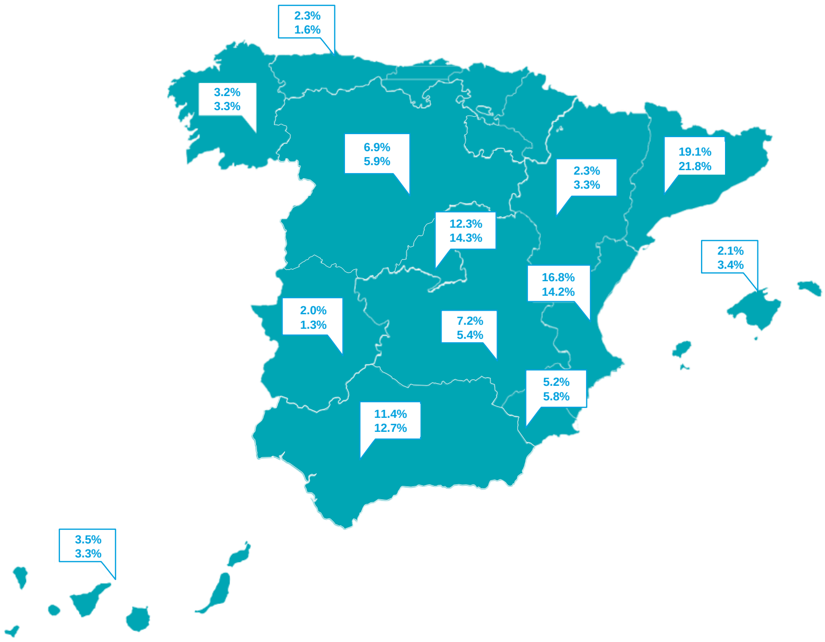
- The more than 82,000 residential assets (housing and outbuildings) represent close to 50% of the carrying amount of the property stock. Housing, in particular, represents 11% of the total value of the portfolio received by SAREB.

- The total non-residential stock (commercial premises, offices, industrial buildings and others) represents 14% of the total property stock in terms of carrying amount.

- The land portfolio represents more than 36% of the property stock in terms of carrying amount and 8% of the total value of the portfolio received by SAREB.

SAREB's property asset portfolio is detailed in full in chapter III, Portfolio.

Geographical breakdown of the property asset portfolio (31 December 2014)
(% of units / % acquisition cost in millions of euros)

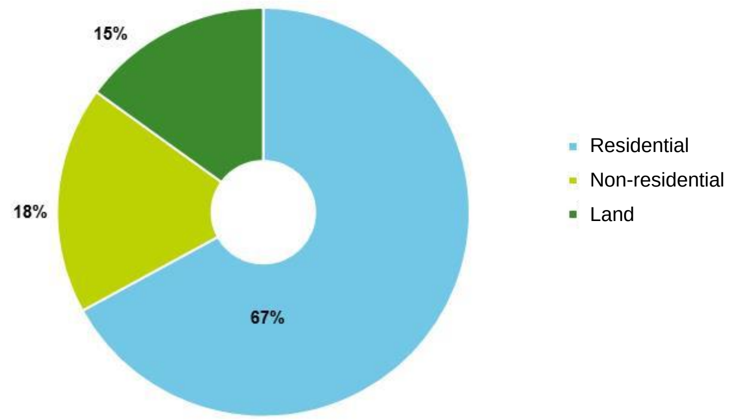


The detail, by type of collateral, of the loan portfolio is contained in the Restructuring and Recoveries section.

One of the most significant tasks performed, in conjunction with the Risk area, is the review of the market prices of the property assets, whether owned by SAREB or held as security for its loans.

In 2014, SAREB reviewed more than 55,000 units of foreclosed property assets and collateral. Additionally, specific analyses were performed of the performance of the residential market, both rental and sales.

Pricing per asset (%)



More than 15,000 properties sold in 2014

In 2014, SAREB sold 15,298 properties: 8,000 through PDVs, while the retail and direct channels contributed the sale of more than 7,000 assets. Additionally, SAREB sold more than 1,000 properties through the institutional channel. These data consolidate SAREB as one of the main market players, with an average of 45 properties per day, well above the target of 30 properties per day set for 2014.

With respect to the sale of loans, it should be noted that SAREB mainly approaches three types of buyers: the loan holders or borrowers, third parties not related to the debt, or institutional investors. In all cases, the acquisition of loans is shaped either by the expectations of recovering the principal of the loan or by the quality of the collateral.

Retail and direct channel

SAREB's retail and direct channel contributed almost 80% of the Company's income in 2014 (EUR 4,000 million).

Of the more than 7,000 owned properties sold through this channel, 85% were for residential use, around 500 properties were land (96% urban and under development) and up to 216 offices, premises and industrial buildings.

52% of total own sales were concentrated in the provinces of Madrid, Barcelona, Málaga and Valencia, although sales were made in substantially all of Spain.

Breakdown of retail sales in 2014

(% of units sold / % of retail price sold)

By type, 63% of the volume of income from owned properties in this retail channel arose from the sale of residential assets, 26% from the sale of land and the remaining 11% from the sale of tertiary and industrial use assets.

In 2014 there was a lower volume of residential sales, which represented 80% of income in 2013. However, noteworthy is the rise in land transactions, which led to around 500 closed sales, mainly to investors with considerable local knowledge and medium-term interests. Also worthy of note is the reinforcement of tertiary transactions in 2014, which doubled with respect to 2013.

"SAREB Responde" and the property website

2014 represents the consolidation of "SAREB Responde" ("SAREB Responds"), a channel that deals with and resolves inquiries, complaints and requests from individuals, companies and other groups, and in 2014 dealt with a total of 11,040 contacts, with an average of 920 procedures per month. In 2014 the channel was reinforced with the implementation of a technology solution to monitor and trace each procedure from the request to the conclusion with a satisfaction survey. More information on "SAREB Responde" is contained in the Dialogue with stakeholders section of chapter VI.

Also, the Company added another key retail sale tool, namely the property website www.inmuebles-Sareb.es, rolled out in March 2014, which has proven to be a useful instrument to display products that are not normally widely visible on the property market: land, hotels, shopping centres and commercial premises. Hence, for example, it contains close to 1,000 assets advertised with land, as the main type.

In 2014 the website received 148,461 hits and had a total of 121,963 users. The total number of pages visited was 888,150. In the nine months since its creation, a total of 3,766 requests for information were received, in particular regarding land, rural properties and hotels.

Various asset sale marketing actions were performed from the website in 2014, such as the "Haya Otoño" ("Haya Autumn") campaign and the Spain-wide campaign "Últimos precios" ("Latest Prices"). Also, the Company attended trade fairs, placed adverts in the specialised media and took action to boost the marketing of rental.

www.inmuebles-Sareb.es

No. of hits 2014	148,461
No. of users	121,963
Total no. of pages visited	888,150
No. of pages per session	6.32
Average length of search on the website	3’ 02’’

No. of information requests on the property website

Land	Rural properties	Offices	Industrial buildings	Commercial premises	Hotels
1,409	1,128	187	94	296	652

Institutional channel

The Transactions team has an area specialised in the sale of portfolios and another area dedicated to the management of major loan collateral.

The two lines of activity are of great importance to SAREB's divestment efforts. The Company has an Investor Relations department that supports the Transactions Division in portfolio and bilateral sales.

In 2014 SAREB received visits from over 450 potential investors of various types and nationalities, which contribute an accurate view of the most sought after types of asset and/or transaction. More information is contained in chapter IV, SAREB Commitments/Investors.

Sales to institutional investors are carried out as part of a divestment strategy that analyses factors relating to market demand, types of investor, amounts to be invested, expected returns and special features of investment vehicles.

The preparation of the portfolios requires coordination with different departments of the organisation that participate in each stage of the process, from identification of the strategy, designation of the scope, preparation of the sales process and launch of this process or conclusion of the transaction.

In 2014, a considerable sales effort was made to specialist investors, in transactions that generated income of EUR 1,115 million, which represents 20% of SAREB's income.

Eleven large transactions were completed in 2014, mainly loans representing 84% of total wholesale transactions. SAREB distinguishes between projects aimed at more than one buyer and portfolios in which the final successful bidder is a single investor.

Main portfolios and projects concluded in 2014

Kaplan	Secured SME loans - residential and land
Crossover	Land - Alicante, Balearic Islands, Barcelona, Madrid
Dorian	Rental housing
Klauss	SME loans
Pamela	Secured loans - buildings, Madrid
Agatha	Loans and rental properties
Aneto	Secured loans - residential and land
Olivia	Secured loans - residential and commercial
Meridian	Secured loans - tourist assets
Corona	Rented offices - Madrid

The wholesale land transactions performed in 2014 were particularly significant, since these transactions are unprecedented in the sector and they demonstrate the renewed interest in a type of assets in which transactions had been scant to date. Also, the conclusion of these transactions reaffirms the interest in long-term investment.

Challenges for 2015

2015 will be a year of major challenges for SAREB and also one of major opportunities, in both cases due to the entry into operation of the new servicers. The migration of portfolios will also pose a complex challenge, but once this process is complete asset management will be more professional and dynamic than to date.

For 2015 as a whole, the Transactions area has set itself several objectives:

- To maintain the rate of property sales at close to 15,000 units and retain its position among the five largest market players.
- To increase service quality through the new servicers.
- To intensify the offering to specialist value-added investors (middle market).
- To market a wide range of portfolios to institutional investors throughout the year.
- To provide swifter and more effective responses to market demands, through "SAREB Responde".

5.3. Restructuring and Recoveries

The Restructuring and Recoveries area performs a critical function in the transformation of SAREB's portfolio. Its activity is focused on the management of the Company's financial asset portfolio with the aim of exercising and safeguarding collection rights, achieving in the shortest time possible and with the best terms of return, the purpose of the rights.

Since SAREB was incorporated, property loans and credit facilities have accounted for a large proportion of the Company's property portfolio, i.e. 77.7% vs 22.3%, at the date of transfer of the assets. This circumstance changes constantly, due to either the full repayment of the loan or the taking of ownership of the guarantee. In fact, at 2014 year-end, the property asset portfolio had fallen to represent 74.9% of the total assets recognised on the Company's balance sheet. In 2014, the value of the financial asset portfolio amounted to EUR 33,174 million.

It is precisely in this transformation process where the Restructuring and Recoveries area is most valuable, due to the work carried out with property developers to accelerate this conversion. Therefore, its teams maintain an open and fluid dialogue with the sector, promoting negotiations and certain credit drawdowns as well as dations in payment and other formulas.

At 2014 year-end, SAREB had a total of 17,937 borrowers or debtors, 3% less than at the end of 2013. Of this total, 16,387 were representative borrowers or primary holders of the debt.

Through this channel of ongoing contact with its borrowers, in 2014 SAREB managed a total of 11,561 proposals from developers, 46% more than those reported in 2013:

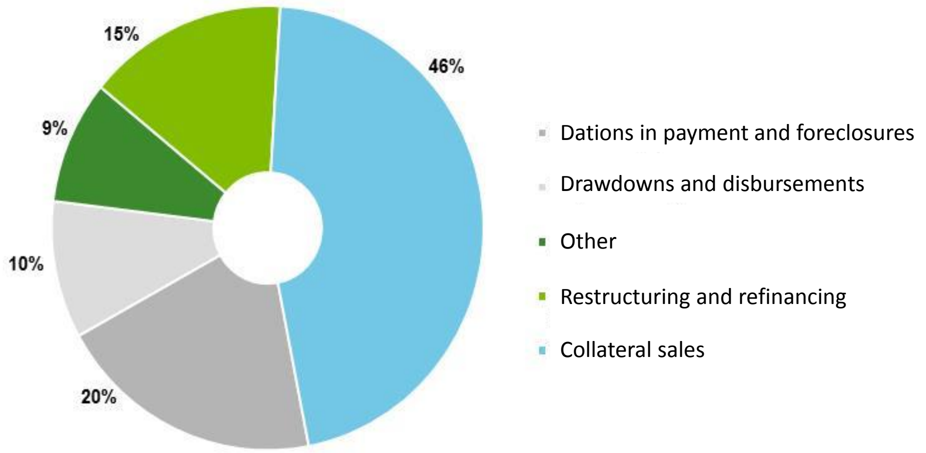
- Approximately 50% involved cooperation with the developer to accommodate the terms and conditions of the loan and facilitate the sale of the properties securing the financing granted.

- The remaining 50% related to transactions which involved dations in payment, restructuring and refinancing transactions and credit drawdowns.

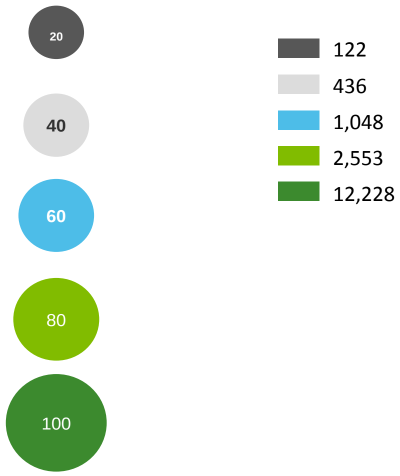
The most notable type of approved proposals was the sale of collateral (46%) facilitating the repayment of debt. In 2014 approval was granted for 3,014 agreements with property developers based on PDVs for collateral and around 2,250 retail collateral sale transactions.

These agreements enabled developers to sell the collateral securing the financing, thereby reducing their credit exposure. All the management efforts performed with developers enabled SAREB to reduce its exposure by approximately EUR 2,300 million. Of this amount, approximately EUR 1,130 million relate to the reduction in exposure due to PDVs through the realisation of collateral at market prices.

Developer proposals approved in 2014
(% of acquisition cost)



Detail of primary borrowers by percentile of debt (%)
(31 December 2014)
Total no. 16,387



Breakdown of assets by range of debt (%)
(31 December 2014)

Range	%
< 0.5 million EUR	12.2
[0.5-1) million EUR	7.6
[1-2) million EUR	12.1
>= 2 million EUR	68.1

Breakdown of portfolio by borrowers (autonomous communities)
(% of gross carrying amount 31 December 2014)

The management of the loans transferred obliges the Restructuring and Recoveries area to maintain close relations with the portfolio transferor institutions and the new servicers selected before the end of 2014 to manage the assets, the activity of which is supervised and controlled by SAREB and to which it has delegated certain powers for decision-making in negotiations and the scope of agreements.

In other cases, the Restructuring and Recoveries area is responsible for directly managing certain customers due to their type or volume of credit. In order to perform this task with guarantees, the area developed a classification of the portfolio of borrowers by volume, type of guarantee and payment behaviour.

The Restructuring and Recoveries area also performs considerable work in terms of risk monitoring and prevention at all stages, including the court stage. Additionally, the various debt recovery alternatives that it studies also include the retail sale of certain credit facilities. Also, it is supported by other areas of the Company in other transactions, with which it coordinates previously analysed and proposed solutions.

Improvement actions and keystones in 2015

In order to maintain a line of action in keeping with the Company's objectives and internal procedures, the area promoted various measures in 2014 aimed at improving the general restructuring and recovery management policy, for the correct performance of these activities, in line with the general objective to divest its assets as quickly as possible with these guidelines for action: orderly settlement of the portfolio, maximisation of value, integrity and conduct, avoiding possible conflict.

In this connection, it works to improve the responsible issue and release of information and transparency and the identification of risk in the proposals, and in the recognition of third parties interested in the good performance of this task, both shareholders and borrowers and servicers, whose interests must be taken into account in the day-to-day activities and decision making.

In 2015 the keystones of the activity in this area were focused on the following:

- Proactive monitoring and management of the SAREB borrowers' portfolio, enabling the incorporation of its best know-how and fundamentally the best level of treatment possible.

- Anticipation of situations of impairment and the adoption of decisions that mitigate them, taking priority over other creditors.

- Inclusion of monitoring and control mechanisms for the procedures performed with borrowers, both through servicers and through the Company itself, to ensure effective management and the maintenance of a matrix of knowledge of the work performed, in favour of greater added-value.

- Speeding-up of the resolution of borrowers' requests and concerns, minimising response times and improving the impact on SAREB's financial statements.

- Maintenance of stringent criteria, based on the highest possible level of recovery in the shortest possible time, through the valuation of the guarantees assigned, corporate guarantees, deposits and generation of funds.

- Leadership in the transformation of the recovery process, from the existing channels to new frameworks of action of the servicers, promoting and directing this activity from SAREB indirectly.

- Capitalisation on the allocation of portfolios under direct management and incidence on risk due to its greater impact on SAREB, its particular difficulties and the repercussion of its uniqueness in certain cases.

5.4. Assets

The Assets area was created in 2014 to strengthen the management and administration of the property assets recognised on SAREB's balance sheet with two objectives: to create value, optimising and controlling the proactive management of land and property development; and to protect the value, optimising the maintenance of assets earmarked for sale in the medium to long term, renting other assets and managing the rental income from the agreements.

The main lines of activity related to value creation are concentrated in the Assets area. On the one hand, the strategic commitment to develop an industrial rental policy, enabling finished buildings to be allocated to this activity in the future, and, on the other hand, the management of land in its various phases or of work in progress.

The area has defined a management strategy for each segment of the portfolio, which enabled it to classify assets on the basis of whether they should be earmarked for sale in the short term, held on SAREB's balance sheet to be sold in the medium to long term, or developed, as is the case with certain land.

Property development

In 2014, 52 property developments were started with a view to their completion (see locations on the map), of which 30 obtained the First Occupancy Licence in 2014. In 2014 as a whole property asset investments were made amounting to EUR 35.6 million, mainly in the urban development of land and plots and in the progress and completion of work in progress.

SAREB expects to complete the remaining 22 property developments in 2015. Additionally, the Company is studying the selection of around 60 construction projects to be resumed in 2015, as well as land for the possible development of residential buildings in the medium term.

No. of property developments started in 2014

Business development

The Business Development activity is intended to establish the lines of cooperation with third parties, aimed at the development of assets and the analysis, control and monitoring of the Bank Asset Funds (FABs) created by the Company.

At 2014 year-end, five FABs had been created, of which two were developed in the second half of the year. In this process, the area selected the assets to be included in the new FABs and prepared the FAB value creation documents and strategy.

The performance of these funds, with SAREB ownership, was as follows:

- FAB Bull: created in December 2013, at 2014 year-end it obtained cumulative income from sales of EUR 43 million, from a total of 716 units sold (416 housing units, 220 garages, 78 storage rooms and 2 premises).The rate of sales was positive. In fact, many of the property developments that were made available for sale in 2014 have already been sold. SAREB has a 49% ownership interest in this FAB, which is recognised in the Company's financial statements.

- FAB Teide: created in December 2013, it reported sales of EUR 41.6 million in 2014, as a result of the sale of 585 units (266 housing units, 231 garages, 84 storage rooms and 4 premises). SAREB has a 15% ownership interest in this FAB.

- FAB Corona: created in December 2013, wholly owned by SAREB, it had no property assets remaining at year-end following the sale of the four office buildings of which it was comprised. The sale was carried out for EUR 81.3 million.

- FAB May: created on 8 July 2014, and SAREB holds a 5% ownership interest. The assets included in the FAB are urban land located in Madrid, Barcelona, Alicante and the Balearic Islands.

- FAB Crossover: created on 2 December 2014, and SAREB holds a 20% ownership interest. The assets included in the FAB are urban land.

Land

In 2014 SAREB submitted for consideration 30 urban development documents with the aim of promoting urban development in a like number of cases. Also, agreements were reached with other administrations that allowed the formalities to commence for effective land management.

In 2014 the Company selected 200 land plots that required priority management. Also, at year-end, the number of areas requiring active management, due to the existence of an approved management system, had increased to 694.

Asset maintenance

In 2014 SAREB developed general maintenance guidelines, indicating the kind of maintenance to be applied to each asset, depending on the type, amount, condition, etc. of the asset.

Also, preventative maintenance measures were implemented in all construction projects (in progress or suspended) under SAREB's direct management, and maintenance activities were performed and security measures were installed, for an amount of over EUR 22 million.

The team worked on the development of a fire prevention plan, focused on establishing the guidelines that must be applied on all SAREB land in order to comply with the Spanish or autonomous community government regulations on this matter.

In 2014 a Criminal Risk model was also prepared for maintenance actions.

Asset management. Rental

In 2014 the rate of rental activity in the tertiary portfolio became more dynamic, in most cases, due to an active renegotiation policy, despite the decrease caused by the sale of rental assets. The number of tertiary assets rented at year-end was 541, primarily commercial spaces (244 units) and offices (207 units), mainly in the region of Madrid, which was more dynamic than the other autonomous communities.

In 2014 there was a slight decrease in rental in the residential segment (a total of 4,297 units were rented, mainly in Catalonia and Madrid and, to a lesser extent, in the autonomous community of Valencia), due to the sale of rented assets.

The creation of the Assets area laid the foundations to enter into agreements with various autonomous communities for the transfer of up to a total of 2,000 housing units for social use. In 2014 the first agreement was entered into in Catalonia, followed shortly by Aragón (entered into on 5 February 2015) and Galicia (entered into on 17 March 2015).

SAREB aspires to be able to involve other autonomous communities, as well as foundations and social institutions.

More information on the agreements with autonomous communities is contained in the Housing and Society section of chapter VI, SAREB's commitments.

Asset segmentation

Within this area, work has also been carried on the segmentation of the portfolio assets, both by use (type) and by value, and consideration was also given to the associated costs for value creation; the ultimate goal of management.

Segmentation facilitates decision making and the establishment of future policies, from the various perspectives of the assets under management, both for sale and for rental, without losing sight of maintenance.
The work performed in this area resulted in the definition of assets for defensive rental, assets requiring maintenance and assets for sale.

The residential asset portfolio is highly fragmented in terms of units and, in particular, in terms of acquisition cost.

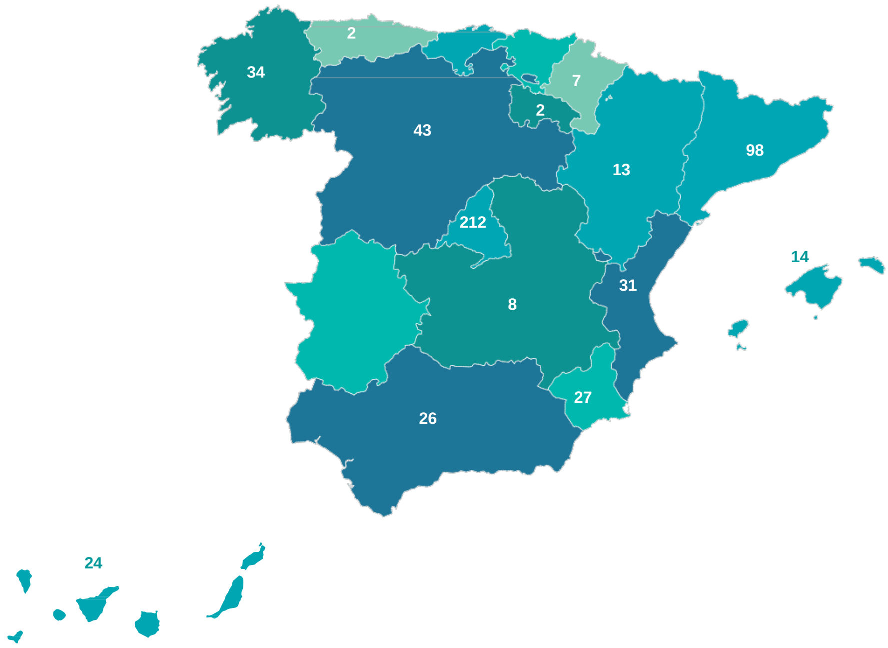
The tertiary asset portfolio, segmented by tranche of value, has a high percentage of hotel and singular assets in the first value tranche, while the concentrations of commercial and industrial assets are fragmented and in the last value tranche.

Thus, SAREB will continue to pursue sale, maintenance and/or development, on the basis of commercial expectations, with greater future control over asset costs.

All of the foregoing while managing the rental assets on a day-to-day basis, from the point of view of assets and current and future rental, as well as maintenance and cost control, which it will continue to perform in coordination with the transferors and new servicers.

Rented tertiary asset portfolio in 2014

Total: 541 units



Rented residential asset portfolio in 2014

Total: 4,297 units

6 SAREB's commitments

6.1. Introduction

SAREB's corporate responsibility policy forms part of the fulfilment of its mandate: the management and orderly sale of the assets acquired from financial institutions which received government assistance, thereby becoming an important agent in the clean-up of the Spanish financial system.

SAREB is firmly committed to fulfilling its mandate under an asset management model that is both sustainable for the Company and responsible for its stakeholders.

Its characteristics and business model establish a unique, sustainable and responsible management approach, the aim of which is not to ensure the Company's longevity (the Company must cease its activities before November 2027), but to operate as a tool that allows the Company to identify and meet the needs of its stakeholders and ensure that its activities benefit the Company.

6.2 Mission, vision and values

SAREB's strategy is directly linked to its commitment to act as a key element in achieving an adequate and sustainable recovery of the Spanish economy. Its Mission, Vision and Values embody the guiding principles that will allow it to successfully complete the tasks with which it has been entrusted.

SAREB’s Mission is to divest its assets within 15 years, whilst maximising their value. It is committed to managing and selling the property and financial assets received within the set timeframe, aiming to obtain the maximum value for them and repay its Spanish government-backed debt. SAREB must ensure its viability as a company in order to fulfil its commitments to its shareholders, investors and society as a whole.

As regards its Vision, SAREB works to improve the Spanish economy, in order for it to have a favourable effect on society as a whole. SAREB is a private company committed to fulfilling its mandate, thereby contributing to the cleaning-up of the financial system and the Spanish economy. As part of this process it is essential that its employees are professionally and ethically competent.

The Values which govern SAREB's day-to-day activities are integrity, transparency and civic duty:

- Integrity means that the actions and behaviour of all of SAREB’s employees must conform with the regulations and ethical standards of SAREB’s business culture.

- Transparency implies that SAREB commits to being open with regard to its policies and procedures and is conscious of the fact that it acts under the watchful eye of society as a whole.

- Civic duty entails performing the task with which it has been entrusted in accordance with ethical standards and in a socially responsible manner.

SAREB's commitments

SAREB's corporate social responsibility means translating its values into a series of commitments to its stakeholders, under the general principle that these commitments must at all times comply with its legal mandate, which involves making a greater and better contribution to Spanish society as a whole.

SAREB's main commitments are as follows:

- Transparency and accountability: SAREB assesses its performance and is accountable for its activities and for the fulfilment of its legal mandate to the authorities and society as a whole. The Company undertakes to maintain a permanent dialogue with the authorities charged with its supervision and to abide faithfully by their recommendations and demands.

  Its commitment to transparency extends beyond mere compliance with the legislation requiring it to report on certain aspects relating to its business activities and its financial information. For SAREB, transparency is a mechanism whereby it submits its ordinary activities to critical assessment by the various agents in the markets in which it operates, as well as by the general public.

- Society: Wherever possible, SAREB supports the actions taken by the public authorities to relieve the pressing housing problem affecting Spanish society. SAREB is committed to the application of the contents of the Universal Declaration on Human Rights and the United Nations Global Compact, in which SAREB is a participant.

- Ethics and good governance: SAREB has a firm commitment to corporate governance, and it implements the regulations it deems necessary in order to work ethically and with integrity. In this connection: SAREB's employees and external collaborators are subject to an obligatory Code of Conduct; SAREB is governed by Corporate Governance regulations that are stricter than those applicable to public limited liability companies and it adopts advanced corporate governance practices that are acknowledged in international markets, with particular emphasis on the management of institutional conflicts of interest that arise in its governance bodies.

- Environment: SAREB's commitment to the environment is set out in the principles and approaches contained in its specific environmental management policy.

The Company became a participant of the Global Compact in 2014 and its policies and guidelines are tied to the ten principles that this initiative promotes in relation to human rights, employment rights, the environment and the fight against corruption.

6.3. Ethics and governance

SAREB takes inspiration from the Corporate Governance best practices applicable to listed companies and its internal regulations are stricter than those applicable to it in this connection.

SAREB imposes strict standards of behaviour on all of its employees, which are set out in the Company's Code of Conduct. The ethical standards contained in the Code of Conduct are based on the values enshrined SAREB's corporate culture, which include the following:

- Respect for human rights and dignity.
- Equal treatment and the eradication of any form of discrimination on grounds of ethnic origin, religion or political ideology, gender, age, disability, sexual orientation, nationality or citizenship, marital status, family background, or economic status.
- Strict compliance with the law and undertakings to third parties.
- Professional objectivity and impartiality in all the Company's decisions and actions.
- Honesty in all the Company's dealings.
- Zero tolerance of any kind of corruption.

As a direct consequence of its unique company object and the fact that its business activities are carried on in the public interest, SAREB is governed by Corporate Governance regulations that are stricter than those applicable to ordinary public limited liability companies. These Corporate Governance regulations require, inter alia, the Company to appoint a specific number of independent directors to its Board of Directors and, in relation to directors' remuneration, to establish a remuneration policy and issue an annual remuneration report, which is subject to an advisory vote by the General Meeting. In addition, all members of the Board of Directors are also required to meet strict requirements with regard to their professionalism, integrity and relevant experience.

Given its particular importance, the Company has adopted a specific policy to manage any institutional conflicts of interest that may arise in its governance bodies. The contents of this policy supplements the contents of the Code of Conduct. In 2014 this policy was applied on 37 occasions, 22 of which took place in the second half of the year.

In addition to its corporate governance regulations, SAREB plans to continue adopting advanced corporate governance practices that are consistent with the good governance recommendations widely acknowledged in the international markets, based on business transparency and mutual trust with shareholders and investors.

Internal audit

The Internal Audit area reports the Board of Directors (through the Audit Committee), and informs the Company's chief executive on the daily performance of its duties, the primary aim of which is to provide SAREB's directors and senior executives with an independent and reasoned view of the following:

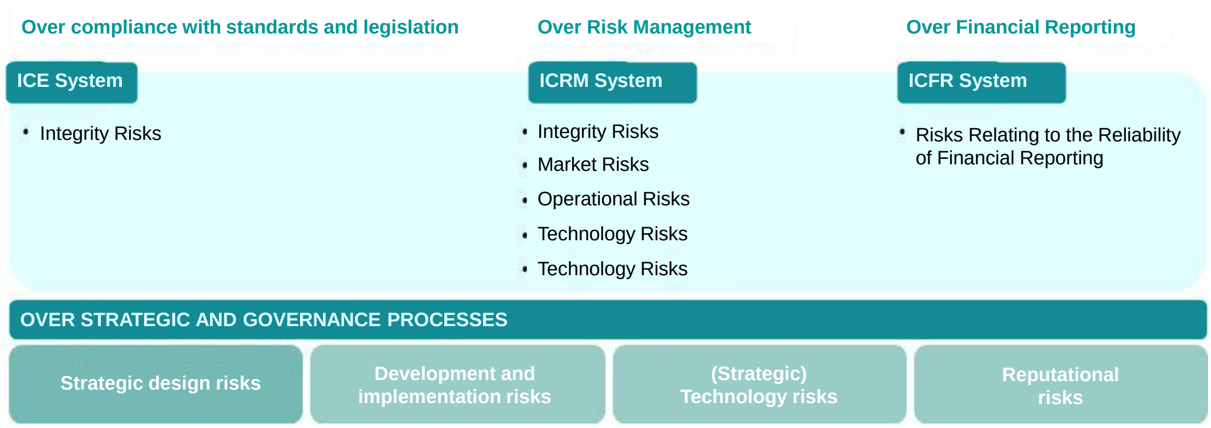
- The risks to which SAREB's business and activities are exposed.
- The quality of the internal control systems, the cornerstone of the management and administration of SAREB's activities.
- The Company's governance processes.

The internal audit function is structured around three key elements:

- The rules governing the audit function that defines the object, authority and responsibility of the activity.
- The three-year Master Plan (2014-2016) as an audit function tool used to align its structure and strategy with the Company's medium- and long-term aims.
- The annual audit programme, which establishes the audit function's priorities for 2014.

The first two years saw the commencement of the implementation of a risk control model, which is structured around SAREB's internal control system. The Company's control area is the driving force behind the risk control model.

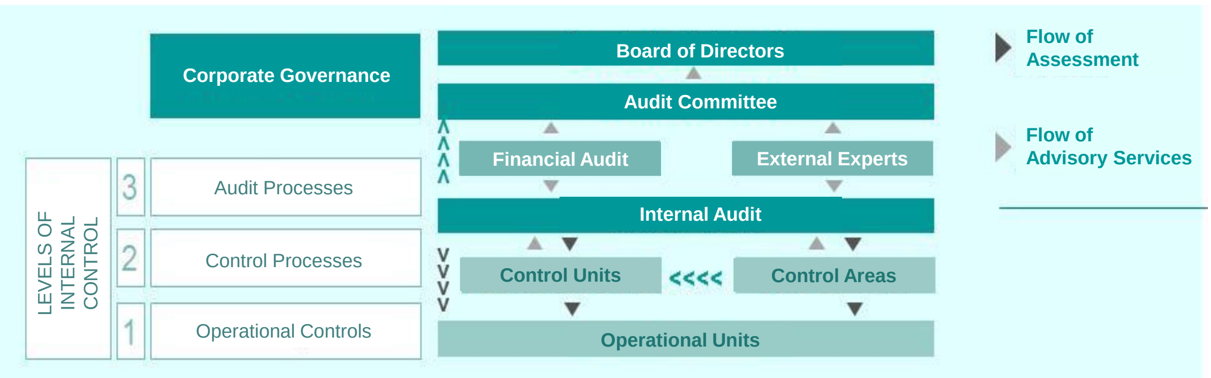
System of internal control



SAREB's aim, once it has reinforced its internal control functions, is to create a corporate assurance system that efficiently facilitates the ongoing assessment of the effectiveness of the internal controls in place in SAREB's processes and those of its servicers.

To achieve this, the Internal Audit area must use the resources of the eligible assurance groups (those which Internal Audit considers to have a sufficient level of independence and perform their control functions adequately) to prepare an integrated report on the systems making up the internal control model.

As the Internal Audit area is ultimately accountable to the Board of Directors for the preparation of the integrated report, it has assumed a significant role in the design and implementation of the corporate assurance process, overseeing the effectiveness of the other control functions.



The 2014 annual audit programme was prepared on the basis of a methodology that assigns to each SAREB process an estimate of its inherent risk level and relevance to the achievement of the Company's budgetary and strategic objectives.

It also comprises the activities agreed upon with the internal audit departments of the transferor institutions on the basis of the order of priorities established in the methodology.

In turn, the type of activities and the strategy used to execute the audit programme took into account both the factors that have a significant impact on Íbero project transaction management processes and the audit function's foreseeable obligations in accordance with the Bank of Spain's Circular. Pursuant to Law 9/2012, the Bank of Spain must regulate certain matters regarding the measurement bases used for SAREB's assets and the preparation of its financial statements.

The Internal Audit function's activities, conducted in accordance with its annual programme, are set out in its activity reports, which provide the most significant conclusions on the work performed.

Also, in the second quarter of 2014, the responsibilities of the Internal Audit department were extended to the advisory and assurance areas of the projects in progress, and the following objectives were assumed by the project management office:

- To assist Group management and project sponsors in fulfilling their responsibilities with the ultimate aim of ensuring the efficient use of the Company's resources in the selection, prioritisation and management of the projects.

- To foster realisation of the benefits of applying standardised policies, methods and processes in the management of projects.

- To enable the timely adoption of corrective measures in the event of significant changes in, or risks to, projects that might have an adverse effect on the execution thereof.

System of internal governance

Risk management and control at SAREB involves a process for identifying threats and weaknesses that might have an impact on the achievement of the organisation's objectives and the guidelines for the appropriate treatment of such threats and weaknesses in order to mitigate their possible effects.

SAREB's risk management and control model is structured around its internal control system, driven by the control functions (internal control, compliance, risks and internal audit).

SAREB's Board of Directors, senior executives and employees perform the activities required to provide reasonable assurance that the transactions are performed and recognised using the relevant authorisation, complying strictly with the legislation in force, with acceptable levels of risk and ensuring the reliability of the financial and management information issued.

The continuous process and ongoing evolution and improvement of SAREB's internal control is based on the following premises:

Basic premises of internal control

Integration in the management of each of the areas and departments, thereby involving the organisation as a whole, representing the first layer of control.

The implementation and review of controls is a dynamic process that evolves to reflect at any given time the risk mitigation requirements.

Existence of a control function that is independent from management which acts as a second layer of control.

Ongoing assessment of control, redesigning those controls that are not sufficiently effective for the control objective pursued and implementing new controls when necessary.

Supervision of the entire model by Internal Audit as a third layer of control.

System of internal control over ethics (ICE system)

This area includes all the policies, manuals and procedures that contribute to the Company carrying on its activities, not only pursuant to the legislation in force, but also ethically and with integrity, and with the primary aim of preserving the Company's reputation and reinforcing an ethics-based corporate culture.

SAREB's unique and public-interest-related company object requires it to carry on its activities, recruit employees and contract suppliers in an exemplary fashion. To do so, the Company has a strict Code of Conduct for its employees who must expressly declare to abide by its rules.

In 2014 the Company also continued to implement the system of internal control over ethical standards, including the following steps:

- The criminal risk prevention model was validated by an internal expert. This process provided an analysis of the system, based on the residual risk and incorporated into the Company's risk map, thus achieving a clear distribution of functions and responsibilities and supplying a catalogue of controls, the effectiveness of which is assessed within the model itself.

- The anti-money laundering model, established by law, was also reviewed by an external expert. In this connection, the recent approval of Royal Decree 304/2014, of 6 May, implementing Law 10/2010, amended the legislation, thus requiring changes to the anti-money laundering and counter-terrorism financing manuals and procedures, which SAREB has already implemented.

  In May at the request of the Subdirectorate General for the Inspection and Control of Capital Movements, which is attached to the Secretariat General of the Treasury and Financial Policy, SAREB was an active participant in the Financial Action Task Force's (FATF) assessment of Spain's anti-money laundering and counter-terrorism measures.

- In addition to the conflict of interest detection and management mechanisms to prevent the improper use of privileged information, in 2014 a list of those with access to insider information was drawn up to establish a strict control over the information related to the Íbero project.

  Those affected were informed of their inclusion in the list and they were furnished with the guidelines to protect the information.

Also, an additional initiative was approved to ensure that none of the invitations to tender called by SAREB (for both the selection of service providers and divestment processes) are affected by the fact that employees from any of the companies submitting bids in such processes have insider information as a result of having previously been employed by SAREB.

- In relation to data protection, SAREB continued to implement policies and perfect procedures. As regards IT security policy, various security procedures were implemented. Also, with respect to the migration to new Servicers, efforts were made to define the data protection requirements, a task that will continue throughout the migration process. 2014 saw the first audit of the security measures, as provided for in Articles 96 and 110 of the implementing legislation of the Personal Data Protection Organic Law (LOPD). The audit was performed by an independent party to ensure neutrality, was completed in the beginning of 2015 and no noteworthy contingencies were disclosed. In order to build awareness and keep internal data protection expertise up to date, LOPD-related training activities were held with all Company employees.

- Relationships with third parties. The public interest nature of SAREB's activity and its unique company object require it to carry on its operations in a particularly exemplary manner. Thus, on 28 May 2014, SAREB's Board of Directors approved the Singular Relationship Policy, implementing the Code of Conduct and the principles guiding the Company's activities, in order to leave no room for doubt as regards the neutrality and rigour that ensure internal procedures, thereby avoiding any reputational risk. Also, the Company has prepared a protocol and implemented a communication channel and a monitoring tool. The Internal Control Body receives quarterly reports, and it in turn informs the Audit Committee of the application of the procedure.

System of internal control over risk management (ICRM system)

This system comprises the control procedures that mitigate the operational risks (faults in processes, individuals or systems) arising from business or support processes (excluding those arising from financial reporting).

In 2014 significant progress was made in the identification of risk events inherent to the activities carried on, and in the establishment of controls that must be performed in the area where the process is executed.

At the same time, the Company began to perform controls on events with a potentially significant impact. Also, specific reports were prepared and proposals were made to the areas involved in the control reinforcement plans, and suggestions were made as regards the implementation of new controls to ensure risks are mitigated.

The Management Incident Group was created as part of this process. This group bolsters the identification of risks by process, the framework of which enhances the control process with the knowledge and analysis of the risks that arise in the day-to-day operations.

System of Internal Control over Financial Reporting (ICFR system)

This system comprises a series of controls that provide reasonable assurance as regards the reliability of the financial information disclosed in the financial statements.

The process ensures the correct design and operation of the controls that contribute to the reliability of the financial information taken as a whole, through various bodies that participate in the process:

- The Board of Directors, the functions of which include the establishment of the risk management and control policy and the regular monitoring of the internal reporting and control systems.

- The Audit Committee, which ensures the effectiveness of the system of internal control over financial reporting.

- The Financial Department, which is responsible for the design, implementation and operation of the system.

- The Internal Control Department, which acts as a second layer of control over the risks related to financial reporting.

- Internal Audit, which assesses the effectiveness of the system.

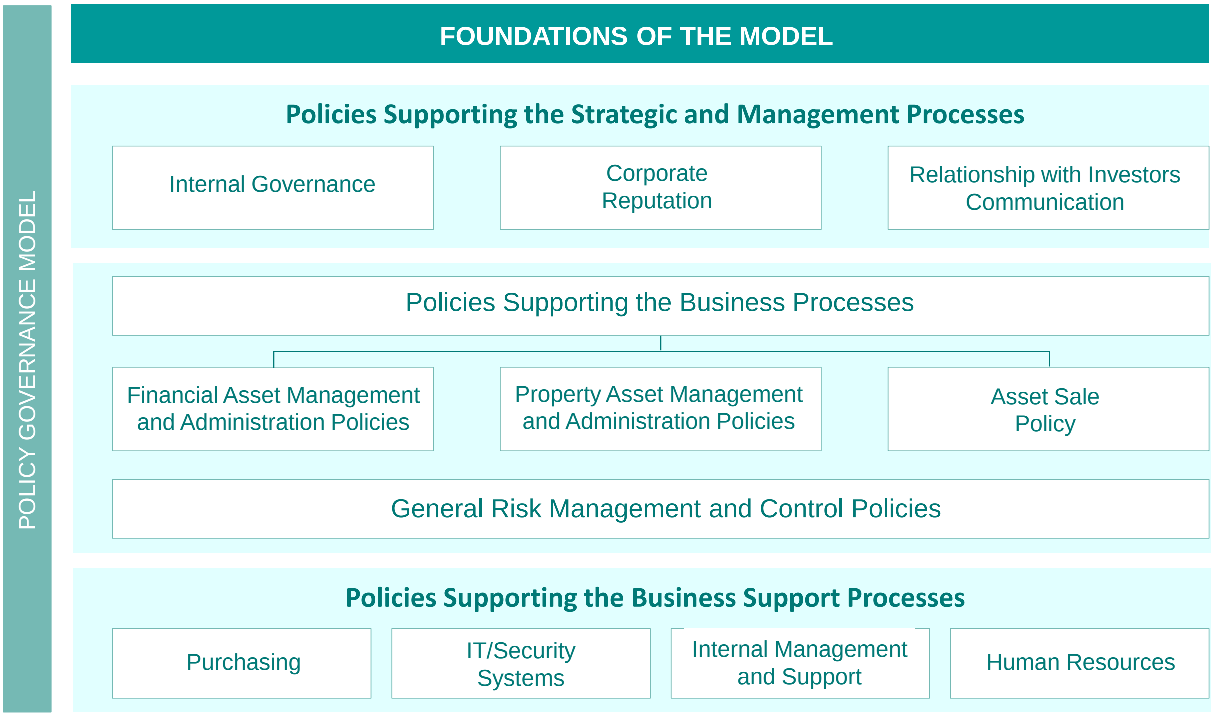
Internal policies

In 2014 SAREB made significant advances in the definition and formalisation, in the form of General Policies, of the guidelines for the implementation of the corporate strategy, fulfilment of the stakeholders' expectations, and control of the risks to which the Company is exposed. The General Policies are the benchmark for the deployment of other policies and guidelines governing the Company's activity:

- The General Policies supporting the strategic and management processes establish the objective framework that must govern the organisation of the businesses, increasing the value of the corporate reputation by observing the commitments made to the stakeholders and defining the relationship and communication model with the equity instrument holders.

- The component of the General Policies supporting the business processes develops action guidelines relating to the orderly divestment of the property and financial assets recognised in SAREB's balance sheet which the Company has been entrusted to manage, in an environment that ensures the adequate management of the associated risks.

- The General Policies supporting the business support processes establish the guidelines that must be adopted in all the Company's support activities to ensure fulfilment of the Company's mission and its aims.



6.4. Dialogue with shareholders

SAREB has communication channels with all its stakeholders and actively listens to the expectations of the various groups related to its activity through constructive and respectful dialogue, allowing it to achieve its business aims and respond to the concerns and meet the needs of its main stakeholders.

The main communication channels are as follows:

- SAREB Responde. In mid-2013 SAREB launched this customer service mechanism, providing a helpline to deal with enquiries, complaints and requests from individuals, businesses and other groups. In a year and a half, this service has proved to be a very useful tool, both as a yardstick for the quality of SAREB’s asset management and as a means of support for the Company’s commercial activities.

  In 2014 SAREB Responde received 11,040 inqueries and managed an average of 920 procedures a month. In 2014, the hotline was bolstered by the development of a technology solution enabling the monitoring and tracing of each requested procedure up to its conclusion with a satisfaction survey.

With respect to the user profile of those who call the SAREB Responde service, 65% of calls relate to individuals and 28% to companies (2013: 54% and 43%, respectively).

As regards the type of enquiries:

- 46% of enquiries relate to individuals and companies interested in the acquisition of any type of property (65% of which are interested in residential property and 29% in non-residential property);

- 13% request general information (regarding assets and their ownership).

- 11% of enquiries relate to supplier enquiries regarding the Opportunity Plan and the provision of their services.

- 8% of the enquiries related to financial assets correspond to requests for information about loans and their repayment in full or in part.

- The other 23% of enquiries relate to the payment of bills in a condominium owner's association, reports of squatters in SAREB assets, calls regarding maintenance related to defects or problems with utilities (electricity, water and gas) and calls regarding leases or purchase requests.

- SAREB maintains an open dialogue with its borrowers, which enables ongoing communication and negotiation. This ongoing dialogue meant that in 2014 more than 11,000 proposals from developers were managed.

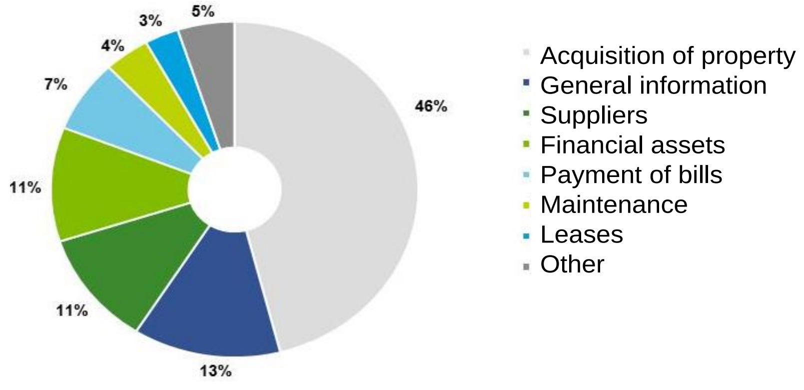
- The Company has internal communication channels, including, inter alia, its intranet, which contains a specific section (Employee Portal) with information and services regarding employment matters. In 2015 the Company will launch a new internal portal which will provide collaborative work, social and communication tools. Also, an internal staff meeting called 'Somos SAREB' is held twice a year.

- In 2014 SAREB launched a website for its shareholders (55% of which are private entities and 45% relate to the FROB) to be used as a platform for dialogue with this group.

- The Company also maintains a dialogue with the media in order to inform society on the Company's performance and the fulfilment of its aims; SAREB also has an active institutional presence at public functions. In 2014 the Company issued 16 communiques, gave 38 interviews and media events, and participated in 52 conferences organised by social institutions.

- The Company also maintains a dialogue with national and international regulators and meets regularly with the Monitoring Committee (on eight occasions in 2014) and with international institutions (the European Commission, European Central Bank and the International Monetary Fund) on two occasions in 2014. In 2014 alone, the then Chairman, Belén Romana, appeared at parliamentary venues on three occasions to report on SAREB's activity; once at the Spanish Parliament, once at the Senate and once at the Catalan Parliament.

SAREB Responde
Type of enquiry (%)



6.4.1. Housing and society

SAREB has established as a strategic objective its commitment to corporate responsibility as a means of performing its mandate, through the sustainable and responsible management of its assets and functions for society and its stakeholders.

SAREB's social activities must be performed without jeopardising the business objective which it has been assigned.

The Company, however, is aware of the socio-economic difficulties affecting the country and has defined a Social Housing Policy as a framework to identify the cornerstones upon which to lay its activities in this area and the foundations to inspire action plans and procedures which ensure the optimal management of its activity, while promoting dialogue and activities that grant access to social housing for disadvantaged groups or groups at risk of social exclusion.

SAREB's social housing activities are based on the following principles:

- To identify social demands and develop and promote activities and projects which alleviate situations of social exclusion among disadvantaged groups.
- To hold constructive and respectful dialogues with stakeholders with a view to achieving business goals while also meeting social expectations.
- To analyse and promote the temporary transfer to local and regional public authorities -bodies with authority in the social housing area- of a set number of housing units to be offered to the most disadvantaged groups under affordable lease agreements.
- To explore collaboration options with agents and representatives from the third sector (NGOs, Foundations, etc.) which enable the definition of a stable activity framework and the temporary transfer of a certain number of housing units for social purposes to special groups.
- To comply with the obligation and duty of management conferred upon it and to oversee the ownership of each of the transferred assets, ensuring the necessary protection and security of individuals and the assets.
- To report to and inform the competent authorities of illegal occupancy of finished properties; key assets for the Company, earmarked for sale and promoted in order to continue contributing to the performance of its mandate.
- To study, negotiate and pursue alternatives to resolve individual cases of former owners who reside in the property they used to own, individuals who have illegally occupied a property or lessees who have fallen behind with rent payments before planning and executing an eviction.
- To protect particularly vulnerable groups (minors, the elderly, the infirm or the disabled) and provide them with access to respectable housing.
- To communicate honestly and transparently with its stakeholders in relation to the strategy and implementation of Company activities in this area.

In this connection, in 2014 SAREB has made significant advances in relation to this commitment, performing various activities in line with its ultimate mandate, as they represent repaying society for the financial assistance received:

- Approval by the Board of Directors of the transfer to autonomous communities of 2,000 housing units to be used to provide housing under affordable leases.
- On 14 July SAREB entered into an agreement with the Catalonia Autonomous Community Government's Housing Agency for the transfer under usufruct of 600 housing units.

- Negotiation of an agreement (entered into on 5 February 2015) with the Aragon Autonomous Community for the transfer of 80 housing units to provide affordable housing.

- Agreement entered into with the Galicia Autonomous Community Government on 17 February 2015 for the transfer of 50 housing units to provide affordable leases.

- SAREB has been in contact with the other autonomous communities for the same purpose and is currently in the advanced stage of negotiations with the Cantabria, the Basque Country and Murcia Autonomous Communities. Also, the Company expects to broaden its pursuit of collaborative solutions with foundations or other not-for-profit institutions with experience in this area.

6.4.2. Shareholders and bondholders

SAREB assesses its performance and is accountable to its shareholders and bondholders in various ways for its activities and for the performance of its legal mandate.

Its commitment to transparency goes beyond compliance with the legislation requiring the Company to report on certain aspects relating to its business activities and its financial information. For SAREB, transparency is a mechanism whereby it submits its ordinary activities to critical assessment by the various agents in the markets in which it operates, as well as by the general public.

The shareholders' website was updated in 2014 with four directors' reports, the half-yearly report and around 20 news updates on the Company's activities.

SAREB's shareholder structure and the detail of its bondholders is included in the Financial Information/Financial Structure section of Chapter V.

6.4.3. Supervisors

SAREB assesses its performance and is accountable to the authorities and society as a whole in various ways for its activities and for the fulfilment of its legal mandate. The Company undertakes to maintain a permanent dialogue with the authorities charged with its supervision and to abide faithfully by their recommendations and demands.

To do so:

- It publishes its main policies and procedures, i.e. the criteria with which it carries on its activities and operations and the way in which it administers and exercises control over them;

- It publishes important information relating to its performance in: half-yearly activity reports, annual reports and public information on its most significant transactions and milestones.

Chapter II, “Corporate Governance” includes more information on SAREB's supervisory regime.

6.4.4. Customers

SAREB defines as customers, on the one hand, the parties who purchase assets (retail and wholesale customers) and, on the other, the borrowers as a whole, as it works directly with them in order to reduce credit exposure.

SAREB's relationship with its customers is based on transparency, in the sense that the asset sale processes must ensure that the group of potential buyers are all provided with the same information. The Company is committed to the use of competitive and transparent sale processes in all of its sales channels and creates mechanisms so that these sale processes, in particular wholesale processes due to the extent of the packages, are carried out under the highest standards.

SAREB's relationship with these groups and its sale policy can be explained by referring to the context in which the Company was incorporated:

- Assets received. SAREB was incorporated with a portfolio amounting to EUR 50,781 million, comprising foreclosed property assets and loans to the property development sector. The Fund for Orderly Bank Restructuring (FROB) established the types of asset.

- Established transfer price. The price was established pursuant to Article 36.2 of Law 9/2012 and Article 48.4 of Royal Decree of 1559/2012, which specified the criteria and percentages set by the Bank of Spain for each entity and group of assets.

- High leverage ratio. The Company was incorporated with a financial structure defined by a high percentage of senior debt, which generates a significant interest burden. SAREB issued EUR 50,781 million of bonds as payment for the assets received. These government-backed bonds pay coupons tied to 3-month Euribor plus a floating spread.

SAREB's mandate on incorporation established a 15-year period in which it had to divest the portfolio in full. However, selling assets practically since its incorporation has been essential given the Company's obligation to pay the interest borne on the debt.

With the reports received during the due diligence process performed in 2013 and the new projects to improve and enhance the information relating to the transferred assets, the Company has established the criteria for the segmentation of the portfolio, establishment of prices, correction of existing errors and the legal certification of the assets.

SAREB has two sales channels to attend to wide range of potential investors:

- A retail channel for the sale of assets to individuals from transferor platforms In the final months of 2014, SAREB chose new servicers for the administration and sale of its property and financial assets (for more information see Chapter V, SAREB and its activities/Transactions”).

- An institutional channel for the sale of assets to professional investors and wholesale transactions.

  In 2014 the Company was visited by more than 450 potential institutional investors of various types and nationalities, who provide an accurate view of the most-sought-after types of asset and/or transaction. Customers are segmented on the basis of certain factors, such as: type of investor, type of asset in which they are interested, minimum investment amount, expected return on the investment and investment vehicle.

  Portfolios are composed and sold on the basis of the investor's profile and appetite at any given time. Unsurprisingly, the information obtained allows the Company to determine different niches in the market and recovery timeframes for the various "micro-markets" existing in the Spanish property market and, therefore, adapt our commercial policy to market circumstances.

- Critical to SAREB's asset portfolio transformation process is its relationship with the group of borrower companies. At the end of 2014, SAREB had around 18,000 borrower companies, in the main small and medium-sized companies. The Company's relationship with this group is essential to the achievement of SAREB's divestment mission and the sustained revival of these companies' business activities. Thus, SAREB maintains an open dialogue with this group in order to favour negotiations and certain drawdowns against credit facilities, dation in payment and other conversion formulae.

  In 2014 SAREB managed a total of 11,561 proposals from property developers, up 46% on 2013.

  In order to maintain a line of action consistent with the Company's objectives, SAREB has promoted various actions in 2014, which include most notably: equal dedication to proposals, improvement of the restructuring and recovery management general policy for the appropriate performance of these activities in accordance with SAREB's ultimate mission, the recognition of the existence of third parties -both shareholders and creditors, as well as servicers- that are interested in sound performance, whose interests must be taken into account in the day-to-day activities and decision-making, the identification of risks in the proposals, both for SAREB and for third parties, taking into account the particular features and operational, financial and market conditioning factors at any given time and compliance with the internal procedures established by SAREB's governance bodies and reviewed by the regulator.

SAREB also manages directly those transactions considered to be unique on the basis of the type of assets or particular features of the borrower.

As regards all its stakeholders' and, in particular, its customers' private data, SAREB takes extreme precautions in relation to data protection and information security in order to ensure all data for which the Company is responsible is processed appropriately. The Company has measures and procedures to manage enquiries or incidents: SAREB Responde and the whistleblowing channel.

In 2014 45% of the enquiries made to SAREB Responde, 4,968 phone calls and procedures in total, related to individuals and companies interested in acquiring any type of property.

6.4.5. Employees

One of SAREB's most unique features is its simple structure, which is key to the performance of its divestment mandate within a limited period of time, which requires the creation of an agile organisation that is able to progressively adapt to the changes in its portfolio. Over time the asset portfolio will reduce in size and its structure will change, with a greater emphasis on properties and less emphasis on loans. Having a limited employee structure means that the Company's day-to-day activities are also reliant on the collaboration and work of a large number of external providers, which in turn requires considerable coordination.

Attraction of the best candidates

One of SAREB's main principles relating to employees is to attract the best candidates and ensure they remain at the Company, promoting contribution to their development through the use of instruments that extend beyond remuneration, such as training, new professional experiences, increased responsibility and the adoption of a commitment to an important project that is key to the recovery of Spain's financial system.

In 2014 the Company created 150 new positions and hired a total of 120 employees for the organisation. This was performed in accordance with equal opportunity and anti-discrimination principles.

In the first half of the year, SAREB implemented an advanced business model that gave rise to a new organisational structure, creating new organisational areas and transforming other pre-existing areas.

At the end of 2014 SAREB had 314 employees, up 62% on 2013. A distinguishing feature of the employees' contribution to the project is an average experience per employee of 16.8 years in various sectors, including most notably, the financial and property sectors.

The increase in the workforce is related to the logical recruitment of in-house staff in an organisation of SAREB's size, due to the volume of assets to be managed and assets in progress, and the Company's strategic and business performance in 2014, which has required an higher number of employees than initially predicted.

Code of conduct and behavioural guidelines

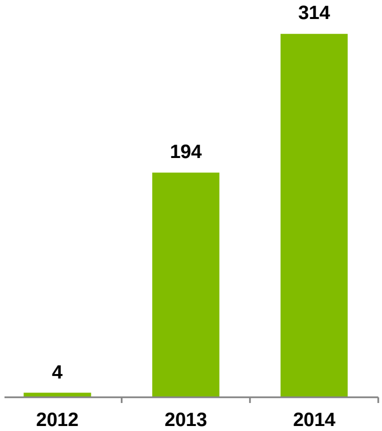
SAREB develops and implements human resources policies based on diversity, non-discrimination, equal opportunities and the freedom of trade union representation for all employees.

SAREB's Code of Conduct, which was approved in April 2013, is an expression of its corporate culture, which establishes the commitments deemed necessary to meet the expectations and demands of this business project.

Detail of SAREB's staff in 2014

% Men/women	62 / 48
% Graduates	85
% Permanent employees	90
% Internal promotion	22

Evolution in SAREB's workforce between 2012 and 2014



The document establishes the guidelines that must be observed by all employees and external collaborators involved in the provision of services acting on behalf of SAREB, and the framework to which the policies and procedures performed by the Company are linked.

The Code establishes, among its ethical standards, respect for human rights and the dignity of the individual and "equal treatment and the eradication of any form of discrimination on grounds of ethnic origin, religion or political ideology, gender, age, disability, sexual orientation, nationality or citizenship, marital status or family background, or economic status".

SAREB condemns corruption through its internal policies. The anti-corruption guidelines in the Code of Conduct state that "the individuals subject to the Code of Conduct shall refrain from offering or giving gifts to third parties that might directly or indirectly influence the obtainment of an advantage or favour for the Company".

SAREB's whistleblowing channel is an internal and external mechanism for reporting situations that might lead to the breach of legislation or ethically questionable actions. No incidents were reported by the whistleblowing channel in 2014.

Training

As part of its commitment to its employees, SAREB combines training specific to job positions with other more general training courses which reinforce the employees' qualifications to carry out their activities.

In 2014 all employees were provided with training courses on occupational risk prevention, anti-money laundering and counter-terrorism financing measures and data protection legislation amounting to 1,898 hours.

Communication

In 2014 SAREB developed a new Internal Communication Plan and defined new channels and tools to share information on business strategies and performance, the policies upon which the Company's performance is based and the creation of collaborative spaces that foster more efficient and creative work environments.

Thus, SAREB informed its employees of organisational changes, new recruits, agreements with external companies, calls for tender, documentation available on the intranet, application of policies, etc.

Also, it commenced the development of a new intranet, which includes the Employee Portal, boasting enhanced functionality, which will be fully functional in mid-2015. Furthermore the Company held group meetings to inform on policies and held two new internal meetings, called 'Somos SAREB', a platform for all employees to share, in an informal environment, interdepartmental information and experiences, as well as news on the performance and objectives for the year, and the importance of corporate conduct based on the Company's principles and values.

In 2014 SAREB carried out its first 2014/2015 Satisfaction Survey upon completing two years since its incorporation.

6.4.6. Suppliers

In its contracting and procurement processes, SAREB particularly values those who share its ethical standards. The Company's Procurement Policy establishes a supplier accreditation procedure, which includes an affidavit, in order to cover possible incompatibilities or conflicts of interest. Also, significant suppliers are required to comply with the Company's Code of Conduct. The Company informs the suppliers of the existence of the whistleblowing channel through which they may report any questionable action.

The aim of SAREB's procurement management policy, in accordance with its principles, is to acquire assets and services, optimising value (price-quality), ensuring free competition based on transparency and traceability, encouraging the rotation of suppliers and avoiding supplier concentration.

In the second half of 2014, the Procurement Department commenced the automation of the signing of documents through SharePoint, thereby improving the efficiency of the contracting process and increasing the traceability of the documents.

The Procurement Department also participated in the Íbero project, both in defining the Target Procurement Model and assessing the various options submitted.

In 2014 SAREB's Procurement Department:

- Managed 1,679 procurement projects.
- Invited more than 700 suppliers to participate in various processes.
- Signed 517 contracts.
- Accredited 154 suppliers.
- Issued around 1,500 orders in SAP, which represents more than 5 orders per working day.

6.4.7. Respect for the environment

SAREB is committed to respecting and protecting the environment, in accordance with the principles and approaches contained in its Environmental Management Policy, which was approved in January 2014.

The principles governing its approach in this area are:

- Prioritising quality in the performance of services and construction work, eliminating costs with no value added and applying the measures necessary to prevent and correct any negative impact that the company’s activities may have on the environment.
- Favouring preventive action over corrective action.
- Making the Company’s employees aware of their responsibility to preserve the environment and providing the necessary training.

Also, the Company works to improve the internal procedures for the fulfilment of environmental commitments and prevent pollution, encouraging the pursuit of innovative and effective solutions.

The Company has paper recycling bins and has placed informative posters at all the print and copy stations to train employees about using resources responsibly.

Also, through various initiatives it encourages the efficient use of energy resources and electricity at its offices.

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

Financial Statements for the year ended 31 December 2014 and Directors' Report

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 20). In the event of a discrepancy, the Spanish-language version prevails.

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INDEPENDENT AUDITOR´S REPORT ON ANNUAL ACCOUNTS

To the Shareholders of Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A.

Report on the Annual Accounts

We have audited the accompanying annual accounts of Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A., which comprise the statement of financial position as at December 31, 2014, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Annual Accounts

The Company´s Directors are responsible for the preparation of these annual accounts, so that present fairly the equity, financial position and financial performance of Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A., in accordance with the financial reporting framework applicable to the entity in Spain, as identified in Note 2 to the accompanying annual accounts, and for such internal control as Directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity´s preparation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Opinion

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A. as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework and, in particular, with the accounting principles and criteria included therein.

Emphasis of Matter

We draw attention to note 2.5. to the annual accounts, which states that, as at the date of preparation of these annual accounts, the accounting circular foreseen in the paragraph 10 of the 7th Additional Provision of the law 9/2012 has not been approved. Until the Accounting Circular is approved, and in accordance to the abovementioned 7th Additional Provision, the Bank of Spain will be resolving the consultations regarding certain accounting aspects raised by the Company. In this context and with the objective of the preparation of the accompanying annual accounts, the Company has issue a consultation to the Bank of Spain regarding the potential recording of impairment losses on its portfolio assets, and has registered the corresponding impact in the year 2014 in accordance with the considerations set forth by the Bank of Spain in response to this consultation. This matter does not modify our opinion.

Report on Other Legal and Regulatory Requirements

The accompanying Directors' Report for 2014 contains the explanations which the Directors consider appropriate regarding Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A. situation, the development of their business and other matters and does not form an integral part of the annual accounts. We have verified that the accounting information contained in the Directors' Report is in agreement with that of the annual accounts for 2014.Our work as auditors is limited to checking the Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the Company´s accounting records.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Pedro Barrio Luis

March 31, 2015

SOCIEDAD DE GESTIÓN DE ACTIVOS PROCEDENTES DE LA REESTRUCTURACIÓN BANCARIA, S.A. (SAREB)

BALANCE SHEETS AS AT 31 DECEMBER 2014 AND 2013

(Thousands of Euros)

ASSETS	Notes	31/12/2014	31/12/2013	EQUITY AND LIABILITIES	Notes	31/12/2014	31/12/2013
NON-CURRENT ASSETS		**43,930,892**	**46,786,297**	**EQUITY**	**Note 11**	**(1,683,112)**	**668,080**
Intangible assets	**Note 4.1**	**4,225**	**258**	***SHAREHOLDERS' EQUITY-***		**349,380**	**934,039**
Intellectual property		9	9	**Share capital**			
Computer software		4,216	249	Share capital		300,060	300,060
Property, plant and equipment	**Note 4.2**	**1,849**	**1,190**	**Share premium**		900,000	900,000
Furniture		222	102	**Reserves - Prior years' losses**		(266,021)	(5,488)
Plant and other items of property, plant and equipment		1,203	924	**Loss for the year**		(584,659)	(260,533)
IT equipment		424	164	***VALUATION ADJUSTMENTS-***	**Note 13.3**	**(2,032,492)**	**(265,959)**
Investment property	**Note 5**	**10,979,690**	**11,003,633**	**Hedges**		(2,032,492)	(265,959)
Land		4,888,231	4,523,217				
Buildings		6,091,459	6,480,416				
Non-current investments in associates		**30,335**	**71,496**	**NON-CURRENT LIABILITIES**		**49,378,815**	**49,654,332**
Equity instruments	**Note 7.2.1**	8,614	13,172	**Long-term provisions**	**Note 12**	**49,886**	**53,322**
Loans to companies	**Note 7.2.2**	21,721	58,324	**Non-current payables**	**Note 13**	**49,328,929**	**49,601,010**
Non-current financial assets	**Note 7.1**	**31,895,947**	**35,451,026**	Debt instruments and other marketable securities		45,975,600	49,176,000
Loans to third parties and related parties		29,240,130	34,999,115	Derivatives		2,709,990	379,942
Other financial assets		2,655,817	451,911	Other financial liabilities		643,339	45,068
Deferred tax assets	**Note 15.3**	**1,018,846**	**258,694**				
CURRENT ASSETS		**7,382,642**	**7,463,744**	**CURRENT LIABILITIES**		**3,617,831**	**3,927,629**
				Short-term provisions		**652**	-
Inventories	**Note 8**	**110,473**	**50,534**	**Current payables**	**Note 13**	**3,232,627**	**3,596,862**
Work in progress		94,507	50,420	Bank borrowings		53,233	130,268
Finished goods		12,338	-	Debt instruments and other marketable securities		3,179,053	3,457,298
Advances to suppliers		3,628	114	Other financial liabilities		341	9,296
Trade and other receivables	**Note 9**	**357,505**	**88,714**	**Trade and other payables**	**Note 14**	**383,317**	**330,767**
Trade receivables for sales and services		129,634	76,818	Payable to suppliers		308,447	238,733
Sundry accounts receivable		206,562	1,337	Sundry accounts payable		-	-
Current tax assets	**Note 15.1**	19,051	10,559	Remuneration payable		5,294	1,912
Other accounts receivable from public authorities	**Note 15.1**	2,258	-	Current tax liabilities		-	-
Current financial assets	**Note 7.1**	**3,964,028**	**2,541,939**	Other accounts payable to public authorities	**Note 15.1**	69,099	90,122
Loans to companies		3,934,129	2,499,393	Customer advances		477	-
Other financial assets		29,899	42,546	**Unearned income**		**1,235**	-
Current prepayments and accrued income		**21**	**103**				
Cash and cash equivalents	**Note 10**	**2,950,615**	**4,782,454**				
Cash		2,941,497	2,307,474				
Cash equivalents		9,118	2,474,980				
TOTAL ASSETS		**51,313,534**	**54,250,041**	**TOTAL EQUITY AND LIABILITIES**		**51,313,534**	**54,250,041**

The accompanying Notes 1 to 20 are an integral part of the balance sheet as at 31 December 2014.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 20). In the event of a discrepancy, the Spanish-language version prevails.

SOCIEDAD DE GESTIÓN DE ACTIVOS PROCEDENTES DE LA REESTRUCTURACIÓN BANCARIA, S.A. (SAREB)

INCOME STATEMENTS FOR 2014 AND 2013

(Thousands of euros)

	Notes	2014	2013
CONTINUING OPERATIONS			
Revenue	**Note 16.1**	**3,173,277**	**2,861,476**
Sales of inventories		6,102	14,196
Income from sales of investment property		1,068,065	804,081
Rental income		49,435	68,198
Income from sales of loans and credit facilities		853,357	764,955
Finance income from loans and credit facilities		582,674	765,910
Recoveries of gains on loans and credit facilities		604,531	443,123
Remuneration of Bank Asset Fund (FAB) securities		9,113	1,013
Changes in inventories of finished goods and work in progress		**(4,806)**	**(10,007)**
Cost of sales	**Note 16.2**	**(1,570,615)**	**(1,256,721)**
Cost of investment property		(850,162)	(629,191)
Cost of sales of financial assets		(720,453)	(627,530)
Other operating income		**1,071**	**1,168**
Non-core and other current operating income		1,071	1,168
Staff costs	**Note 16.3**	**(27,315)**	**(14,883)**
Wages, salaries and similar expenses		(23,248)	(13,246)
Employee benefit costs		(4,067)	(1,637)
Other operating expenses		**(482,822)**	**(445,615)**
External services	**Note 16.4**	(333,159)	(298,371)
Taxes other than income tax	**Note 16.4**	(122,040)	(87,359)
Losses on, impairment of and changes in allowances for trade receivables	**Notes 9 y 12**	(14,959)	(59,132)
Other current operating expenses		(12,664)	(753)
Depreciation and amortisation charge	**Notes 4.1, 4.2 y 4.3**	**(48,393)**	**(56,778)**
Impairment of financial instruments		**(726,701)**	**(259,378)**
- Loans and credit facilities to third parties	**Note 7.1.1.**	(719,108)	(259,378)
- Loans and credit facilities to associates	**Note 7.2.2.**	(7,593)	-
PROFIT FROM OPERATIONS		**313,696**	**819,262**
Financial income	**Note 16.6**	**42,281**	**50,542**
From marketable securities and other financial instruments			
- Third parties		42,281	50,542
Financial costs	**Note 16.5**	**(1,140,384)**	**(1,272,460)**
On debts to third parties		(1,140,384)	(1,272,460)
Foreing exchange gains/losses	**Note 4.12**	**3,129**	**(236)**
FINANCIAL LOSS		**(1,094,974)**	**(1,222,154)**
LOSS BEFORE TAX		**(781,278)**	**(402,892)**
Income tax	**Note 15**	196,619	142,359
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(584,659)**	**(260,533)**
LOSS FOR THE YEAR		**(584,658.72)**	**(260,533)**

The accompanying Notes 1 to 20 are an integral part of the income statement for 2014.

STATEMENTS OF CHANGES IN EQUITY
FOR 2014 AND 2013 STATEMENTS OF RECOGNISED INCOME AND EXPENSE
(Thousands of Euros)

	Notes	2014	2013
LOSS PER INCOME STATEMENT (I)	Note 3	**(584,659)**	**(260,533)**
Income and expense recognised directly in equity			
- Arising from cash flow hedges	Note 15.2	(2,468,619)	(380,110)
- Tax effect	Note 15.2	617,155	114,033
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY (II)		**(1,851,464)**	**(266,077)**
Income and expense recognised in profit or loss			
- Arising from cash flow hedges	Note 13.3	113,241	168
- Tax effect		(28,310)	(50)
TOTAL TRANSFERS TO PROFIT OR LOSS (III)		84,931	118
TOTAL RECOGNISED INCOME AND EXPENSE (I+II+III)		**(2,351,192)**	**(526,492)**

The accompanying Notes 1 to 20 are an integral part of the statement of recognised income and expense for 2014.

STATEMENTS OF CHANGES IN EQUITY
FOR 2014 AND 2013 STATEMENTS OF CHANGES IN TOTAL EQUITY
(Thousands of Euros)

	Share capital	Share premium	Prior years' losses	Loss for the year	Valuation adjustments	TOTAL
2013 BEGINNING BALANCE	**238,998**	**716,812**	-	**(5,488)**	-	**950,322**
Total recognised income and expense	-	-	-	(260,533)	(265,959)	(526,492)
Transactions with shareholders						
- Capital increase	61,062	183,188	-	-	-	244,250
Allocation of 2012 loss	-		(5,488)	5,488	-	-
2013 ENDING BALANCE (Note 11)	**300,060**	**900,000**	**(5,488)**	**(260,533)**	**(265,959)**	**668,080**
Total recognised income and expense	-	-	-	(584,659)	(1,766,533)	(2,351,192)
Allocation of 2013 loss	-	-	(260,533)	260,533	-	-
Other changes in equity	-	-	-	-	-	-
2014 ENDING BALANCE (Note 11)	**300,060**	**900,000**	**(266,021)**	**(584,659)**	**(2,032,492)**	**(1,683,112)**

The accompanying Notes 1 to 20 are an integral part of the statement of changes in total equity for 2014.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 20). In the event of a discrepancy, the Spanish-language version prevails.

SOCIEDAD DE GESTIÓN DE ACTIVOS PROCEDENTES DE LA REESTRUCTURACIÓN BANCARIA, S.A. (SAREB)

STATEMENTS OF CASH FLOWS FOR 2014 AND 2013

(Thousands of Euros)

		2014	2013
A)	**CASH FLOWS FROM OPERATING ACTIVITIES (1 + 2 + 3 + 4)**	**2,746,688**	**1,822,289**
1.	**Loss before tax**	**(781,278)**	**(402,892)**
2.	**Adjustments for:**	**1,332,729**	**1,094,314**
(+/-)	Depreciation and amortisation charge	48,393	56,778
(+/-)	Finance costs	1,140,384	1,272,460
(+/-)	Finance income	(42,281)	(50,542)
(+/-)	Finance income relating to interest on loans and credit facilities	(582,674)	(765,910)
(+/-)	Other adjustments to loss	27,246	263,018
(+/-)	Losses on, impairment of and changes in allowances for trade receivables	14,959	59,132
(+/-)	Impairment of financial instruments	726,701	259,378
	Taxes paid (-)	-	-
3.	**Increase/(Decrease) in assets and liabilities**	**2,931,583**	**1,666,209**
	Increase/(Decrease) in inventories (+/-)	(4,823)	(8,125)
	Increase/(Decrease) in accounts receivable (+/-)	(268,791)	(88,712)
	Increase/(Decrease) in other current financial assets (+/-)	12,646	(43,510)
	Increase/(Decrease) in accounts payable (+/-)	25,303	62,648
	Increase/(Decrease) in other current financial liabilities (+/-)	(8,955)	8,108
	Increase/(Decrease) in loans and credit facilities to third parties	2,277,870	1,149,046
	Increase/(Decrease) in investment property	898,332	586,755
4.	**Other cash flows from operating activities:**	**(736,345)**	**(535,343)**
(-)	Interest paid	(1,131,339)	(1,236,362)
(+)	Dividends received	9,113	1,013
(+)	Interest received	42,281	46,939
(+/-)	Interest received on loans and credit facilities	343,147	653,067
(+/-)	Other amounts received/(paid) relating to operating activities	453	-
B)	**CASH FLOWS FROM INVESTING ACTIVITIES (1 + 2)**	**2,174,964**	**(524,816)**
1.	**Payments due to investment:**	**(2,225,154)**	**(524,816)**
(-)	Property, plant and equipment and intangible assets	(4,626)	(1,447)
(-)	Loans to and investments in associates	(16,622)	(71,496)
(-)	Other financial assets	(2,203,906)	(451,872)
2.	**Proceeds from disposal:**	**50,190**	**-**
(+)	Group companies, associates and business units	50,190	-
(+)	Property, plant and equipment and intangible assets	-	-
C)	**CASH FLOWS FROM FINANCING ACTIVITIES (1 + 2 + 3)**	**(2,403,563)**	**(332,782)**
1.	**Proceeds and (payments) relating to equity instruments:**	**-**	**244,250**
(+)	Proceeds from issue	-	244,250
(-)	Redemption	-	-
(-)	Purchase	-	-
(+)	Disposal of treasury shares	-	-
2.	**Net new financing obtained from third parties**	**(2,403,563)**	**(577,032)**
(+)	Proceeds from issue of debt instruments and other long-term marketable securities	598,271	737,700
(-)	Credit account drawdowns/(repayments)	(77,035)	130,268
(-)	Repayment and redemption	(2,924,800)	(1,445,000)
3.	Net proceeds from issue of own securities	-	
D)	**EFFECT OF FOREIGN EXCHANGE RATE CHANGES**	**-**	**(236)**
E)	**NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)**	**(1,831,839)**	**964,455**
F)	**CASH AND CASH EQUIVALENTS AS AT BEGINNING OF YEAR**	**4,782,454**	**3,817,999**
G)	**CASH AND CASH EQUIVALENTS AS AT END OF YEAR (E + F)**	**2,950,615**	**4,782,454**
	COMPONENTS OF CASH AND CASH EQUIVALENTS AS AT END OF YEAR		
(+)	Cash on hand and at banks	2,941,497	2,307,474
(+)	Other financial assets	9,118	2,474,980
(-)	Less: Bank overdrafts refundable on demand		
	TOTAL CASH AND CASH EQUIVALENTS AS AT END OF YEAR	**2,950,615**	**4,782,454**

The accompanying Notes 1 to 20 are an integral part of the statement of cash flows for 2014.

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

Notes to the financial statements
for the year ended 31 December 2014

1 Company activities

Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A. (“the Company” or “SAREB”) was incorporated in Madrid for an indefinite period of time on 28 November 2012, in accordance with Law 9/2012, of 14 November, on restructuring and resolution of credit institutions, under the name of Sociedad Promotora de la Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A., as a sole-shareholder public limited liability company, with the object of performing all the preparatory activities required for the start-up of SAREB. The Company is registered at the Madrid Mercantile Registry in volume 30.521, sheet 1, section 8, page M-549.293, entry 1.

On 12 December 2012, the duration and name of the Company were changed by virtue of a public deed of corporate resolutions executed on that date before the Madrid notary José María García Collantes, under number 1624 of his protocol, limiting the duration of the Company to 28 November 2027 and adopting its current name.

At 31 December 2014, the Company's registered office and tax domicile were located at Paseo de la Castellana, 89, Madrid.

The Company is governed by its bylaws and by the laws in force applicable to it, i.e. the current Spanish Limited Liability Companies Law (except for Article 537), as stipulated by Law 9/2012, of 14 November, on restructuring and resolution of credit institutions, as well as the specific rules necessary to ensure the consistency of the accounting principles applicable to it with the mandate and general objectives of the Company established in the aforementioned Law and those set by regulations (see Note 2.1).

The Company's object is the ownership, management and direct or indirect administration, acquisition and disposal of the assets and any liabilities that may be transferred to it by the credit institutions referred to in Additional Provision Nine of Law 9/2012 (or any legislation that might replace, implement or complement it) appearing on the balance sheets of those institutions or on that of any entity controlled by them as defined in Article 42 of the Spanish Commercial Code (and of any other assets and liabilities it might acquire in the future as a result of the aforementioned management and administration of the former).

Without prejudice to the company object described above, pursuant to the legislation regulating it, the Company must contribute to the appropriate implementation of the credit institution restructuring or resolution processes that were in progress when it was incorporated, and facilitate the achievement of the objectives envisaged in Article 3 of Royal Decree 1559/2012, in accordance with the general principles of transparency and professional management, i.e.:

a) To contribute to the depuration of the financial system by acquiring the related assets in such a manner that the risks associated with these assets are effectively transferred from the time of their transfer.

b) To minimise public financial support.

c) To settle any debts and liabilities in which it may incur in the course of its operations.

d) To minimise the possible market distortions that might arise from its activities.

e) To dispose of the assets received, optimising their value within the term for which it was incorporated.

Background to the incorporation of the Company and transfer of the assets

Following is a summary of several relevant events to aid comprehension of these financial statements.

At the beginning of June 2012, the Spanish government, at the request of the European authorities, launched two private, independent aggregate valuation analyses of the loan portfolios in Spain of the fourteen largest banking groups, in order to assess the resilience of the Spanish financial sector to a severe deterioration of the Spanish economy.

On 25 June 2012, the Spanish government submitted a formal request to the Eurogroup for financial assistance for the recapitalisation of Spanish credit institutions. On 29 June it was established that the financial assistance would be provided by the European Financial Stability Facility (EFSF) until the European Stability Mechanism (ESM) was in place, and that the aid would then be transferred to the ESM without gaining seniority status.

This financial assistance programme led to the signing, on 23 July, of a Memorandum of Understanding on Financial-Sector Policy Conditionality (MoU), in which the conditions attached to the financial assistance granted by the EFSF or, where appropriate, the ESM, were established. Among other measures, the MoU envisaged the performance of a stress test to estimate each bank's capital shortfall and the commencement of a restructuring/resolution process for the institutions requiring it, which would ultimately be reflected in the measures established in Law 9/2012.

On 31 August 2012, in the context of the programme of assistance to Spain in order to recapitalise the financial sector, Royal Decree-Law 24/2012 on the restructuring and resolution of credit institutions was published, establishing, inter alia, the possibility of a company being set up to manage assets arising from the bank restructuring process. This company would engage in the management of any problematic assets that might have to be transferred from the credit institutions.

On 28 September 2012, the capital requirements for each of the credit institutions subject to analysis were disclosed, grouping together the five banks controlled by the Fund for Orderly Bank Restructuring (FROB), which required government aid in the two scenarios envisaged in the test (the so-called Group 1), and the institutions that would require additional capital in the adverse scenario (Group 2).

On 29 October 2012, the FROB completed the design of the structure of the asset management company, Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (SAREB), as envisaged in the MoU. The company's purpose would be to acquire problematic assets related to the property sector from the aforementioned financial institutions, substantially reducing any uncertainty concerning the feasibility of the institutions that might require government aid and enabling them to concentrate their operations on their core business.

November 2012 saw the approval of Law 9/2012, enacting the provisions of Royal Decree-Law 24/2012, and that of Royal Decree 1159/2012, of 15 November ("RD 1559/2012"), the purpose of which, inter alia, is to implement the stipulations of Additional Provisions Seven to Ten of the aforementioned Law in relation to Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria and the assets segregated to it.

- As established in Article 48 of Royal Decree 1559/2012, the institutions composing Groups 1 and 2 had to transfer to SAREB all the assets that met the following conditions:

  i) Properties foreclosed or acquired as payment of debts, irrespective of their origin, provided they were recognised in the separate or consolidated balance sheets of the credit institutions as at 30 June 2012 and had a net carrying amount, following the application of the established valuation adjustments, of more than EUR 100,000.

  ii) The following collection rights, provided they were recognised in the credit institutions' balance sheets as at 30 June 2012 or arose from the refinancing of the related transactions at a later date, the net carrying amount of which, following the application of the established valuation adjustments, exceeded EUR 250,000:

- Loans and credit facilities to finance land for property development in Spain, or to finance construction or property developments in Spain, either in progress or completed, irrespective of their age or accounting classification, except those classified as written-off loans.
- Participating loans granted to companies in the property sector or to companies related to them, irrespective of the age or accounting classification of the loans.
- Other loans or credit facilities granted to holders of loans or credit facilities included in sections i) and ii) above, when the FROB considered the transfer to be advisable in order to enable SAREB to adequately manage the transferred assets.

iii) The properties and collection rights that met the requirements described in sections i) and ii) above originating from companies in the property sector or from companies related to them, over which the credit institution exercised control, as defined in Article 42 of the Spanish Commercial Code.

In accordance with the provisions of Article 36 of Law 9/2012 and with the valuation procedures envisaged in Article 5 of Law 9/2012 and Articles 13 and 14 and Transitional Provision One of Royal Decree 1559/2012, the price of the transfers described below was determined by the Bank of Spain.

This transfer price of the assets may be adjusted within a period of 36 months from the date of transfer, pursuant to the terms established in the corresponding asset transfer agreements (price adjustment mechanism). This mechanism takes into account mainly the following adjustment situations:

i) Inappropriate categorisation;

ii) Changes in scope; and

iii) Errors or variations in the valuation estimated at the date of the transfer.

Similarly, adjustments may be made to the price with respect to financing agreements with drawable amounts if the Bank of Spain, following a proposal from the FROB, concludes that they were not adequately taken into consideration during the calculation of the transfer price.

On 28 November 2012, the European Commission, at the proposal of the Bank of Spain and the FROB, approved the restructuring/resolution plans of the five institutions in which the FROB held a majority ownership interest, namely Banco Financiero y de Ahorros – Bankia, S.A., NovaGalicia Banco, S.A., Catalunya Banc, S.A., Banco de Valencia, S.A. and Banco Gallego, S.A. The capital requirements that were initially identified in the stress tests mentioned above were reduced by the effect of the transfer of property assets to SAREB in December 2012 and by the other measures adopted under the aforementioned plans.

2012: Acquisition of assets from Group 1 institutions

On 21 December 2012, SAREB and the institutions composing the aforementioned Group 1 entered into the related asset transfer agreements which, as stipulated, did not come fully into effect until 31 December 2012. These assets were transferred free of encumbrances by the transferor institutions, as a whole and for a single price of EUR 36,695,308 thousand, and were acquired by SAREB through the issuance of senior bonds totalling EUR 36,694,100 thousand, which were subscribed by the transferor institutions. The payment of the difference between the transfer price and the value of the bonds issued was deferred for 36 months, and could be offset by the Company against any amounts owed to it by the transferor institutions under the terms and conditions established in the asset transfer agreements. At 31 December 2013, this amount had been settled and there were no balances in this connection in the accompanying balance sheet as at the aforementioned date.

The detail, by type at that date, of the assets transferred by Group 1 institutions is as follows:

	Thousands of euros
Financial assets	28,298,902
Property assets	8,396,406
Total	36,695,308

The detail, by risk classification, of the financial assets transferred by Group 1 institutions is as follows:

Amounts in thousands of euros	Number of assets	Total transfer price
Loans	62,435	26,493,181
Standard	28,047	8,368,902
Substandard	11,877	6,646,904
Doubtful	22,511	11,477,375
Credit facilities	5,714	1,805,721
Standard	1,810	537,427
Substandard	870	495,392
Doubtful	3,029	557,025
Other	5	215,877
Total	68,149	28,298,902

The detail of the property assets transferred by Group 1 institutions is as follows:

Amounts in thousands of euros	Number of assets	Total transfer price
Land	10,322	2,812,430
Completed properties for sale	30,158	2,426,138
Leased properties	5,822	927,620
Total investment property	46,302	6,166,188
Work in progress	3,050	470,124
Completed properties	27,682	1,760,094
Total inventories	30,732	2,230,218
Total	77,034	8,396,406

The main features of the senior bonds issued by the Company and subscribed by the Group 1 institutions on 21 December 2012 in payment of the aforementioned assets are summarised as follows:

ISIN code		Issue date	Maturity date (**)	Current applicable rate	Nominal amount (Thousands of euros) (*)
ES0352506002	SAREB/VAR BO 20131231 2012-1	31/12/12	31/12/13	2.374%	11,008,100
ES0352506010	SAREB/VAR BO 20141231 2012-2	31/12/12	31/12/14	2.747%	16,512,500
ES0352506028	SAREB/VAR BO 20151231 2012-3	31/12/12	31/12/15	3.149%	9,173,500
					36,694,100

(*) These bonds are backed by the irrevocable guarantee of the Kingdom of Spain (see Note 13.2).

(**) There is a renewal option at the Company's discretion, as described in Note 13.

These bonds were subscribed by the transferor institutions, the detail being as follows:

	Thousands of euros
Bankia, S.A./Banco Financiero y de Ahorros, S.A.	22,317,600
Catalunya Banc, S.A.	6,708,300
Banco Gallego, S.A.	609,700
NovaGalicia Banco, S.A.	5,096,800
Banco de Valencia, S.A.	1,961,700
Total	**36,694,100**

- *2013: Acquisition of assets from Group 2 institutions*

- On 20 December 2012, the European Commission approved the restructuring plans for the financial institutions included in Group 2 (Banco Grupo Cajatres, S.A., Banco Mare Nostrum, S.A., Banco Caja España de Inversiones, Salamanca y Soria, S.A. (CEISS) and Liberbank, S.A.) following approval thereof by the Bank of Spain.

On 28 February 2013, SAREB and the institutions included in Group 2 entered into the related asset transfer agreements. The assets were transferred to SAREB as a whole and free of encumbrances by the transferor institutions in Group 2 for a single price of EUR 14,087,157 thousand, and were acquired by SAREB through the issuance of senior bonds with a nominal value of EUR 100 thousand, for a total amount of EUR 14,086,700 thousand, which were subscribed by the transferor institutions. The payment of the difference between the transfer price and the value of the bonds issued was deferred for 36 months, and could be offset by the Company against any amounts owed to it by the transferor institutions under the terms and conditions established in the asset transfer agreements. At 31 December 2013, this amount had been settled and there were no balances in this connection in the accompanying balance sheet as at the aforementioned date.

The detail, by type at that date, of the assets transferred by Group 2 institutions is as follows:

	Thousands of euros
Financial assets (Note 7)	11,139,891
Property assets (Notes 5 and 8)	2,947,266
Total	**14,087,157**

The detail, by risk classification, of the financial assets transferred by Group 2 institutions is as follows:

Amounts in thousands of euros	Number of assets	Total transfer price
Loans	21,889	10,855,331
Standard	9,337	4,642,163
Substandard	1,800	1,872,775
Doubtful	10,752	4,340,393
Credit facilities	727	284,560
Standard	270	125,758
Substandard	137	44,161
Doubtful	230	110,643
Other	90	3,998
Total	**22,616**	**11,139,891**

The detail of the property assets transferred by Group 2 institutions at that date is as follows:

Amounts in thousands of euros	Number of assets	Total transfer price
Land	4,630	1,062,531
Halted construction work	1,445	163,505
Completed properties for sale	23,404	1,619,800
Leased properties	906	98,140
Total investment property (Note 5)	30,385	2,943,976
Work in progress	27	3,290
Total inventories (Note 8)	27	3,290
Total	**30,412**	**2,947,266**

The main features of the senior bonds subscribed on 28 February 2013 in payment of the aforementioned assets are summarised as follows:

ISIN code		Issue date	Maturity date (**)	Current applicable rate	Nominal balance (Thousands of euros) (*)
ES0352506036	SAREB/VAR BO 20140228 2013-1	28/02/13	28/02/14	1.451%	4,225,900
ES0352506044	SAREB/VAR BO 20150228 2013-2	28/02/13	28/02/15	2.233%	6,339,200
ES0352506051	SAREB/VAR BO 20160228 2013-3	28/02/13	28/02/16	2.674%	3,521,600
					14,086,700

(*) These bonds are backed by the irrevocable guarantee of the Kingdom of Spain (see Note 13.2).

(**) There is a renewal option at the Company's discretion, as described in Note 13.

These bonds were subscribed by the transferor institutions, the detail being as follows:

	Thousands of euros
Banco Mare Nostrum, S.A.	5,819,600
Banco Caja España de Inversiones, Salamanca y Soria, S.A.	3,137,300
Liberbank, S.A.	2,917,800
Banco Grupo Cajatres, S.A.	2,212,000
Total	**14,086,700**

Corrections made to the asset acquisition agreements in 2014 and 2013

- In 2014 and 2013, in compliance with the provisions of Royal Decree 1559/2012 and the terms and conditions of the asset transfer agreements, the loan and credit facility portfolios and the property asset portfolios acquired from Group 1 and 2 institutions were reviewed in order to identify any misclassifications of assets, changes in scope and errors or changes in the values estimated at the transfer date.
- As a result of the aforementioned analysis conducted by the Company for each year, corrections totalling EUR 546 million were made in 2014 (2013: EUR 340 million), through the return to Group 1 and 2 transferor institutions of assets amounting to EUR 180 million (2013: EUR 204 million) and adjustments to the transfer price of EUR 366 million (2013: EUR 136 million), thus reducing the amount of property assets initially transferred by EUR 121 million (2013: EUR 53 million) and that of loans and credit facilities by EUR 425 million (2013: EUR 287 million). As consideration, the transferor institutions delivered to SAREB a portion of the aforementioned bonds issued as payment for the transferred portfolios, for an amount equal to the returned assets, together with the cash amount of the coupons received by the institutions in relation to the bonds delivered. In addition, under the transfer agreement, the institutions have incurred a compensatory interest rate of 1% per annum of the total coupon paid by the Company on the returned bonds, amounting to EUR 21,179 thousand (2013: EUR 4,191 thousand).
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- The summary of the corrections made in 2014 is as follows:

Amounts in thousands of euros	Corrected property assets (**)	Corrected financial assets (Note 7)	Total corrections	Bonds returned (Note 13.2)	Cash adjustment (*)
NovaGalicia Banco, S.A.	26,581	156,163	182,744	(182,600)	144
Catalunya Caixa, S.A.	44,844	160,722	205,566	(205,400)	166
Banco Mare Nostrum, S.A.	2,110	502	2,612	(2,000)	612
Banco de Valencia, S.A.	28,660	61,223	89,883	(89,700)	183
Banco Gallego, S.A.	12,862	0	12,862	(12,700)	162
Banco Caja España de Inversiones Salamanca y Soria, S.A.	6,166	46,298	52,464	(52,400)	64
Total	**121,223**	**424,908**	**546,131**	**(544,800)**	**1,331**

(*) Relates to the difference, settled in cash, between the total amount of the correction and the amount of the bonds returned.

(**) EUR 7,593 thousand of the amount of the property assets corrected related to properties sold by the Company prior to the correction. The cash obtained by the Company from these sales was returned to the related institutions.

- Also, in 2014 the Company entered into various settlement agreements with Banco Caja España de Inversiones Salamanca y Soria, S.A.; Banco de Valencia, S.A.; Catalunya Caixa, S.A. and NovaGalicia Banco, S.A. whereby the parties agreed to waive the right to demand subsequent adjustments to the price and the 36-month period envisaged in the asset transfer agreement for the filing of claims. The Company is still entitled to exercise such rights and actions as might be legally or contractually attributed to it in relation to latent defects or damage and losses. This agreement does not mean that scope adjustments cannot be made with these institutions in the future in relation to assets incorrectly transferred because they did not comply with Article 48 of Royal Decree 1559/2012 or the Resolution of the FROB on the transfer conditions dated 14 December 2012.

- The detail of the amount of the corrections made by the Company in 2013 is as follows:

Amounts in thousands of euros	Corrected property assets (Notes 5 and 8)	Corrected financial assets (Note 7)	Total corrections	Bonds returned (Note 13.2)	Cash adjustment (*)
Bankia, S.A. / Banco Financiero y de Ahorros, S.A.U.	37,317	89,658	126,975	(126,700)	275
Catalunya Caixa, S.A.	85	112,702	112,787	(112,600)	187
Banco Mare Nostrum, S.A.	7,696	17,291	24,987	(24,700)	287
Banco de Valencia, S.A.	7,710	63,999	71,709	(71,600)	109
Banco Caja España de Inversiones Salamanca y Soria, S.A.	-	3,297	3,297	(3,000)	298
Total	**52,808**	**286,947**	**339,755**	**(338,600)**	**1,156**

(*) Relates to the difference, settled in cash, between the total amount of the correction and the amount of the bonds returned.

Management agreements

Simultaneously to the asset transfers described above, the Company entered into the related agreements with each of the transferor institutions for the management and administration of the transferred assets. The purpose of these agreements was to ensure continuity in the management of the assets over a transitional period in order to avoid any deterioration of the assets that might arise from a lack of attention. These agreements detail the general framework of the activities, functions, attributes and delegations entrusted to the transferor institutions for the ordinary management of the assets. The main features of these agreements are as follows:

- Purpose: management of the transferred assets, both collection rights and properties.
- Term: one year, renewable for another year at SAREB's discretion. The Company exercised its right to renewal, and, accordingly, unless agreed otherwise by the parties, the agreements expire on 31

December 2014 for Group 1 institutions and on 28 February 2015 for Group 2 institutions (see next section on the "Íbero Project").

- Price: fixed and variable management fees depending on various parameters.

The above management agreements contain "Operating Management Instructions" which detail, inter alia, certain obligations regarding information, procedures to be applied by the institution with respect to the delegated management of the assets and the fees and penalty arrangements, based on the different types of business and assets managed by the transferor institutions on behalf of the Company. The main aspects of the fee arrangement are as follows:

- Overall management (relating to ordinary and administrative and accounting management, maintenance, management of collections and payments, etc.), which has a guaranteed minimum fee plus a target-based variable.
- Property asset sales: variable fee based on results, the type of asset sold (residential, tertiary commercial property or offices, land) and whether the sale includes financing by the transferor institution.
- Lease of property assets: the fee for leased properties will only accrue when new lease agreements are entered into on assets owned by the Company.
- Loans and credit facilities: in this case, fees are variable based on both the ordinary collection of loan repayments and their recovery or negotiations aimed at returning non-performing loans to performing status, or refinancing or foreclosing loans.

In the year ended 31 December 2014, overall management fees amounting to EUR 89,058 thousand and fees in all other connections amounting to EUR 118,760 thousand were incurred (2013: EUR 104,680 thousand and EUR 91,586 thousand, respectively) (see Note 16.4).

Íbero project

In 2014 the Company implemented the so-called "Ibero" project. This project consisted of the replacement of the management and administration agreements formalised on the date of transfer of the assets with a tender process, the aim being to:

- Bring together the management of the nine portfolios initially contributed by Group 1 and 2 institutions under new managers, in order to simplify and facilitate the management of the transferred assets.
- Seek to professionalise and improve the quality of the service at market prices to enable the Company to meet its commitments and mandate, i.e., to be able to divest the assets acquired over its lifetime and maximise the value thereof.

The Íbero project had two main phases: During the first phase, the Company received heads of terms of offers for each of the portfolios (which were divided into ten, one for each transferor institution except for the portfolio initially transferred by Bankia, S.A., which, due to its size, was divided into a loan portfolio and a property portfolio). On the basis of this first phase, the Company assessed the offers received and made an initial shortlist of potential candidates for the award of the aforementioned portfolios.

The second phase of the project consisted of the receipt of binding offers from the potential candidates. On the basis of these binding offers, the Company carried out due diligence reviews of the capabilities offered and defined the final portfolios.

Lastly, in November and December the formal award and formalisation of the new management and administration agreements took place. The successful bidders were as follows:

- Solvia Servicios Inmobiliarios, S.L. was awarded the property asset portfolio of Bankia, S.A. and all of the portfolios of Banco Gallego, S.A. and Banco Caja España de Inversiones Salamanca y Soria, S.A.
- Altamira Asset Management, S.L. was awarded all of the portfolios hitherto managed by Catalunya Caixa, S.A., Banco Mare Nostrum, S.A. and Banco Caja 3, S.A.
- Haya Real Estate, S.L.U. was awarded the portfolio of loans initially transferred by Bankia, S.A. and Banco Financiero de Ahorros, S.A.
- Lastly, Servihabitat Servicios Inmobiliarios, S.L. was awarded the portfolios initially transferred by NovaGalicia Banco, S.A. (Abanca, S.A.), Liberbank, S.A. and Banco de Valencia, S.A.

In all cases, the agreements for the services to be provided by the new managers include migration, administration and management of the assigned portfolios. Also, in order to guarantee a given level of service and performance of the functions entrusted, and to align their objectives with those of the Company, the successful bidders have provided performance bonds of EUR 588,600 thousand as a guarantee, which are recognised under “Non-Current Liabilities - Other Financial Liabilities” in the accompanying balance sheet (see Note 13.4). EUR 411,850 thousand of the performance bonds had been received at 31 December 2014, and the remainder must be received no later than 30 June 2015. The amount receivable is recognised under “Sundry Accounts Receivable” in the accompanying balance sheet (see Note 9). The amounts receivable have been guaranteed by leading financial institutions.

Lastly in relation to the aforementioned performance bonds, it must be stated that the amount of these bonds was calculated based on an estimate of the assets that will be managed by each of the new managers, and may be corrected to adapt it to actual data on two occasions, the first being 30 March 2015, and the second at the end of each migration, as a result of any variations that might possibly be detected at each date with respect to the initial scope of assets to be managed. The Company considers that no significant changes will arise in this connection. The return of these bonds is contingent to the new managers' adequate commercial performance. The Company considers it probable that, pursuant to current estimates, these bonds will be returned and that the return will take place as the economic rights agreed upon by the Company and the new managers accrue and are paid. This agreement envisages the measurement of the degree of compliance of the managers on the basis of several performance indicators applicable to the services agreed upon, and establishes a scale of penalties to be applied to the billings of the economic rights assigned to the contract based on the degree of compliance, as well as grounds for early termination under certain circumstances (e.g. if the non-compliance by the managers extends over a period of twelve months, with the highest level of materiality and degree of variance from the target value of those envisaged in the agreement). The agreement also envisages the possibility of early termination by SAREB at any time with a notice period of at least three (3) months and payment of compensation to the managers calculated in accordance with the terms and conditions of the agreement.

Other disclosures

At 31 December 2014, the Company’s financial statements were not fully consolidated in the consolidated financial statements of any shareholder since no shareholder owned more than 50% of the Company’s share capital and because it was not considered that any of them controlled the Company or had the power to govern its financial and operating policies so as to obtain economic benefits from its activities, owned the majority of its voting power or had the power to appoint or remove the majority of the members of its Board of Directors (see Note 11).

At 31 December 2014, the Company did not hold any majority ownership interests in the share capital of subsidiaries. In addition, the ownership interests in Bank Asset Funds (“FABs”) (see Note 4.6.1) that did not give rise to the derecognition of the assets and liabilities assigned to them are not of significant interest with respect to the true and fair view of the Company’s equity, financial position and results. Therefore, pursuant to the provisions of Article 9 of Royal Decree 1159/2010, of 17 September, which approved the Rules for the Preparation of Consolidated Financial Statements and amended the Spanish National Chart of Accounts approved by Royal Decree 1514/2007, of 16 November, and the Spanish National Chart of Accounts for Small and Medium-Sized Enterprises approved by Royal Decree 1515/2007, of 16 November, and Article 43 of the Spanish Commercial Code, the Company is not required to prepare consolidated financial statements.

2 Basis of presentation of the financial statements

2.1 Regulatory financial reporting framework applicable to the Company

These financial statements were formally prepared by the directors in accordance with the regulatory financial reporting framework applicable to the Company, which consists of:

a) The Spanish Commercial Code and all other Spanish corporate law, with the specific rules contained in Additional Provision Seven.10 of Law 9/2012 which, where appropriate, will be implemented by a Bank of Spain Circular. While the aforementioned Circular is being drafted, the Bank of Spain will resolve any requests for rulings filed on such matters.

b) The Spanish National Chart of Accounts approved by Royal Decree 1514/2007 and subsequent amendments thereto, except for the specific rules included in Law 9/2012 and described in Note 4 "*Accounting policies*". Pursuant to Additional Provision Seven.10 of Law 9/2012, the Bank of Spain must implement by means of a circular certain specific accounting rules applicable to the Company. Until the aforementioned circular comes into force, certain accounting matters will be regulated through requests for rulings from the Bank of Spain.

   Also, because of the Company's activities, in the preparation of these financial statements, the provisions of the Ministry of Economy and Finance Order of 28 December 1994 approving the adaptation of the Spanish National Chart of Accounts (1990) for real estate companies were taken into account, which are applicable to all matters which do not contravene the provisions of the Spanish Commercial Code, the Spanish Limited Liability Companies Law, Law 9/2012 and the Spanish National Chart of Accounts approved by Royal Decree 1514/2007.

   Also, the Company must comply with the general obligations regarding transparency and the preparation of financial statements established in Royal Decree 1559/2012.

c) The mandatory rules approved by the Spanish Accounting and Audit Institute in order to implement the Spanish National Chart of Accounts and the relevant secondary legislation.

d) All other applicable Spanish accounting legislation.

2.2 Fair presentation

- The accompanying financial statements, which were obtained from the Company's accounting records, are presented in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein and, accordingly, present fairly the Company's equity and financial position as at 31 December 2014, and its results and cash flows for the year then ended.

- SAREB's financial statements for 2013 were approved by the Annual General Meeting on 9 April 2014, and those for 2014, which were authorised for issue by SAREB's Board of Directors at its meeting on 30 March 2015, will be submitted for approval by the Annual General Meeting, and it is considered that they will be approved without any changes.

2.3 Non-obligatory accounting principles applied

No non-obligatory accounting principles were applied in the preparation of the financial statements. Also, the directors formally prepared these financial statements taking into account all the obligatory accounting principles and standards with a significant effect hereon (see Note 4). All obligatory accounting principles with a significant effect on these financial statements were applied.

2.4 Key issues in relation to the measurement and estimation of uncertainty

• In preparing the accompanying financial statements estimates were made by the Company's directors in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The fair value of the Company's property assets (see Notes 5 and 8)
- The assessment of indications of impairment of certain assets (see Notes 5, 7 and 8)
- The useful life of intangible assets, property, plant and equipment and investment property (see Notes 4.1, 4.2 and 4.3)
- The fair value of certain financial instruments (see Note 7)
- The recovery of deferred tax assets and tax credit and tax loss carryforwards (see Note 15.3)
- The calculation of provisions (see Note 12)
- The estimate of the debt instruments and marketable securities to be redeemed at short term (see Note 13.2)

In 2014 the Company completed a due diligence review of the assets transferred. The purpose of the review was to determine whether the price estimates and calculation mechanism (correct application of the transfer prices, confirmation of the features of the acquired assets and accuracy of the information sent by the transferor institutions) were reasonable.

Based on the results obtained from the review, the Company formalised the corrections specified in Note 1 in 2014 and 2013. Except for these corrections, based on the current information, the estimate of the possible differences that might be disclosed with respect to the transfer prices is not relevant for the purposes of these financial statements.

Although these estimates were made, pursuant to the provisions of the applicable legislation, on the basis of the best information available at 2014 year-end and at the date of authorisation for issue of these financial statements, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively and recognised in the income statements for the future years affected. It should be noted that the Bank of Spain must prepare the Circular that will ultimately determine the criteria on which the methodology to be used by SAREB to estimate the value of the assets in the future will be based. The ultimate nature of such criteria might have a material impact on the final estimate of the value of SAREB's assets in the future.

Going concern principle of accounting

At 31 December 2014, the Company had a working capital deficiency of EUR 3,765 million as a result of the classification under “Non-Current Assets” of substantially all the assets transferred by Group 1 and 2 institutions. It must also be taken into account that although EUR 30,421 million of senior debt contractually fall due in 2015, the Company has the option to renew the maturity date of the bonds unilaterally (see Note 13.2).

Also, the Company, on the basis of the knowledge of the assets contributed by the Group 1 and 2 institutions, considers that the financial assets classified as doubtful will be recovered in a time horizon of more than twelve months and that those that are current in payment will be recovered in accordance with the original contractual payment schedule (see Note 7).Taking into account the foregoing, and considering the financial projections made by the Company, which envisage the generation of sufficient cash flows to realise its assets and settle its liabilities, the Company's directors prepared these financial statements in accordance with the going concern principle of accounting.

It should be noted that, in accordance with current accounting rules, changes in the value of the hedging derivative are recognised in the Company's equity until they are recognised in the income statement in the related year. The entire fair value of this interest rate risk derivative, net of the related tax effect, is recognised under “Valuation Adjustments - Hedges”. As a result, the Company has an equity deficit. However, from a corporate standpoint and pursuant to the provisions of Article 36 of the Spanish Commercial Code, these changes in the value of the hedging derivative that have not yet been taken to profit or loss do not qualify as equity for the purposes of distributions of profit, obligatory reductions of share capital or obligatory dissolution due to losses incurred.

Lastly, it must be stated that, as indicated in Note 1, the Company has assigned the management of its property and financial assets to four new managers. These management agreements have a duration of between five and seven years.

2.5 Comparative information

- As required by current legislation, the information relating to 2013 contained in these notes to the financial statements is presented solely for comparison purposes with the information for 2014.

- In order to facilitate the understanding of these financial statements, it should be noted that, as stated in Note 4.7.2, in 2014, since an accounting circular regulating the criteria on which the methodology to be used to calculate impairment losses should be based had not been published, the Company, as in 2013, filed a request for a ruling from the Bank of Spain. In response to this request, the Bank of Spain ruled that “it would be reasonable to deduce that the portfolio of financial and property assets, taken as a whole, is not globally impaired”. However, the Bank of Spain stated that: “In any case, it would be appropriate for the Company to conduct, at the same time, a more intense scrutiny of the exposures in which, based on the information available, the creditor position may be considered to be particularly weak. In particular, due to their unlikely recovery, the loans to borrowers in that are in insolvency proceedings, are not current in their payments and do not have any collateral shall be considered to be particularly weak. With respect to this group of loans, until the methods for measuring assets have been definitively established, any possible gains in the asset category in which they are located should not be taken into consideration with a view to offsetting any possible losses thereon. These losses, if any, should be recognised in the income statement for 2014.”

- As explained in Note 2.10, the Company considered that the non-use of the possible gains on the asset unit to which the subcategory of assets identified in the ruling from the Bank of Spain belongs, for the purpose of assessing its impairment, constitutes a change in accounting policy with respect to that applied in 2013. However, in view of the Bank of Spain requirement (see Note 4.7.2), impairment losses were recognised on this asset class in 2014. The negative effect of this change in policy on these financial statements amounts to EUR 628,208 thousand and is recognised under “Impairment of Financial Instruments - Loans and Credit Facilities to Third Parties” in the income statement for 2014.

- Also, in order to facilitate understanding of these financial statements and comparison of the figures for 2014 with those for 2013, it must be stated that the transfer of the property and loan assets of the Group 2 institutions took place in 2013. The impact that this transaction had on the assets and liabilities in the Company's balance sheet at the date of transfer is detailed in Note 1 above.

2.6 Grouping of items

- Certain items in the balance sheet, income statement, statement of changes in equity and statement of cash flows are grouped together to facilitate their understanding; however, whenever the amounts involved are material, the information is broken down in the related notes to the financial statements.

2.7 Correction of errors and changes in estimates

- In preparing the accompanying financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the financial statements for 2013.

2.8 Environmental impact

In view of the business activity carried on by SAREB, it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position or results.

Therefore, the Company's financial statements for 2014 do not contain any disclosures on environmental issues.

2.9 Presentation of the financial statements

Unless stated otherwise, all the amounts in these financial statements are expressed in thousands of euros.

2.10 Changes in accounting policies

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As indicated in Note 2.5, as a result of the request for a ruling made to the Bank of Spain in 2014 in relation to the method to be adopted for the calculation and accounting recognition of impairment losses on its loan portfolio, the Company conducted a specific analysis of the portfolio of loans and credit facilities granted to borrowers that are in insolvency proceedings, are not current in their payments and do not have any collateral. As a result of the ruling, the directors considered the recovery of the aforementioned exposures to be remote and, accordingly, in order to anticipate the clean-up thereof, recognised the related impairment loss.

The Company considers, in relation to these exposures, that the requirement of a separate analysis of a subcategory of assets with very specific characteristics introduced by the Bank of Spain's ruling gives rise to a system that differs from the general principle of offsetting gains and losses within the same asset unit established in Additional Provision Seven.10-c) of Law 9/2012 and, accordingly, from the method applied in 2013, which was also supported by a ruling from the Bank of Spain.

Pursuant to Recognition and Measurement Standard 22 “Changes in Accounting Policies, Accounting Errors and Estimates” of the Spanish National Chart of Accounts, changes in accounting policies are recognised retrospectively. However, the aforementioned ruling of the Bank of Spain specifies that the Company should recognise the impact thereof in the income statement for 2014 and, accordingly, the Company recognised the impact in the income statement for that year. Nevertheless, since the Company can identify the effect that the application of this method would have had on the prior year, the first in which the impairment criteria established in Additional Provision Seven.10 of Law 9/2012 were applied, this change in methodology is a change in accounting policy. However, the foregoing ruling from the Bank of Spain specifies that the Company must recognise the impact thereof in the income statement for 2014.

Also, it can be deduced fairly clearly that with respect to 2013, the objective conditions of the unit taken as a whole have not changed, nor have those of the specific assets singled out by the regulator, nor is there any new information that would give rise to a new estimate of value.

For information purposes, following is the effect that the aforementioned change in accounting policy would have had on the balance sheet as at 31 December 2013 and on the income statements for 2013 and 2014:

Pro forma balance sheet as at 31 December 2013

ASSETS	Re-stated 31/12/2013	Effect of re-statement	Prepared 31/12/2013	EQUITY AND LIABILITIES	Re-stated 31/12/2013	Effect of re-statement	Prepared 31/12/2013
NON-CURRENT ASSETS	46,408,895	(377,403)	46,786,297	EQUITY	290,676	(377,404)	668,080
Intangible assets	258	-	258	*SHAREHOLDERS' EQUITY-*	556,635	(377,404)	934,039
Property, plant and equipment	1,190	-	1,190	Share capital	300,060	-	300,060
Investment property	11,003,633	-	11,003,633	Share premium	900,000	-	900,000
Non-current investments in associates	71,496	-	71,496	Reserves - Prior years' losses	(5,488)	-	(5,488)
Non-current financial assets	34,911,878	(539,148)	35,451,026	Loss for the year	(637,936)	(377,404)	(260,533)
Deferred tax assets	420,439	161,745	258,694	*VALUATION ADJUSTMENTS-*	(265,959)	-	(265,959)
CURRENT ASSETS	7,463,744	-	7,463,744	Hedges	(265,959)	-	(265,959)
				NON-CURRENT LIABILITIES	49,654,332		49,654,332
Inventories	50,534	-	50,534	Long-term provisions	53,322	-	53,322
Trade and other receivables	88,714	-	88,714	Non-current payables	49,601,010	-	49,601,010
Current financial assets	2,541,939	-	2,541,939	CURRENT LIABILITIES	3,927,629		3,927,629
Current prepayments and accrued income	103	-	103	Current payables	3,596,862	-	3,596,862
Cash and cash equivalents	4,782,454	-	4,782,454	Trade and other payables	330,767	-	330,767
TOTAL ASSETS	53,872,638	(377,403)	54,250,041	TOTAL EQUITY AND LIABILITIES	53,872,638	(377,404)	54,250,041

(*) Balances that would result from the application of the criteria of the ruling on 2014 impairment to the balances existing in 2013.

Pro forma income statement for 2013

	Re-stated FY 2013	Efect of restatement	FY 2013
CONTINUING OPERATIONS			
Revenue	**2,861,476**	**-**	**2,861,476**
Changes in inventories of finished goods and work in progress	**(10,007)**	**-**	**(10,007)**
Cost of sales	**(1,256,721)**	**-**	**(1,256,721)**
Other operating income	**1,168**	**-**	**1,168**
Staff costs	**(14,883)**	**-**	**(14,883)**
Other operating expenses	**(445,615)**	**-**	**(445,615)**
Depreciation and amortisation charge	**(56,778)**	**-**	**(56,778)**
Impairment of financial instruments	**(798,526)**	**(539,148)**	**(259,378)**
PROFIT FROM OPERATIONS	**280,114**	**(539,148)**	**819,262**
Finance income	**50,542**	**-**	**50,542**
Finance costs	**(1,272,460)**	**-**	**(1,272,460)**
Exchange differences	**(236)**	**-**	**(236)**
FINANCIAL LOSS	**(1,222,154)**		**(1,222,154)**
LOSS BEFORE TAX	**(942,040)**	**(539,148)**	**(402,892)**
Income tax	304,104	161,744	142,359
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	**(637,936)**	**(377,404)**	**(260,533)**
LOSS FOR THE YEAR	**(637,936)**	**(377,404)**	**(260,533)**

(*) Balances that would result from the application of the criteria of the ruling on 2014 impairment to the balances existing in 2013.

As shown, the impact on the financial statements for 2013 had they been restated would have been to reduce "Non-Current Financial Assets - Loans and Credit Facilities to Third Parties and Related Parties" by EUR 539,148 thousand as a result of the impairment existing in the portfolio of loans and credit facilities granted to borrowers that were in insolvency proceedings, were not current in their payments and did not have any collateral at 31 December 2013.

Also, “Deferred Tax Assets” at 31 December 2013 would have been increased by EUR 161,745 thousand as a result of the recognition of the tax asset generated by the recognition of the impairment loss described above.

Similarly, it must be stated that these two effects would have increased the Company's loss for the year and reduced its shareholders' equity for 2013 by EUR 377,404 thousand, to a loss of EUR 637,936 thousand and a positive amount of EUR 556,635 thousand, respectively.

Pro forma income statement for 2014

	Proforma (*) FY 2014	Efect of restatement	FY 2014
CONTINUING OPERATIONS			
Revenue	**3,173,279**	**-**	**3,173,279**
Changes in inventories of finished goods and work in progress	**(4,806)**	**-**	**(4,806)**
Cost of sales	**(1,570,615)**	**-**	**(1,570,615)**
Other operating income	**1,071**	**-**	**1,071**
Staff costs	**27,315**	**-**	**27,315**
Other operating expenses	**488,822**	**-**	**488,822**
Depreciation and amortisation charge	**(48,393)**	**-**	**(48,393)**
Impairment of financial instruments	**(187,553)**	**(539,148)**	**(726,701)**
- Loans and credit facilities to third parties	(179,960)	(539,148)	(719,108)
- Loans and credit facilities to associates	(7,593)	-	(7,593)
PROFIT FROM OPERATIONS	**852,844**	**(539,148)**	**313,696**
Finance income	**42,281**	**-**	**42,281**
Finance costs	**(1,140,384)**	**-**	**(1,140,384)**
Exchange differences	**3,129**	**-**	**3,129**
FINANCIAL LOSS	**(1,094,974)**		**(1,094,974)**
LOSS BEFORE TAX	**(242,130)**	**(539,148)**	**(781,278)**
Income tax	34,875	(161,744)	196,619
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	**(207,255)**	**377,404**	**(584,659)**
			-
LOSS FOR THE YEAR	**(207,255)**	**(377,404)**	**(584,659)**

(*) Balances that would result from the application of the criteria of the Bank of Spain ruling in the income statement for 2014 had the related impairment losses been recognised in 2013.

Lastly, it must be stated that the existence of the objective condition of being subject to insolvency proceedings had already been duly authenticated in December 2012, in relation to the portfolio existing at 2014 year-end, in respect of balances of EUR 442,256 thousand; which represent 70.4% of the portfolio, and 83% if the position at December 2013 is considered.

Had this criterion been applied since 2012, the impairment losses and the pro forma net losses for 2012, 2013 and 2014 would have been as follows:

	2012	2013	2014	Total
Pro forma impairment of financial instruments	(442,256)	(96,892)	(89,060)	**(628,208)**
Reported loss net of tax effect	(5,488)	(260,533)	(584,659)	**(850,681)**
Pro forma loss net of tax effect	(315,067)	(328,357)	(207,255)	**(850,681)**

3 Allocation of loss

The proposed allocation of the loss for 2014 that the Board of Directors will submit for approval by the shareholders at the Annual General Meeting and the allocation of the loss for 2013 that was approved by the Annual General Meeting on 9 April 2014 are as follows:

Amounts in thousands of euros	2014	2013
Balance per income statement:	**(584,659)**	**(260,533)**
Allocation:		
To prior years' losses	(584,659)	(260,533)

4 Accounting policies

The principal accounting policies used by the Company in preparing the financial statements for 2014, in accordance with the applicable regulatory framework, were as follows:

4.1 Intangible assets

- Intangible assets are recognised initially at acquisition or production cost. They are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses. These assets are amortised over their years of useful life.

- *Intellectual property*

- The amounts recognised by the Company under "Intellectual Property" relate to the capitalised expenses incurred in obtaining the corresponding patents or similar items, including intellectual property registration and formalisation costs, without prejudice to such amounts as might also be recognised as a result of the acquisition of the corresponding rights from third parties. The Company amortises the amounts capitalised under "Intellectual Property" on a straight-line basis over four years.

Computer software

- Computer software acquired or developed by the Company is recognised at acquisition or production cost, as appropriate, and is amortised on a straight-line basis over four years. Computer software maintenance costs are recognised with a charge to the income statement for the year in which they are incurred. "Computer Software" at 31 December 2014 and 2013 includes mainly the gross cost of the computer programs acquired by the Company, amounting to EUR 4,817 thousand and EUR 259 thousand, respectively.

- The intangible asset amortisation charge for 2014 amounted to EUR 601 thousand (2013: EUR 10 thousand), and this amount was recognised under "Depreciation and Amortisation Charge" in the accompanying income statement.

- In-house work on non-current assets is measured at accumulated cost (external costs plus in-house costs, determined on the basis of in-house materials consumption, and manufacturing costs allocated using the same criteria as those used to measure inventories). The Company did not capitalise any costs to intangible assets in this connection in 2014 or 2013.

- At 31 December 2014 and 2013, the Company did not have any intangible assets with indefinite useful lives.

- *Impairment of intangible assets*

- Whenever there are indications of impairment of intangible assets with a finite useful life (i.e. all the Company's intangible assets), the Company tests the intangible assets for impairment to determine whether the recoverable amount of the assets has been reduced to below their carrying amount.

- Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income.

- The Company did not recognise any impairment losses on its intangible assets in 2014 or 2013.

• Also, at the end of 2014 and 2013 there were no intangible asset purchase or sale commitments of a material amount.

4.2 Property, plant and equipment

• *Initial recognition*

• Property, plant and equipment are initially recognised at acquisition or production cost, plus the amount of any additional or supplementary investments made, and are subsequently reduced by the related accumulated depreciation and by any impairment losses recognised, as indicated in this Note.

• The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

• Period upkeep and maintenance expenses are recognised as "Outside Services" in the accompanying income statements.

• In 2014 and 2013 the Company did not capitalise any borrowing costs to its property, plant and equipment.

• In-house work on non-current assets is measured at accumulated cost (external costs plus in-house costs, determined on the basis of in-house materials consumption, and manufacturing costs allocated using the same criteria as those used to measure inventories). The Company did not capitalise any costs to property, plant and equipment in this connection in 2014 or 2013.

• *Depreciation*

• Property, plant and equipment are depreciated by the straight-line method, based on the years of estimated useful life of the assets. The annual depreciation rates applied to the respective cost values, revalued where appropriate, and the years of estimated useful life are as follows:

Line item	Annual rate	Years of estimated useful life
Straight-line depreciation method:		
Other fixtures	10	10
Furniture	10	10
Computer hardware	20	5
Other items of property, plant and equipment	12.5	8

• The property, plant and equipment depreciation charge for the year ended 31 December 2014 amounted to EUR 207 thousand (2013: EUR 96 thousand), and this amount was recognised under "Depreciation and Amortisation Charge" in the accompanying income statement.

• Items of property, plant and equipment in the course of construction do not begin to be depreciated until they come into operation, when they are transferred to the corresponding property, plant and equipment account on the basis of their nature.

• The Company did not recognise any impairment losses on its property, plant and equipment in 2014 or 2013.

• *Impairment of property, plant and equipment*

• Whenever there are indications of impairment of tangible assets (i.e. all the Company's property, plant and equipment), the Company tests the tangible assets for impairment to determine whether the recoverable amount of the assets has been reduced to below their carrying amount.

- Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income.

- The Company did not recognise any impairment losses on its property, plant and equipment in 2014 or 2013.

- Also, at the end of 2014 and 2013 there were no property, plant and equipment purchase or sale commitments of a material amount.

4.3 Investment property

- “Investment Property” in the balance sheet reflects the values of the land, buildings and other structures held either to earn rentals or for capital appreciation.

- *Initial recognition*

- Investment property is initially recognised at acquisition or production cost, plus the amount of any additional or supplementary investments made, and is subsequently reduced by the related accumulated depreciation and by any impairment losses recognised, as indicated in this Note. Pursuant to Additional Provision Seven.10-a) of Law 9/2012, the acquisition cost of the assets received from Group 1 and Group 2 transferor institutions was determined by applying the transfer prices that were set for each type of asset by Bank of Spain resolution in accordance with the criteria established in Royal Decree 1559/2012.

- The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

- Period upkeep and maintenance expenses are recognised as “Outside Services” in the accompanying income statement.

- In-house work on non-current assets is measured at accumulated cost (external costs plus in-house costs, determined on the basis of in-house materials consumption, and manufacturing costs allocated using the same criteria as those used to measure inventories). The Company did not capitalise any costs to investment property in this connection in 2014 or 2013.

- In 2014 and 2013 the Company did not capitalise any interest or other borrowing costs as part of the cost of its investment property. However, in 2013 it capitalised EUR 5,149 thousand relating to the costs required to obtain control of the assets (see Note 5).

- *Depreciation*

- Investment property is depreciated by the straight-line method, based on the years of estimated useful life of the assets. The annual depreciation rates applied to the respective cost values, where appropriate, and the years of estimated useful life are as follows:

	Annual rate	Years of estimated useful life
Straight-line depreciation method:		
Buildings	2	50
Other fixtures	10	10
Furniture	10	10
Computer hardware	20	5
Other items of property, plant and equipment	12.5	8

- The investment property depreciation charge for 2014 amounted to EUR 47,585 thousand (2013: EUR 56,672 thousand) (see Note 5), and this amount was recognised under “Depreciation and Amortisation Charge” in the accompanying income statement.

- Items of property, plant and equipment in the course of construction do not begin to be depreciated until they come into operation, when they are transferred to the corresponding property, plant and equipment account on the basis of their nature.

- *Impairment of investment property*

- The Company considers that its investment property is impaired when the carrying amount of the asset units classified under this balance sheet heading, i.e. each of the asset categories individually specified in Article 48.1 of Royal Decree 1559/2012 and described in Note 1 above, exceeds their recoverable amount, which is deemed to be the higher of fair value less cost to sell and value in use.

Impairment losses recognised and reversed are charged and credited, respectively, to the income statement. The limit of any reversal of a previously recognised impairment loss is the carrying amount of the investment that would have been recognised at the date of reversal had no impairment loss been recognised.

Additional Provision Seven.10-b) of Law 9/2012 establishes that for the purpose of determining the present values of SAREB's assets, the Bank of Spain will develop the criteria on which the methodology to be used by SAREB in estimating the value of the assets will be based. This methodology will be consistent with that used to determine the prices of the assets transferred to SAREB. Subsequent measurements of the assets must be made considering the particular features of the Company, the trend in market prices and the time horizons envisaged in the business plan.

- Any valuation adjustments required as a result of applying the criteria set forth in the preceding paragraph must be calculated by asset unit. For this purpose, each of the asset categories individually described in Article 48.1 of Royal Decree 1559/2012 will be considered to be an asset unit. The Bank of Spain is to implement the aforementioned methodology by issuing the corresponding Circular. At the date of formal preparation of these financial statements, the aforementioned Circular had not yet been published and, therefore, the Company filed a request for a ruling in this connection from the Bank of Spain. In its ruling the Bank of Spain concluded that, in accordance with Additional Provision Seven.10 of Law 9/2012, taking into account the methodology used for the asset transfer process and the evolution of the economic environment, which is close to that forecast in the stress test conducted on the Spanish financial system for the 2012-2014 time horizon, it can be reasonably inferred that there is no evidence of any impairment of SAREB's property asset portfolio taken as a whole.

- In keeping with the aforementioned ruling, the Company's directors, using the criteria provided in Additional Provision Seven.10 of Law 9/2012, in a manner consistent with those employed to determine the transfer price of the assets, and considering the evolution of the macroeconomic environment, inter alia, to be a relevant factor, concluded that there are no indications of impairment of the property asset portfolio, taken as a whole. Based on this conclusion, the Company did not recognise any impairment losses in relation to its investment property.

- However, it should be noted that the Bank of Spain must prepare, in the short term, the Circular that will ultimately determine the criteria on which the methodology to be used by SAREB to estimate the value of the assets in the future will be based. The ultimate nature of such criteria might have a material impact on the final estimate of the possible impairment of SAREB's assets.

4.4 Barter transactions and foreclosures

- “Barter transaction” refers to the acquisition of property, plant and equipment or intangible assets in exchange for the delivery of other non-monetary assets or of a combination of monetary and non-monetary assets.

- As a general rule, the asset received in an asset exchange transaction with commercial substance is recognised at the fair value of the asset given up, plus, where appropriate, any monetary consideration paid.

The valuation differences that arise on derecognition of the asset given up in the exchange are recognised in the income statement.

- Assets received in an exchange that lacks commercial substance are recognised at the carrying amount of the asset given up plus, where appropriate, any monetary consideration paid, up to the limit of the fair value of the asset received if this is lower.

- Specifically, assets foreclosed in payment of debts are classified as investment property or as inventories, based on their nature and their intended purpose, and are recognised as described in Notes 4.3. and 4.11., respectively.

4.5 Leases

The Company considers as operating leases those leases originating from an agreement whereby the lessor conveys to the lessee, in return for a single payment or a series of payments, the right to use an asset for an agreed period of time, provided that the lease is not required to be classified as a finance lease in accordance with current legislation.

- The Company recognises the lease income and expenses from operating leases in which it acts as the lessor on an accrual basis in the income statement. Also, the acquisition cost of the leased asset is presented in the balance sheet according to the nature of the asset, increased by the costs directly attributable to the lease, which are recognised as an expense over the lease term, applying the same method as that used to recognise lease income.

- The Company treats any payment made on entering into or acquiring a leasehold that is accounted for as an operating lease as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

The Company did not have any finance leases in 2014 or 2013.

4.6 Investments in associates and Financial assets - **Categories of financial assets**

4.6.1 Investments in associates

Associates are companies over which the Company is in a position to exercise significant influence. Significant influence is defined as when the Company has an ownership interest in another company and has the power to participate in the financial and operating policy decisions of the investee, but not control or joint control of those policies. Significant influence normally arises if an entity holds (directly or indirectly) 20% or more of the voting power of the investee.

Investments in associates are recognised under “Non-Current Investments in Group Companies and Associates - Equity Instruments” in the balance sheet and are measured at acquisition cost, net of any impairment losses on the investments (see Note 4.7.1).

The remuneration earned on these investments, provided it does not arise unequivocally from profits generated prior to the date of acquisition, is recognised under “Revenue” in the income statement (see Note 16.1).

Bank Asset Funds (FABs)

Article 29 of Royal Decree 1559/2012, of 15 November, empowers the Company to set up separate divisions or compartments of assets in the form of the previously mentioned “Bank Asset Funds” (“FABs”).

The business object of the FABs, which are fund-like entities without legal personality, is to liquidate the portfolio of assets and liabilities contributed by SAREB, within the time frame for which the FABs have been created.

When accounting for its investments in FABs, the Company distinguishes between:

- FABs in whose creation substantially all the risks and rewards inherent to the transferred assets and liabilities were not transferred to third-party investors. As a general rule, these funds are those in which the Company retains control and more than 50% of the Fund's total liabilities and equity. In the case of these funds, the Company does not derecognise the transferred assets and liabilities (i.e. it does not recognise any income from their sale or any related costs) and measures them using the same criteria as those which were applicable before the transfer. However, it recognises a liability for an amount equal to the consideration received, which it measures at amortised cost, and it recognises, for their net amount where appropriate, both the income from the transferred assets not derecognised and the costs of the new financial liability at the time of their effective transfer to third parties.

- FABs in whose creation substantially all the risks and rewards inherent to the transferred assets and liabilities were transferred to third-party investors. As a general rule, these funds are those in which the Company does not retain more than 50% of the Fund's total liabilities and equity. In the case of these funds, since control of the transferred assets has generally been transferred to the investor, the Company recognises the cost of the securities equivalent to share capital subscribed by it under "Non-Current Investments in Group Companies and Associates - Equity Instruments". These equity instruments are measured using the criteria described in this Note. In addition, any financing granted by the Company to the FAB is recognised under "Loans to Group Companies and Associates".

2014:

FAB May:

On 8 July 2014, the Company set up "FAB May" through the contribution of a package of land lots (investment property), with a cost of EUR 46,686 thousand, for an aggregate price of EUR 57,614 thousand. The sale price was paid by the fund through the issue of 560 securities of EUR 102,882 par value each.

Subsequently, the Company sold 95% of the securities subscribed (532 securities) to a private investor for EUR 54,733 thousand, a price equal to their par value. The payment schedule for this price is as follows:

- EUR 30,104 thousand, corresponding to 55% of the price, were paid by the investor on execution of the public deed for the transfer of the securities.

- EUR 8,209 thousand, corresponding to 15% of the price, were paid by the investor on 11 December 2014.

- EUR 16,420 thousand, equivalent to 30% of the price, will be paid by the investor on 22 May 2016. This amount is recognised under "Trade Receivables for Sales and Services" in the accompanying balance sheet as at 31 December 2014. In the event that the investor fails to pay the amount deferred, the Company may demand the return of the 532 securities transferred, at the original transfer price, as well as a penalty of EUR 6,288 thousand.

In addition, the agreement for the transfer of assets to FAB May stipulates that the Company must meet the future urban development costs of one of the assets transferred. If these future costs are ultimately higher than EUR 800 thousand, SAREB must submit an offer to repurchase this asset from the fund. The Company recognised EUR 2,619 thousand under "Provisions for Contingencies and Charges" in the accompanying balance sheet as at 31 December 2014 since it considered the risk of this occurring to be probable, and this amount reflects SAREB's maximum exposure in the event of repurchase of the aforementioned asset (see Note 12).

In view of the final composition of FAB May, in which the Company owns only 5% of the total securities issued (its securities having the same level of subordination as the other securities issued), the Company derecognised the property assets transferred since it considered that substantially all the related risks and rewards had been transferred, and it recognised EUR 57,614 thousand under "Income from Sales of Investment Property" in the accompanying income statement.

At 31 December 2014, the Company recognised the cost of the 5% of the fund's securities under “Investments in Group Companies and Associates - Loans to Companies” since, given their characteristics, the securities issued by this fund do not meet the requirements stipulated in the applicable accounting standards in order to be considered equity.

In addition, the Company has granted the fund financing amounting to EUR 70 thousand, as well as a VAT credit facility of EUR 605 thousand and a credit facility with a limit of EUR 110 thousand which had not been drawn down at 31 December 2014.

FAB Crossover I:

On 2 December 2014, the Company set up “FAB Crossover I” through the contribution of a portfolio of land lots (investment property), with a net cost of EUR 28,958 thousand, for an aggregate price of EUR 43,071 thousand. The sale price was paid by the fund through the issue of 325 securities of EUR 132,525 par value each.

Subsequently, the Company transferred 80% of the securities of FAB Crossover I to an investor for EUR 34,456 thousand. It collected 70% of the total price (EUR 24,120 thousand) on transfer of the securities and deferred collection of the remaining 30% (EUR 10,337 thousand), which is recognised under “Trade Receivables for Sales and Services” in the accompanying balance sheet. This deferred amount is scheduled to mature on 2 December 2016. As in the case of FAB May, in the event that the investor fails to pay the amount deferred, the Company may demand the return of the 325 securities transferred, as well as a penalty for the investor, in this case equivalent to 55% of the amounts already paid by the investor.

As in the case of FAB May, the Company considers that, in view of the structure of the fund, in which the Company has only a 20% interest (its securities having the same level of subordination as the other securities issued), which does not give it majority control of the fund, substantially all the risks and rewards inherent to the transferred assets have been transferred.

At 31 December 2014, the Company recognised the cost of the 20% of the fund's securities under “Investments in Group Companies and Associates - Equity Instruments”.

In addition, the Company has granted financing amounting to EUR 1,809 thousand.

2013:

FAB 2013 Bull:

On 13 December 2013, the Company set up “FAB 2013 Bull” through the contribution of investment property, with a net cost of EUR 97,986 thousand, for an aggregate price of EUR 100,000 thousand. EUR 9,771 thousand were discounted from this sale price as a result of all the income and expenses generated by the transferred property portfolio from 30 June 2013 to the agreed transfer date. The Company subscribed securities issued by the FAB amounting to EUR 24,678 thousand (representing 49% of the Fund); for its part, a private investor subscribed the remaining securities issued by the FAB, amounting to EUR 25,685 thousand, which were recognised by the Company under “Other Financial Liabilities” in the accompanying balance sheet.

At 31 December 2013, the Company considered that it had not transferred substantially all the risks and rewards of the assets contributed to FAB 2013 Bull. Accordingly, the assets of this FAB were not derecognised and, therefore, no income was recognised as a result of the contribution of the assets to the FAB.

At 31 December 2014, since there had been no changes in the Company's ownership interest in the FAB's securities, the accounting treatment was not modified. However, in 2014 FAB 2013 Bull sold certain of the contributed assets to third parties and, therefore, the Company recognised in that year, and not earlier, the income from sales of assets effectively transferred to third parties, at the amounts for which they were effectively transferred to third parties (see Note 5).

Corona Bank Asset Fund (FAB Corona):

On 19 December 2013, the Company set up the so-called Corona Bank Asset Fund. This FAB was created through the contribution of four office buildings located in Madrid, with a net cost of EUR 47,521 thousand, for a price of EUR 80,000 thousand. The price was paid through the subscription by the Company of 100% of the Fund's securities, amounting to EUR 48,000 thousand, and payment of the remaining amount, EUR 32,000 thousand, was deferred with its maturity set for 19 December 2018.

At 31 December 2013, the Company did not derecognise the assets and liabilities of this Fund since it considered that neither substantially all the risks and rewards inherent to the transferred assets nor control of those assets had been transferred. Accordingly, no income was recognised as a result of the contribution of the assets to the FAB.

At 31 December 2014, since there had been no specific changes in the Company's ownership interest in the FAB's securities, the accounting treatment was not modified. However, in 2014 FAB Corona sold the four office buildings owned by it and these assets were effectively transferred to third parties in that year, as a result of which the Company recognised the income from the sale of these assets in 2014 and not earlier (see Note 5).

FAB 2013 Teide:

On 20 December 2013, the Company set up FAB 2013 Teide through the contribution of various property assets that were classified under “Investment Property” (see Note 5), with a net cost of EUR 132,464 thousand, for a price of EUR 146,358 thousand. The sale price was paid through the subscription by the Company of 100% of the securities issued by the Fund, amounting to EUR 87,815 thousand. Payment of the remaining amount, i.e. EUR 58,543 thousand, was deferred by the Fund. This deferred payment consists of four tranches that mature in 2015, 2016, 2017 and 2018. However, FAB 2013 Teide may repay this debt early with the funds obtained from the sale of property assets or from the financing thereof.

Subsequently, in 2013 the Company sold 85% of the securities of this Fund to an investor group. The transaction price, which was established as the par value of these securities, i.e. EUR 74,643 thousand, had been collected in full at 31 December 2013. Following the sale of the aforementioned securities, the Company retained a 15% ownership interest in FAB 2013 Teide. In 2014 there were no changes in the Company's stake in this Fund. The Company continues to classify the balances and transactions with FAB 2013 Teide as being held and performed with an associate, since it is represented on the Fund's governing body.

In 2013 the Company derecognised the property assets transferred to the fund and recognised EUR 146,358 thousand of income from sales of investment property under “Revenue” in the accompanying income statement. Additionally, it recognised as “Cost of Sales - Cost of Investment Property” the carrying amount of the properties transferred, which totalled EUR 132,464 thousand (see Note 5).

In 2014, FAB 2013 Teide, at the behest of the Spanish National Securities Market Commission (CNMV), reclassified the cost of the securities issued to “Financial Liabilities”, and for this reason the Company reclassified the cost of the 15% of the fund's securities held by it from “Investments in Group Companies and Associates - Equity Instruments” to “Investments in Group Companies and Associates - Loans and Credit Facilities”. Also, the loan granted to the Fund is recognised under “Investments in Group Companies and Associates - Loans and Credit Facilities”. Lastly, in 2014, FAB 2013 Teide repaid the senior loan granted by the Company (see Note 7.2.2.).

4.6.2 Loans and receivables

This category of financial instruments includes the debt instruments arising from the rendering of the Company's services and those which, not arising from these activities, represent collection rights of fixed or determinable amount and are not traded in an active market.

Loans and receivables are recognised under “Non-Current Investments in Group Companies and Associates - Loans to Companies”, “Non-Current/Current Financial Assets - Loans to Third Parties”, “Non-Current/Current Financial Assets - Other Financial Assets” and under “Trade and Other Receivables” and “Cash and Cash Equivalents” on the asset side of balance sheet as at 31 December 2014.

The Company transfers to doubtful assets any loans and credit facilities that have interest and/or principal payments more than 90 days past due.

Initial recognition

As a general rule, loans and receivables are recognised initially at their fair value, i.e. the transfer/acquisition price, which is equal to the fair value of the consideration given, plus any directly attributable transaction costs. In 2013 the Company capitalised EUR 17,561 thousand relating to the necessary costs incurred by it to obtain control of these assets. At 31 December 2014, the expenses capitalised in this connection amounted to EUR 16,254 thousand (see Note 7.1.1.).

Pursuant to Additional Provision Seven.10-a) of Law 9/2012, the acquisition cost of the assets received from Group 1 and Group 2 transferor institutions was determined by applying the transfer prices that were set for each type of asset by Bank of Spain resolution in accordance with the criteria established in Royal Decree 1559/2012.

Subsequent measurement

The assets included in this category are measured at amortised cost, net of any possible impairment losses. The accrued interest on these assets is recognised in the income statement using the effective interest method. In accordance with the ruling issued by the Bank of Spain following the request filed in this connection and with the previous pronouncements of the Spanish Accounting and Audit Institute (ICAC), when estimating future cash flows for the purpose of determining the effective interest rate, the value of any collateral securing the transactions is taken into account.

Without prejudice to the foregoing, certain items established in the applicable regulations, maturing in less than twelve months, are recognised initially at their nominal amount when the effect of not discounting their cash flows is not material, and they are measured subsequently at that same amount.

Any impairment losses on these assets are recognised as explained in Note 4.7.

At 31 December 2014 and 2013, SAREB did not have any financial assets envisaged in the applicable regulations other than those indicated in this Note.

4.7 Impairment of financial assets and other receivables

A financial asset is considered to be impaired -and therefore its carrying amount is adjusted to reflect the effect of impairment- when there is objective evidence that events have occurred which:

1. In the case of debt instruments (loans and debt securities), give rise to an adverse impact on the future cash flows that were estimated at the transaction date.

2. In the case of equity instruments, mean that their carrying amount may not be fully recovered.

As a general rule, the carrying amount of impaired financial instruments is adjusted with a charge to the income statement for the period in which the impairment becomes evident, and the reversal, if any, of previously recognised impairment losses is recognised in the income statement for the period in which the impairment is reversed or reduced.

- When the recovery of any recognised amount is considered unlikely, the amount is written off, without prejudice to any actions that the Company may initiate to seek collection until its contractual rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or any other cause.

The criteria applied by the Company to determine the existence of impairment losses in each of the various financial instrument categories and the method used to calculate such impairment losses and recognise them are as follows:

4.7.1 Investments in associates

The Company estimates and recognises impairment losses on its investments in associates whenever there is objective evidence, as defined in the applicable regulations, that the carrying amount of an investment in an associate may not be recoverable.

In assessing whether there is any evidence of impairment of these investments, the Company considers, among other factors: falls in their underlying carrying amount adjusted by any unrecognised unrealised gains of the companies, changes in their market price (in the case of listed companies), inactivity of the investee, its financial position, etc.

The amount of the impairment loss to be recognised is estimated as the difference between the carrying amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs of sale and the present value of the future cash flows from the investment.

Where it is not possible to estimate the recoverable amount of an investment as described in the preceding paragraph and in the case of scantly material investments, the impairment of the investment is estimated by taking into account the equity of the investee adjusted by any unrealised gains existing at the measurement date.

In accordance with ruling 2 of Spanish Accounting and Audit Institute Gazette (BOICAC) 79, impairment losses and, where appropriate, the reversal of impairment losses are recognised as an expense and as income, respectively, under “Impairment of Financial Instruments - Loans and Credit Facilities to Associates” as part of the profit from operations in the income statement. The limit of any reversal of a previously recognised impairment loss is the carrying amount of the investment that would have been recognised at the date of reversal had no impairment loss been recognised.

In 2014 the Company recognised an impairment loss of EUR 7,593 thousand as a result of the securities subscribed by it in FAB 2013 Teide (see Note 7.2). In 2013 the Company did not recognise any impairment losses on its investments in associates.

4.7.2 Debt instruments classified as loans and receivables

Trade receivables

At least at each reporting date the Company tests its trade receivables for impairment in order to adjust them to their fair value. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss is recognised in the income statement. At 31 December 2014, the Company had recognised accumulated impairment losses on its trade receivables amounting to EUR 7,806 thousand (31 December 2013: EUR 5,850 thousand).

Loans and credit facilities

The Company estimates and recognises impairment losses on the asset units classified as loans and receivables, i.e. each of the asset categories individually specified in Article 48.1 of Royal Decree 1559/2012 and described in Note 1 above, whenever there is objective evidence, as defined in the applicable regulations, that events have occurred which give rise, subsequent to the recognition of a financial asset, to a reduction or a delay in the collection of the cash flows associated with that asset, which may be due to debtor insolvency, provided that the estimated amount of impairment of the assets in the asset unit in question is higher than the gains existing on the other assets of the unit. The amount of an impairment loss on these assets is calculated as the difference between the carrying amount of the assets and the present value of their estimated cash flows.

With regard to the collection rights transferred to SAREB, in general terms, the principal amount of the debt incurred by debtors with the financial institutions to whose position SAREB was subrogated will not foreseeably be recovered. Suffice it to consider that these assets were transferred to SAREB at a high discount (on average 47%) on the outstanding principal amount. This discount, set by the Bank of Spain, was based on the value estimations conducted in the context of the stress tests to which the Spanish banking system was subjected in 2012 and which considered a 2012-2014 time horizon.

In this respect, more than 55% of the financial assets transferred to SAREB were classified as doubtful by the transferor institutions and, with regard to the transactions formally regarded as "standard", the estimates used in the transfer considered an average probability of default of 87.5% in the adverse scenario. In this context, the transfer price was based essentially on the possibility of collection determined on the basis of the value of the collateral securing the transactions.

Additional Provision Seven.10-b) of Law 9/2012 establishes that, for the purpose of determining the present values of SAREB's assets, *"the Bank of Spain will develop the criteria on which the methodology to be used by SAREB in estimating the value of the assets will be based. This methodology will be consistent with that used to determine the prices of the assets transferred to SAREB. Subsequent measurements of the assets must be made considering the particular features of SAREB, the trend in market prices and the time horizons envisaged in the Business Plan."*

Also, Additional Provision Seven.10-c) establishes that *"any valuation adjustments required as a result of applying the criteria set forth in the preceding paragraph must be calculated by asset unit. For this purpose, each of the asset categories individually described in Article 48.1 of Royal Decree 1559/2012 will be considered to be an asset unit."*

The Bank of Spain is to implement the aforementioned methodology by issuing the corresponding Circular. At the date of formal preparation of these financial statements, the aforementioned Circular had not yet been published and, therefore, SAREB, as established in Additional Provision Seven.10 of Law 9/2012, filed a request for a ruling in this connection from the Bank of Spain.

As in 2013, the Company's directors consider that, with a view to the accounting close and the preparation of the financial statements for 2014, in keeping with the principles established in Additional Provision Seven.10-b) of Law 9/2012, and until such time as those principles are implemented through a Circular, the decision as to whether or not there are any indications of impairment of the asset portfolio received must be based on the evolution of the macroeconomic parameters that were used (or assumed to be reasonable by the Bank of Spain) in order to set the transfer prices of those assets, since:

- This approach is consistent with the provisions of the law, i.e. it is a methodology in keeping with that used to set the transfer prices of the assets transferred to SAREB.

- The transfer prices and, therefore, the carrying amount of the assets are closely related to the macroeconomic data used to estimate them. Consequently, the evolution of this macroeconomic scenario is a parameter of fundamental importance to the subsequent verification of the value of these assets.

- The aforementioned macroeconomic scenario considered a three-year time horizon: 2012-2014. Therefore, the expected evolution of the macroeconomic variables in 2014 was a fundamental input for the setting of the transfer prices.

As a result, and until such time as the methodology referred to above is developed, the Company considers that the approach taken in 2013 continues to be valid in 2014 and, accordingly, the comparison of the actual evolution of the aforementioned macroeconomic scenario with that initially estimated must be the key factor considered in determining whether or not there is any evidence of impairment of the total portfolio of the assets received.

In this connection, SAREB considers that if in the 2012-2014 period, as was in fact the case, the above-mentioned macroeconomic parameters generally performed better than or in line with the assumptions made to estimate the transfer prices, the transfer price estimation would already have included a worse evolution of the scenario than the current trend and, therefore, it would have to be concluded that there is no objective evidence of impairment.

On 26 March 2015, the Bank of Spain responded to the request for a ruling submitted by SAREB. In its ruling the Bank of Spain concluded that, taking into account the methodology used for the asset transfer process and the evolution of the economic environment, which is close to that forecast in the stress test conducted on the Spanish financial system for the 2012-2014 time horizon, *"…from the macroeconomic evolution it would be reasonable to deduce that the portfolio of financial and property assets, taken as a whole, is not globally impaired*".

In keeping with the aforementioned ruling, the Company's directors, using the criteria provided in Additional Provision Seven.10 of Law 9/2012, in a manner consistent with those employed to determine the transfer price of the assets, and considering the evolution of the macroeconomic environment, inter alia, to be a relevant factor, concluded that there are no indications of impairment of the ordinary financial asset portfolio, taken as a whole. In this regard, the methodology applied by the Company to estimate the present value of cash flows is consistent with that used to determine the prices of the assets transferred to SAREB, and takes into account, among other factors, the evolution of the market prices of the collateral, in accordance with the time horizons envisaged in SAREB's business plan.

However, in the ruling referred to above the Bank of Spain urges the directors, as it did in the ruling relating to the financial statements for 2013, to *"conduct, at the same time, a more intense scrutiny of the types of exposures in which, based on the information available, the creditor position may be considered to be particularly weak".*

The ruling, unlike that for the previous year, defines a sub-portfolio of assets, which in 2013 were assessed within the asset units to which they belonged, as having specific features, in the following terms*: "Due to their unlikely recovery, the loans to borrowers that are in insolvency proceedings, are not current in their payments and do not have any collateral shall be considered to be particularly weak".*

Going beyond this requirement for closer scrutiny, the ruling establishes that *"until the methods for measuring assets have been definitively established, any possible gains in the asset category in which they are located should not be taken into consideration with a view to offsetting any possible losses thereon."*

Lastly, with regard to the timing of recognition, it indicates that *"these losses, if any, should be recognised in the income statement for 2014".*

With regard to the financial assets identified as participating loans or credit facilities, the asset category indicated in Article 48.1-b).2 of Royal Decree 1559/2012, the Company's directors had already concluded in 2013 that, in general, the recovery of the carrying amount of these assets was unlikely, in view of their subordination with respect to all other general creditors, which means that these exposures are comparable to investments in the share capital of the debtor companies which, in general, are in a very difficult financial position. Consequently, the directors continued to apply the same criterion for these exposures as that used in 2013, i.e. it considered them as equivalent to equity investments in the debtor companies. By virtue of this treatment, the appropriate impairment losses are recognised as certain transactions attain the status of participating loans or as the Company becomes aware of their status as such as a result of obtaining better information on them.

The accumulated allowances recognised for these exposures at December 2014 amounted to EUR 339,564 thousand, as compared with EUR 259,379 thousand in 2013.

The directors, based on the Bank of Spain's response to their request for a ruling, consider it unlikely that the loans and credit facilities granted to borrowers that are in insolvency proceedings, are not current in their payments and do not have any collateral will be recovered. This consideration has remained unchanged with respect to prior years, because, in general, there have been no changes in the circumstances surrounding these exposures.

Consequently, the Company recognised the impairment losses corresponding to these exposures since, as established in the Bank of Spain's ruling for 2014, they cannot be offset using other gains that might have arisen on the other assets in the same asset unit.

In view of the methodology used by the Bank of Spain to set the price of the assets transferred to SAREB, which was based the application of average discounts to their carrying amount, for each type of asset, it is evident that, when the value of certain assets or groups of assets is analysed separately, this value may be higher or lower than the transfer prices assigned, even though the valuation of the portfolio as a whole, based on a long-term time horizon, might have been reasonable. Such an overvaluation or undervaluation of a specific group of exposures does not necessarily reflect an impairment of these assets since the transfer date, but rather is the result of the application of a different accounting policy which, on identifying a specific sub-portfolio, discloses overstatements or understatements that already existed at the transfer date.

By contrast, the regulator established a new criterion with respect to that defined in its ruling on impairment for 2013, since, even though evidence may be obtained of gains on other exposures in the asset unit, such gains cannot be used to offset the losses arising on this sub-portfolio, the only option being to write down the sub-portfolio to reflect the losses.

Consequently, SAREB recognised an impairment loss of EUR 628,208 thousand for this sub-portfolio of assets (past-due loans without collateral relating to borrowers in insolvency proceedings) with a charge to the income statement for 2014.

Had the criterion set forth in the recent Bank of Spain ruling been applied to the portfolio existing at the end of 2013, an impairment loss of EUR 539,148 thousand would have had to be recognised and, therefore, the additional write-down required for 2014 would have been only EUR 89,060 thousand.

The Company has prepared a Business Plan that has a time horizon encompassing the whole lifetime of the Company and is updated each year. This plan is based on projections of the Company's cash flows arising from the orderly disposal of the assets according to the amount expected to be recovered on each asset at the disposal date. In relation to the cash flows, the updated Business Plan considers that any losses that ultimately arise will be included in those cash flows at the disposal date. Accordingly, the principle of offsetting the value of assets and their value over a long-term time horizon is applied to the Business Plan. In relation to loans with personal guarantee only, the Company already envisaged a very low likelihood of recovery in its business plans and, therefore, the projected cash flows already include a very substantial loss in value, in line with the write-downs forecast for these exposures. Consequently, it is important to note that the losses reflecting these write-downs were already included in the Company's Business Plan, albeit distributed over time. Therefore, their early recognition in 2014 does not have a material impact on the expected cash flows or on shareholder return over the whole lifetime of the Company.

It should be noted that the Bank of Spain must prepare, in the short term, the Circular that will ultimately determine the criteria on which the methodology to be used by SAREB to estimate the value of the assets in the future will be based. The ultimate nature of such criteria might have a material impact on the final estimate of the possible impairment of SAREB's assets.

As a result of the aforementioned write-downs, at 31 December 2014 the Company had recognised impairment losses of EUR 967,772 thousand on debt instruments classified as loans and receivables. Of this amount, EUR 339,564 thousand relate to the portfolio of participating loans and credit facilities, the write-down policy for which was agreed by the directors for 2013; and EUR 628,208 thousand relate to the past-due loans and credit facilities without collateral of borrowers in insolvency proceedings, the write-down policy for which resulted from the ruling issued by the Bank of Spain on 26 March 2015 in response to the Company's request for a ruling on impairment. In accordance with the aforementioned ruling, this last-mentioned amount was recognised in full in the income statement for 2014.

4.8 Financial liability classification categories

The Company classifies as financial liabilities the trade payables that have arisen from the purchase of goods or services in the normal course of the Company's business, the financing received (see Note 1) and the nontrade payables which, not having commercial substance, cannot be classed as derivative instruments.

Accounts payable are initially recognised at the fair value of the items received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortised cost.

Without prejudice to the foregoing, certain items established in the applicable regulations, maturing in less than twelve months, are recognised initially at their nominal amount when the effect of not discounting their cash flows is not material, and they are measured subsequently at that same amount.

- Liability derivative financial instruments are measured at fair value using the same methods as those described in Note 4.9 for held-for-trading financial assets.

The interest accrued on these liabilities, which is calculated using the effective interest method, is recognised under “Finance Costs” in the income statement.

4.9 Hedging derivatives

- The Company uses financial derivatives in hedges of its asset and liability positions, as part of its strategy to reduce its exposure to interest rate risk.

- When the Company designates a transaction as a hedge, it does so from the date of inception of the transactions or instruments included in the hedge, and the hedging transaction is documented appropriately. The documentation of the hedging relationship includes identification of the hedged item(s) and the hedging instrument(s), the nature of the risk to be hedged and the criteria or methods used by SAREB to assess the effectiveness of the hedge over its entire life, taking into account the risk to be hedged.

- SAREB only applies hedge accounting for hedges that are considered highly effective over their entire lives. A hedge is considered to be highly effective if, during its expected life, the changes in the fair value or cash flows of the hedged item(s) that are attributable to the hedged risk are offset substantially in full by changes in the fair value or cash flows, as the case may be, of the hedging instrument(s).

- To measure the effectiveness of hedges designated as such, the Company analyses whether, at inception and throughout the term of the hedge, it can be expected, prospectively, that the changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk will be offset substantially in full by changes in the fair value or cash flows, as appropriate, of the hedging instrument(s) and, retrospectively, that the actual results of the hedge will have been within a range of 80% to 125% of the results of the hedged item.

- In determining the aforementioned fair value, the Company takes into account the Company's own credit risk, if the value is negative, or the counterparty credit risk, if it is positive.

- Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised or no longer meets the criteria for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument that has been recognised in equity remains in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss.

- *Cash flow hedges*

- At 31 December 2014 and 2013, SAREB had certain hedging transactions that meet the definition of “cash flow hedges”, i.e. they are hedges of the exposure to variability in the cash flows associated with the interest rate risk of a highly probable forecast transaction and of the variable-rate financing received, respectively, which affect the Company's profit or loss.

• The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised temporarily in equity under “Valuation Adjustments - Hedges”, net of the related tax effect, and is transferred to profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss.

• Note 13.3 provides certain information on the cash flow hedges arranged by the Company.

4.10 Derecognition of financial instruments

A financial asset is derecognised when one of the following circumstances arises:

- 1. The contractual rights to the cash flows from the financial asset expire; or
- 2. The contractual rights to receive the cash flows of the financial asset and substantially all the risks and rewards of ownership of the financial asset are transferred, or, even if the Company neither transfers nor retains substantially all the risks and rewards of ownership, control of the financial asset is transferred.

A financial liability is derecognised when the obligations giving rise to it cease to exist or when they are repurchased by the Company, with the intention either to re-sell them or to cancel them.

4.11 Inventories

• Inventories relate basically to property developments in progress and the value of the associated land, earmarked for sale in the ordinary course of the Company's business. SAREB recognises under “Inventories” all the assets with respect to which it intends to perform any kind of action or carry out any construction and/or development work for their subsequent sale through its promotion activity.

• The costs incurred in uncompleted property developments are considered to be work in progress. These costs include building lot, urban development and construction costs, the capitalisation of borrowing costs incurred during the construction period and other allocable direct or indirect costs. The Company does not capitalise any marketing costs, which it charges directly to profit or loss.

• The cost relating to property developments whose construction was completed in the year is transferred from “Work in Progress” to “Completed Building Construction”.

• The criteria used for analysing inventory write-downs are similar to those applied for assessing impairment of investment property (see Note 4.3).

4.12 Foreign currency transactions

• The Company's functional currency is the euro. Therefore, transactions in currencies other than the euro are deemed to be “foreign currency transactions” and are recognised by applying the exchange rates prevailing at the date of the transaction.

• At year-end the Company did not have any material balances and had not performed any material transactions in foreign currency. The exchange differences recognised in profit or loss for 2014, by class of financial instrument, amounted to a net gain of EUR 3,129 thousand (2013: a net loss of EUR 236 thousand).

4.13 Revenue and expense recognition

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Revenue is measured at the fair value of the consideration received, net of discounts and taxes.

Presentation in the income statement

The Company, in accordance with Additional Provision Seven.10 of Law 9/2012, of 14 December, as amended by Additional Provision Nine of Law 26/2013, of 27 December, recognised the income from the management and orderly liquidation of all the transferred assets as part of its “Revenue” in the income statement (see Notes 2.1 and 16.1).

Interest income

Without detriment to the criteria provided for in Recognition and Measurement Standard 9 of the Spanish National Chart of Accounts, according to which financial assets must be measured subsequently at amortised cost and “accrued interest shall be recognised in the income statement using the effective interest method”, the general use of the accrual principle and of the amortised cost method may have specific practical applications depending on the type of assets involved, the conditions of their acquisition or even the sector in which the method is applied, insofar as this may contribute to the fair presentation of the financial statements.

Considering the characteristics of the assets received and the high level of uncertainty regarding the recovery of their value through ordinary channels, as already described in Note 4.6.2, the accrual model applied by SAREB envisages the accrual of interest only on transactions in which the interest is expected to be effectively collected and this is supported by the recoverable amount of the collateral securing these transactions. This recoverable amount is estimated using up-to-date appraisals of the collateral, after deducting the estimated expenses and the timing impact of its foreclosure and sale. For all other transactions, in view of the high level of uncertainty regarding the actual possibility of collection, interest is only recognised when effectively paid by the debtor.

As part of the effective interest rate, the Company recognises under “Revenue - Recoveries of Gains on Loans and Credit Facilities” the difference between the amount recovered and the acquisition cost of the loans and credit facilities terminated or partially repaid.

Income from sales of loans and credit facilities

The income from sales of loans is recognised under “Revenue - Income from Sales of Loans and Credit Facilities”. A sale is deemed to have taken place when all the risks and rewards associated with the transferred financial asset have been transferred to the buyer, which is normally when the transaction is executed in a deed and the sale price is collected.

Income from sales of property (investment property and inventories)

Income from sales of property (both investment property and inventories) is recognised when the significant risks and rewards of ownership of the property sold have been transferred to the buyer, and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the property sold. This generally coincides with the execution of the deed for the property being sold. The proceeds from property sales are recognised under “Revenue” in the accompanying income statement.

- The Company recognises in the accompanying income statement, as a period provision for the completion of construction work, the amounts of the expenses yet to be incurred in order to liquidate the property developments.

- The amount advanced in cash or in notes receivable relating to property development reservations and sale agreements, when the developments have not been handed over to customers and, therefore, the sale has not been recognised, is accounted for under “Customer Advances” on the liability side of the accompanying balance sheet, and is classified as a current item irrespective of the date on which the sale of the developments is expected to be recognised.

- The Company recognises sales of land and building lots when the risks and rewards of ownership have been transferred, which is normally when the sale agreement is executed in a deed.

Rental income

- Rental income is recognised on an accrual basis and incentives and the initial lease costs are allocated to income on a straight-line basis.

4.14 Income tax

Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income). Income tax is calculated on the basis of accounting profit or loss determined by application of generally accepted accounting principles, which does not necessarily coincide with the taxable profit or tax loss.

The current income tax expense is the amount payable by the Company as a result of income tax settlements for a given year. Tax credits and other tax benefits, excluding tax withholdings and pre-payments, and tax loss carryforwards from prior years effectively offset in the current year reduce the current income tax expense.

The deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, except for those arising from the initial recognition of goodwill or of other assets and liabilities in a transaction that is not a business combination and affects neither accounting profit (loss) nor taxable profit (tax loss), and except for those associated with investments in subsidiaries, associates and joint ventures in which the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is considered probable that the Company will have taxable profits in the future against which the deferred tax assets can be utilised. In this case, the deferred tax assets are measured at the tax rate that is expected to apply in the period when the asset is realised. In 2014 the Company charged EUR 66,573 thousand to profit or loss as a result of adjusting its tax assets to the 25% tax rate (see Note 15). In addition, the Company recognised an expense of EUR 123,431 thousand in equity as a result of adjusting the deferred tax assets arising from measuring its hedging derivatives at market value (see Note 15).

Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognised in equity.

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that they will be recovered through future taxable profits.

4.15 Provisions and contingencies

- When preparing the financial statements the Company's directors made a distinction between:

  a) Provisions: credit balances covering present obligations arising from past events with respect to which it is probable that an outflow of resources embodying economic benefits that is uncertain as to its amount and/or timing will be required to settle the obligations; and

  b) Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the Company's control.

- The financial statements include all the provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the financial statements, but rather are disclosed, unless the possibility of an outflow in settlement is considered to be remote.

- Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences.

Where discounting is used, adjustments made to provisions are recognised as interest cost on an accrual basis.

- The compensation to be received from a third party on settlement of the obligation is recognised as an asset, provided that there are no doubts that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been externalised as a result of which the Company is not liable; in this situation, the compensation will be taken into account for the purpose of estimating the amount of the related provision that should be recognised.

- At 31 December 2014 and 2013, the Company had recognised the provisions described in Note 12.

4.16 Related party transactions

A related party is defined as any person or entity that has control or significant influence over an entity or is a member of the entity's key management personnel. According to the directors, no entity has control or joint control over the entity and there is no relationship with the members of key management personnel, other than the employment relationship with them.

Significant influence is defined as the power to participate in the financial and operating policy decisions of the Company, but is not control over those polices. In this regard, significant influence is presumed to exist when an ownership interest of more than 20% is held and, therefore, the FROB exercises significant influence.

As a general rule, related party transactions are recognised using the general recognition and measurement bases contained in the Spanish National Chart of Accounts, i.e. the items involved in the transaction are recognised at their fair value on initial recognition and, subsequently, are measured in accordance with the corresponding accounting standards.

Note 17 provides information on the related party transactions performed in 2014 and 2013 and on the balances held with related parties at 31 December 2014 and 2013.

4.17 Termination benefits

Under current legislation, the Company is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognised as an expense in the year in which the decision to terminate the employment relationship is taken. In 2014 the Company did not have any liability in this connection. In 2013 the Company recognised termination benefits amounting to EUR 87 thousand under “Staff Costs - Wages, Salaries and Similar Expenses” in the accompanying income statement.

4.18 Statements of cash flows

The following terms are used in the statements of cash flows (prepared using the indirect method) with the meanings specified:

1. Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.

2. Operating activities: the principal revenue-producing activities of the Company and other activities that are not investing or financing activities. The Company classifies these activities as described in Note 4.13.

3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

4. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Company that are not operating activities, and other activities that are not investing activities.

5 Investment property

The detail of "Investment Property" at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	31/12/14	31/12/13
Land and building lots	4,888,231	4,523,217
Completed buildings		
Residential property - principal residence	4,359,050	4,554,761
Offices, premises and multi-purpose industrial buildings	1,172,267	1,288,714
Other properties	334,236	399,637
Residential property - other than usual residence	225,906	237,304
Total completed buildings	6,091,459	6,480,416
of which: leased buildings (Note 6)	447,064	905,998
of which: land	3,026,127	3,700,729
Total investment property	**10,979,690**	**11,003,633**

The changes in "Investment Property" in 2014 and 2013 were as follows:

2014

	Thousands of euros		
	Completed buildings	Land and building lots	Total
Cost:			
Balance at 1 January 2014	**6,533,895**	**4,523,217**	**11,057,112**
Additions due to foreclosure and dation in payment	448,346	572,925	1,021,271
Other additions	22,322	7,002	29,324
Sales and disposals	(634,353)	(235,013)	(869,366)
Transfers to inventories (Note 8)	(119,091)	56,633	(62,458)
Reductions due to corrections (Note 1)	(69,755)	(36,533)	(106,288)
Balance at 31 December 2014	**6,181,364**	**4,888,231**	**11,069,595**
Accumulated depreciation			
Balance at 1 January 2014	**(53,479)**	-	**(53,479)**
Charge to income for the year	(47,585)	-	(47,585)
Sales, disposals and other changes	11,159	-	11,159
Balance at 31 December 2014	**(89,905)**	-	**(89,905)**
Net balances at 31 December 2014	**6,091,459**	**4,888,231**	**10,979,690**

2013

	Thousands of euros		
	Completed buildings	Land and building lots	Total
Cost:			
Balance at 1 January 2013	3,353,758	2,812,430	6,166,188
Additions due to transfer from Group 2 (Note 1)	1,717,940	1,226,036	2,943,976
Additions due to foreclosure and dation in payment	228,039	170,672	398,711
Other additions	21,787	4,039	25,827
Sales and disposals	(534,974)	(77,616)	(612,591)
Transfers from inventories (Note 8)	1,754,543	395,949	2,150,492
Reductions due to corrections (Note 1)	(7,198)	(8,293)	(15,491)
Balance at 31 December 2013	**6,533,895**	**4,523,217**	**11,057,112**
Accumulated depreciation			
Balance at 1 January 2013	-	-	-
Charge to income for the year	(56,672)	-	(56,672)
Sales, disposals and other changes	3,193	-	3,193
Balance at 31 December 2013	**(53,479)**	-	**(53,479)**
Net balances at 31 December 2013	**6,480,416**	**4,523,217**	**11,003,633**

- The most significant changes in “Investment Property” in 2014 and 2013 were as follows:

Other additions

In 2014 the Company capitalised EUR 29,324 thousand (2013: EUR 20,678 thousand) of improvements and developments made to its investment property as an increase in the cost of its investment property. These improvements relate mainly to the development work carried out on land and building lots.

Also, as a result of the expenses incurred by the Company in the process of reviewing the transferred assets, EUR 5,149 thousand were capitalised as an increase in the value of investment property in 2013.

Transfers between items

In 2014 the Company reclassified to inventories EUR 62,458 thousand relating to various lots of land and property developments under construction which had been halted, on which the Company will carry out certain actions and execute construction work so that they can be completed and sold through the retail channel (see Note 8).

In 2013, as a result of the analysis, management and review that the Company performed on the property assets acquired in 2012, certain plots of land and properties recognised under inventories amounting to EUR 2,150,492 thousand were reclassified to investment property.

Mortgage foreclosures and repossesions

- In November and December 2014 the Company formalised the dation in payment of substantially all of the land and finished products that the borrower Vallehermoso de Promoción, S.A. had mortgaged to guarantee various bilateral loans and credit facilities held by the Company. The acquisition cost of the land and finished products acquired amounted to EUR 152,984 thousand and EUR 19,770 thousand, respectively, which were the net carrying amounts of the loans and credit facilities repaid in full as part of the dation in payment (see Note 4.4).

- The total amount of the properties acquired through dation in payment and/or mortgage foreclosure was EUR 1,021,271 thousand in 2014 (2013: EUR 398,711 thousand). These foreclosures and repossesions did not have a significant effect on the accompanying income statements for 2014 and 2013.

Sales and disposals

The main sales in 2014 were as follows:

On 5 February 2014, the Company formalised the transfer of the Dorian portfolio, which consisted of a group of developments used for leasing purposes located in Mostoles, Rivas Vaciamadrid, Valdemoro, Colmenar Viejo, Guadalajara and Barcelona. The price assigned to these real state developments amounted to EUR 39,500 thousand, of which 55% has been received. The amount receivable on this transaction at 31 December 2014, EUR 18,405 thousand, was recognised under "Trade Receivables for Sales and Services".

Subsequently, on 24 April 2014 a residential building in street José Abascal in Madrid was sold for EUR 26,500 thousand, and the price was collected in full.

On 11 December 2014, the Company sold the Agatha - Reos portfolio, consisting of the transfer to a private investor of a portfolio of developments used for lease purposes located in Arganda del Rey. The price set for the transfer of the aforementioned portfolio amounted to EUR 36,000 thousand and was collected in full.

On 30 December 2014, FAB 2013 Corona sold four office buildings located in Madrid for EUR 81,303 thousand, and this price had been collected in full at 31 December 2014. Since the Company owns all of the aforementioned fund's securities and, consequently, the related assets were not derecognised in 2013 (see Note 4.6.1), the Company recognised the sale of these properties in the accompanying income statement for 2014.

Lastly, in 2014 the Company formed FAB May and FAB Crossover I, to which two portfolios of land lots were contributed with carrying amounts of EUR 46,687 thousand and EUR 28,958 thousand, respectively (see Note 4.6.1). In view of the structure of these funds, in which the Company holds non-controlling ownership interests (5% and 20%, respectively), the investment property was derecognised since it was considered that substantially all the risks and rewards of ownership were not retained, and the sale was recognised in the accompanying income statement for 2014.

Total sales of investment property formalised in 2014 and 2013 gave rise to the recognition of income from sales of investment property amounting to EUR 1,068,065 thousand and EUR 804,081 thousand, respectively (see Note 16.2). The net cost of the investment property sold amounted to EUR 850,162 thousand and EUR 629,191 thousand, respectively (see Note 16.2). In 2014 these figures include income of EUR 43,758 thousand and net costs of sale of EUR 38,744 thousand as a result of the sales made by FAB Bull (see Note 4.6.1).

The main disposals in 2013 were the sale of a property portfolio to FAB 2013 Teide for EUR 146,358 thousand, of which 40% (EUR 58,324 thousand) was deferred (see Note 7.2.2).

Sale commitments

At 31 December 2014, the Company had the following sale commitments on investment property:

- FAB Bull: as stated in Note 4.6.1, in 2013 the Company transferred to FAB 2013 Bull, for EUR 100,000 thousand, an investment property portfolio with a net cost of EUR 97,896 thousand at 31 December 2013. The Company did not recognise the related sale as it considered that the risks and rewards inherent to the aforementioned assets were not transferred. At 31 December 2014, the price received amounted to EUR 25,685 thousand, which were recognised under "Non-Current Liabilities - Other Financial Liabilities" in the accompanying balance sheet (see Note 13.4).

- Dorian portfolio: in 2014 the sale commitment in existence by year end 2013 year-end was honored as described above.

At 31 December 2014 and 2013, there were no sale commitments for material amounts other than those described above.

Other disclosures

At the end of 2014 and 2013:

- All the Company's investment property was free of liens and encumbrances.

- The Company did not have any fully depreciated investment property on its balance sheet.

- There were no significant dismantling or removal costs capitalised as an increase in the cost of its investment property.

- The Company had not recognised any impairment losses on its investment property portfolio.

The Company's directors consider that the carrying amount of the balances included under “Investment Property” in the balance sheet approximates their fair value.

The Company takes out all the insurance policies considered necessary to cover the possible risks to which its investment property is subject. The insurance coverage arranged by the Company in connection with its investment property exceeds the carrying amount thereof and is updated annually.

6 Operating leases

At the end of 2014 and 2013 the Company acted as lessor in certain operating leases the minimum lease payments on which, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions, were as follows:

Minimum lease payments	Thousands of euros	
	2014	2013
Within one year	40,295	55,229
Between one and five years	122,738	111,267
After five years	188,888	167,432
Total	**351,921**	**333,928**

Also, the operating lease and sublease payments for 2014 and 2013 were recognised under “Revenue”, the detail being as follows:

	Thousands of euros	
	2014	2013
Minimum lease payments (Note 16.1)	49,435	68,198
Charging of general expenses	4,563	5,442
Total	**53,998**	**73,640**

The detail of the most significant leases is as follows:

Location	Date of lease	Type of property	Gross annual amounts (thousands of euros)	Expiry date
Torrejón de Ardoz (Madrid)	18/07/07	Commercial premises	781	21/05/23
Valencia Autonomous Community	16/11/10	Hotel	536	16/11/20
C/Cronos (Madrid)	25/06/11	Office building	696	24/06/15
C/ Adolfo Suarez (Benidorm)	01/12/13	Tourist complex	200	30/09/23

The gross cost of the properties leased out by the Company amounted to EUR 447,064 thousand at 31 December 2014 (31 December 2013: EUR 905,998 thousand) (see Note 5).

The amount of contingent rent, i.e. variable rent payments relating to the aforementioned leases and recognised in 2014 and 2013 under “Revenue”, was not significant.

Lastly, the leases in which the Company acts as the lessee refer mainly to the lease of the offices where the Company's registered office is located and the lease of various computer equipment. The Company's lease payment obligations in this connection were not material at the end of 2014 and 2013.

7 Non-current and current financial assets

The carrying amount of each of the categories of financial assets held by the Company at 31 December 2014 and 2013 is as follows:

7.1 Detail of non-current and current financial assets

The detail, classified as required by applicable legislation, of the financial assets owned by SAREB at 31 December 2014 and 2013 is as follows:

2014

Classes / Categories	Thousands of euros				
	Non-current financial instruments		Current financial instruments		Total
	Equity instruments	Loans, derivatives and other	Debt securities	Loans, derivatives and other	
Other financial assets	-	2,655,817	-	29,899	2,685,716
Loans and receivables - Loans to third parties	-	29,240,130	-	3,934,129	33,174,259
Available-for-sale financial assets	-	-	-	-	-
Total	**-**	**31,895,947**	**-**	**3,964,028**	**35,859,975**

2013

Classes / Categories	Thousands of euros				
	Non-current financial instruments		Current financial instruments		Total
	Equity instruments	Loans, derivatives and other	Debt securities	Loans, derivatives and other	
Other financial assets	-	451,911	-	42,546	494,457
Loans and receivables	-	34,999,115	-	2,499,393	37,498,508
Available-for-sale financial assets	-	-	-	-	-
Total	**-**	**35,451,026**	**-**	**2,541,939**	**37,992,965**

7.1.1 Non-current and current loans to third parties

The detail of "Non-Current Financial Instruments - Loans to Third Parties" and "Current Financial Instruments - Loans to Third Parties" at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	31/12/14	31/12/13
Public sector	4,980	13,458
Other resident sectors	3,620,137	8,206,794
Commercial credit	-	-
Secured loans	3,150,956	7,210,878
with mortgage guarantee	3,134,070	7,157,055
with other collateral	16,886	53,823
Other term loans	180,503	444,035
Receivable on demand and other	288,678	551,881
Non-resident private sector	1,442	2,321
Doubtful loans and credit facilities	30,287,019	29,305,043
Valuation adjustments	(739,319)	(29,108)
Impairment losses	(967,772)	(259,379)
Other valuation adjustments -*accrued interest receivable*	212,198	212,710
Other - capitalised expenses - (Note 4.6.2)	16,255	17,561
Total	**33,174,259**	**37,498,508**

In 2014 and 2013 the Company did not grant any new loans or credit facilities to third parties for significant amounts, except for the draw-downs made by borrowers against undrawn balances.

Corrections formalised

As indicated in Note 1, in 2014 the Company formalised corrections of financial assets amounting to EUR 424,908 thousand (2013: EUR 286,947 thousand) as a result of the review of the portfolio of loans and credit facilities transferred by the Group 1 and 2 institutions.

Finance income

At 31 December 2014, 91.4% of the portfolio of loans and credit facilities was benchmarked to Euribor plus a market spread (31 December 2013: 90.9% of the total amount of loans and credit facilities). Conversely, 8.6% was benchmarked to fixed interest rates (31 December 2013: 9.1%) (see Note 7.3.3).

In 2014 the Company recognised interest from its portfolio of loans and credit facilities amounting to EUR 582,674 thousand under "Revenue" in the accompanying income statement (2013: EUR 765,910 thousand) (see Notes 4.13 and 16.1).

Sales of loans and credit facilities

In 2014 the Company made wholesale sales of loans for EUR 853,357 thousand (2013: EUR 764,955 thousand) (see Note 16.1) and recognised gross income of EUR 132,904 thousand (2013: EUR 137,425 thousand).

The details of the most significant portfolio sale transactions in 2014 and 2013 are as follows:

2014

"Pamela" transaction: on 5 August 2014, the Company formalised the transfer of various loans with first-ranking mortgage guarantees on 20 residential buildings located in the autonomous community of Madrid. The sale price set for this portfolio amounted to EUR 172,729 thousand, which were collected in full and recognised under “Revenue” in the accompanying income statement.

“Agatha - Loans” transaction: in December 2014 the Company sold 38 loans with leased-out residential buildings as collateral. The sale price of the portfolio amounted to EUR 158,926 thousand, which were collected in full. The amount of the sale is recognised under “Revenue” in the accompanying income statement.

“Aneto” transaction: on 30 December 2014, the sale of a portfolio of 39 loans with mortgage guarantees on various properties was completed for a global amount of EUR 148,112 thousand, which is recognised under “Revenue”. At 31 December 2014, the price had been collected in full.

“Kaplan” transaction: on 30 December 2014, the sale of a portfolio of small and medium-sized developer loans for EUR 52,746 thousand was completed, and this amount is recognised under “Revenue” in the accompanying income statement. At 31 December 2014, the price had been collected in full.

“Klauss” transaction: on 19 March 2014, the sale of a group of loans and credit facilities with various residential buildings as collateral was completed. The sale price of this portfolio amounted to EUR 47,710 thousand, which were recognised under “Revenue” in the accompanying income statement. At 31 December 2014, this amount had been collected in full.

2013

“Elora” transaction: in 2013 the Company sold its interest in two syndicated loans arranged with a Spanish property group. The sale price of the aforementioned loans amounted to EUR 245,086 thousand, which were recognised under “Revenue”. The price was collected in full in 2013.

“Abacus” transaction: on 13 November 2013, the Company transferred a portfolio of mortgage loans and credit facilities on several properties located in Spain to a foreign investor. The sale price of the portfolio amounted to EUR 157,114 thousand, which were recognised under “Revenue” in the accompanying income statement. At 31 December 2013, the full price of the aforementioned portfolio had been collected.

On 9 August, as part of the “Bermudas” sale process, the first portfolio of assets included in the aforementioned process consisting of various mortgage loans and credit facilities was sold. The agreed-upon sale price for this portfolio amounted to EUR 99,063 thousand, which were recognised under “Revenue” in the accompanying income statement. The full price of the portfolio was collected by the Company in 2013.

Recoveries of loans and credit facilities

In 2014 the Company recognised income of EUR 604,531 thousand (2013: EUR 443,123 thousand) as a result of the difference between the recovered amounts of loans fully or partially repaid and/or terminated early, and their acquisition cost (see Notes 4.13 and 16.1). This income is recognised under “Revenue” in the accompanying income statement.

Adjustments for impairment due to credit risk

In 2014 the Company recognised EUR 719,108 thousand (2013: EUR 259,379 thousand) of impairment losses on its portfolio of loans and credit facilities due to credit risk, specifically on the portfolio of participating loans and credit facilities and the portfolio of loans and credit facilities granted to borrowers that are in insolvency proceedings, are not current in their payments and do not have any collateral (see Notes 4.7.2 and 2.10). Also, in 2014 the Company reversed EUR 10,714 thousand of impairment losses recognised in 2013 on loans and credit facilities that were recovered or sold in 2014.

Note 7.3.1 contains the required information on the nature and the level of credit risk of the portfolio of loans and receivables at 31 December 2014 and 2013 (see Note 4.7.2).

Other disclosures

At 31 December 2014 and 2013:

- The nominal value of the drawable amounts of the loan and credit facility transactions were EUR 2,323,307 thousand and EUR 3,146,001 thousand, respectively.

- There were no significant commitments to sell any financial assets recognised under “Loans and Credit Facilities to Third Parties”.

- There were no lawsuits or attachments significantly affecting the amount of the Company's non-current and current financial assets.

The Company's directors consider, taking into account also the content of Note 2.10, that the carrying amount of the balances included under this heading in the balance sheet approximates their fair value.

Following the Company's analyses and the updating of its estimates, the financial assets classified as doubtful were classified as non-current financial assets since it was considered that their recovery will take place over a time horizon of more than twelve months (see Note 2.4).

7.1.2 Non-current and current financial assets- Other financial assets

The detail of “Non-Current Financial Assets - Other Financial Assets” and “Current Financial Assets - Other Financial Assets” in the balance sheet as at 31 December 2014 and 2013 is as follows:

	31/12/14		31/12/13	
Thousands of euros	**Non-current**	**Current**	**Non-current**	**Current**
Cash guarantees on derivatives entered into (Note 13.3)	2,649,400	-	445,900	-
Security deposits (Note 6)	6,083	-	6,011	-
Accrued interest receivable	-	-	-	3,603
Other financial assets	334	29,899	-	38,853
Total	**2,655,817**	**29,899**	**451,911**	**42,546**

Security deposits

Non-current guarantees and deposits relate mainly to amounts delivered by lessees as security deposits which the Company deposits with the housing institute or property association in each autonomous community.

Cash guarantees given in derivative transactions

At 31 December 2014, the Company had given guarantees amounting to EUR 2,649,400 thousand (31 December 2013: EUR 445,900 thousand) to counterparties with which it has entered into financial derivative contracts (see Note 13.3). The guarantees bear interest at a rate tied to Eonia and 3-month Euribor plus a market spread. Finance income accrued in 2014 amounted to EUR 3,325 thousand (2013: EUR 1,107 thousand), and this amount was recognised under “Finance Income” in the accompanying income statement (see Note 16.6).

The Company's directors consider that the carrying amount of the balances included under “Other Financial Assets” in the balance sheet approximates their fair value.

7.2 Detail of investments in associates

The detail of “Investments in Group Companies, Associates and Jointly Controlled Entities” at 31 December 2014 and 2013 is as follows:

2014

Thousands of euros	31/12/13	Additions	Repayments	Transfers	31/12/14
Investments in associates	13,172	8,614	-	(13,172)	8,614
Total equity instruments	**13,172**	**8,614**	**-**	**(13,172)**	**8,614**
Loans to associates	58,324	8,008	(50,190)	13,172	29,314
Impairment of loans to associates	-	(7,593)	-	-	(7,593)
Total loans to associates	**58,324**	**415**	**(50,190)**	**13,172**	**21,721**
Total	**71,496**	**9,029**	**(50,190)**	**-**	**30,335**

2013

Thousands of euros	31/12/12	Additions	Repayments	Transfers	31/12/13
Investments in associates	-	13,172	-	-	13,172
Loans to associates	-	66,712	(8,388)	-	58,324
Total	**-**	**79,884**	**(8,388)**	**-**	**71,496**

7.2.1. Investments in associates

Bank asset funds - assets derecognised by SAREB

The 2014 additions relate to the setting up of FAB Crossover I (see Note 4.6.1). 20% of the securities issued by the aforementioned fund are held by the Company, at a cost of EUR 8,614 thousand. These securities meet all the requirements of CNMV Circular 6/2013, of 25 September, to qualify as equity instruments.

At 31 December 2014, the Company's directors had not recognised any impairment losses on its 20% ownership interest in the share capital of FAB Crossover I since they considered that, given the value of the properties transferred to this fund, the recoverable amount of its ownership interest in the fund is higher than the cost recognised, and there are no doubts as to the recoverability thereof.

On 8 July 2014, the Company formed FAB May, 5% of the securities issued by the fund being held by the Company at a cost of EUR 2,881 thousand. However, these securities do not meet the requirements stipulated in CNMV Circular 6/2013 to qualify as equity instruments and, accordingly, the Company recognised the cost of the securities under “Loans to Associates” (see Note 7.2.2).

Also, in 2014 FAB 2013 Teide, at the request of the CNMV, reclassified the securities issued when it was formed from equity to liabilities, since it considered that these securities did not meet all the requirements to qualify as equity instruments (see Note 7.2.2). This reclassification did not have any impact on the Company's income statement in 2014 and the ownership interest was transferred from “Investments in Associates” to “Loans to Associates”.

The most important information on the funds whose assets were derecognised by the Company is as follows:

2014

Company	Ownership interest	Registered office	Main line of business	Thousands of euros			
				Securities (*)	Reserves and other equity items	Gross margin	Profit/(Loss) after tax
1. Unlisted.-							
FAB 2013 Teide	15%	Pza. Pablo Ruiz Picasso 1, Madrid	Sale and management of properties	87,815	(65,847)	(52,581)	(58,602)
FAB May	5%	Pº Castellana 143	Sale and management of properties	57,614	(327)	(210)	(327)
FAB Crossover I	20%	Pº Castellana 143	Sale and management of properties	43,071	43,004	(27)	(67)

(*) Data taken from the latest available financial statements at 31 December 2014, prepared in accordance with the standards applicable to each entity. At the date when the accompanying financial statements were authorised for issue, this fund's financial statements had not been audited.

2013

Company	Ownership interest	Registered office	Main line of business	Thousands of euros			
				Securities (*)	Reserves and other equity items	Gross margin	Profit/(Loss) after tax
1. Unlisted.-							
FAB 2013 Teide	15%	Pza. Pablo Ruiz Picasso 1, Madrid	Sale and management of properties	87,815	(7,604)	(1,373)	(2,012)

(*) Data taken from the latest audited financial statements at 31 December 2013.

Bank asset funds - assets not derecognised at SAREB

In addition, as mentioned in Note 4.6.1, in 2013 the Company formed FAB 2013 Bull and FAB Corona. However, in view of the method used by the Company to account for its investments in FABs, the assets and liabilities were not derecognised and no balances were contributed to “Investments in Associates” in the accompanying balance sheet. The most significant information on these funds is as follows:

2014

Company	Ownership interest	Registered office	Main line of business	Thousands of euros			
				Securities (*)	Reserves and other equity items	Gross margin	Profit/(Loss) after tax
1. Unlisted.-							
FAB 2013 Bull	49%	Pza. Pablo Ruiz Picasso 1, Madrid	Sale and management of properties	87,815	(16,768)	(9,403)	(15,100)
Corona Bank Asset Fund (FAB Corona)	100%	Pº Castellana 143	Sale and management of rental assets	48,000	1,064	4,255	1,103

(*) Data taken from the latest available financial statements at 31 December 2014, prepared in accordance with the standards applicable to each entity. At the date when the accompanying financial statements were authorised for issue, this fund's financial statements had not been audited.

2013

Company	Ownership interest	Registered office	Main line of business	Thousands of euros			
				Securities (*)	Reserves and other equity items	Profit (Loss) from operations	Profit/(Loss) after tax
1. Unlisted.-							
FAB 2013 Bull	49%	Pza. Pablo Ruiz Picasso 1, Madrid	Sale and management of properties	87,815	(1,336)	(101)	(1,336)
Corona Bank Asset Fund (FAB Corona)	100%	Pº Castellana 143	Sale and management of rental assets	48,000	(39)	308	(39)

(*) Data taken from the latest audited financial statements at 31 December 2013.

7.2.2. Loans to associates

The changes in loans to associates in 2014 and 2013 were as follows:

2014

	31/12/13	Drawdowns	Repayments	Transfers (Note 7.2.1)	31/12/14
FAB 2013 Teide	**58,324**	**(4,994)**	**(50,155)**	**13,172**	**16,347**
Debt securities	-	-	-	13,172	13,172
Impairment of debt securities	-	(7,593)	-	-	(7,593)
Senior financing	50,155	-	(50,155)	-	-
Tranche A	-	-		-	-
Tranche B	9,175	-	(9,175)	-	-
Tranche C	17,563	-	(17,563)	-	-
Tranche D	23,417	-	(23,417)	-	-
Credit facility	8,169	2,599	-	-	10,768 -
FAB Crossover I	**-**	**1,809**	**-**	**-**	**1,809**
Senior financing	-	1,809	-	-	1,809
FAB May	**-**	**3,601**	**(36)**	**-**	**3,565**
Debt securities	-	2,881	-	-	2,881
VAT facility	-	650	-	-	650
Credit facility	-	70	(36)	-	34
Total	**58,324**	**416**	**(50,191)**	**13,172**	**21,721**

2013

	31/12/12	Additions	Repayments	31/12/13
FAB 2013 Teide				

Debt securities	-	-	-	-
Senior financing	-	**58,543**	**(8,388)**	**50,155**
Tranche A	-	5,854	(5,854)	-
Tranche B	-	11,709	(2,534)	9,175
Tranche C	-	17,563	-	17,563
Tranche D	-	23,417	-	23,417
Credit facility	-	**8,169**	-	**8,169**
Total	-	**66,712**	**(8,388)**	**58,324**

As stated in Notes 4.6.1 and 7.2.1, in 2014 the Company formed FAB May and subscribed 5% of the debt securities issued for EUR 2,881 thousand (28 securities with a face value of EUR 102,882 each). Also, the fund's investor and the Company granted a VAT credit facility for a total amount of EUR 12,099 thousand. 95% of the aforementioned credit facility was subscribed by the investor and 5% by SAREB (EUR 605 thousand at 31 December 2014). This credit facility bears annual interest at a fixed rate of 3.5% and is set to fall due in the five days following the date on which the fund recovers the VAT amount from the tax authorities.

Also, on 2 December 2014, the Company formed FAB Crossover I (see Notes 4.6.1 and 7.2.1). At the same time as the fund was formed, the Company granted it 20% of a VAT credit facility, amounting to EUR 1,809 thousand. This credit facility bears annual interest at a fixed rate of 3.5% and is set to fall due in the five days following the date on which the fund recovers the VAT amount from the tax authorities. The amount of the interest accrued in this connection is not significant.

In 2014 FAB 2013 Teide repaid Tranches A, B, C and D of the senior financing granted by the Company in 2013 for a total amount of EUR 50,155 thousand. This loan bore interest at a fixed annual rate of 3.5%. The interest accrued in 2014 is not significant.

In addition to the senior loan, the Company granted FAB 2013 Teide a credit facility with a total limit of EUR 14,636 thousand and maturity set for 20 December 2018. At 31 December 2014, FAB 2013 Teide had drawn down EUR 10,768 thousand (31 December 2013: EUR 8,169 thousand) against this credit facility to meet the payment of various expenses and costs inherent to the formation and start-up of the fund.

This credit facility does not earn any interest for the Company.

The returns obtained by the Company on the debt securities of FAB Teide subscribed by it amounted to EUR 9,113 thousand (see Note 16.1).

7.3 Information on the nature and level of risk of financial assets

Risk management is the basic principle for the achievement of the objectives set for the Company, which consist of contributing to the clean-up of the financial system, minimising public financial support, settling the debts and liabilities incurred in the course of its operations, minimising the possible market distortions that could result from its actions and disposing of the assets received whilst optimising their value, within the term for which it has been incorporated, at all times preserving the soundness of the Company’s financial and equity position.

The Board of Directors is the governing body responsible for determining and approving general internal control procedures and policies regarding the assumption, management, control and mitigation of the risks to which the Company is exposed. Also, exercising the powers delegated by the Board of Directors, the Investment and Divestment Group, which replaced the former Transaction Analysis Group, and the Risk and Recovery and Restructuring areas perform risk management functions.

The Audit Committee, with the support of the Internal Audit area and the Internal Control and Compliance department, is responsible for supervising the efficiency of the operating processes and the internal control systems, and for checking compliance with the applicable regulations.

The Company manages risk on the basis of the principles of independence, senior management commitment, delegation of functions and proactive management of loans and investment property. Its aim is to minimise defaults and the impairment of investments by monitoring and controlling positions and through technical specialisation, establishing appropriate risk management and measurement tools and methodologies and applying them on a consistent basis.

As a result of the balance sheet structure with which the Company was incorporated, the major risks to which it is subject are as follows:

- Credit and concentration risk, related to the units of financial assets acquired by the Company, and certain investments made in the ordinary course of its activities.

- The liquidity risk of financial instruments, arising from the unavailability, at reasonable prices, of the necessary funds to enable the Company to meet its commitments on a timely basis and to maintain in its lending activity.

- Interest rate risk, which is associated with the probability of losses arising as a result of an adverse trend in market interest rates.

- Operational risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

In view of the types of assets and liabilities held by the Company, foreign currency risk, which relates to potential losses arising from adverse fluctuations in the prices of assets and liabilities denominated in foreign currencies, is not significant.

7.3.1 Credit risk

Credit risk is defined as the possibility of loss stemming from the total or partial failure of customers or counterparties to meet their contractual payment obligations, or due to deterioration in their credit rating. At 31 December 2014, 89.4% of the loan portfolio as a whole had payments in arrears (31 December 2013: 78.1%). This risk is managed by the Investment and Divestment Group and the Risk and Recovery and Restructuring areas following the policies, methods and procedures approved by the Company's Board of Directors.

The Company's policy, in accordance with its company object, focuses on managing the portfolios acquired in order to maximize their recoverability through collection or sale. Accordingly, specific procedures are implemented for credit risk management based on the different characteristics of the units of financial assets, as defined in Note 1 above, and on the transactions included in each of these categories, on the basis of:

- Identification, analysis and monitoring of specific risks over the life of the transaction until termination.
- Measurement and evaluation of these specific risks based on established methodologies, which are consistent with those used for calculating the transfer prices of the units of financial assets.
- Recovery management of risk transactions.

Customer risk concentration regarding property rentals and sales is not significant and, for credit risk purposes, there are no significant payment deferrals. Also, it is Company policy, in the event of payment deferrals, to require customers to provide the collateral necessary to ensure recoverability of the deferred amounts, either as guarantees or as conditions precedent in the transfer public deeds.

The Company's exposure to credit risk at 31 December 2014 and 2013 affects mainly the transactions recognised in the "Loans and Receivables" category of financial assets (see Note 7.1). The carrying amount of these assets, including contingent amounts drawable against the loans and credit facilities held at those dates, represents the maximum exposure to credit risk at those dates. In this respect, at 31 December 2014 and 2013, "Non-Current Financial Assets - Loans to Third Parties" and "Current Financial Assets - Loans to Third Parties" represent 92.51% and 98.70%, respectively, of the Company's total financial assets.

Set out below is salient information concerning the credit risk profile for lending included under these headings.

Loans to third parties by borrower sector

The detail, by borrower sector, of "Non-Current Financial Assets - Loans to Third Parties" and "Current Financial Assets - Loans to Third Parties" at 31 December 2014 and 2013 is as follows:

Thousands of euros	Total		Of which: property guarantee		Of which: other collateral	
	31/12/14	31/12/13	31/12/14	31/12/13	31/12/14	31/12/13
Public sector	8,660	14,087	249	1,902	51	858
Financial institutions	10,991	44,086	9,414	41,611	-	-
Non-financial companies and individual traders	34,071,442	37,682,152	31,870,528	34,806,057	242,453	407,497
Construction and property development	33,182,495	36,392,791	31,115,742	33,980,928	228,609	397,139
Civil engineering construction	2,036	253,941	670	239,534	-	-
Other purposes	886,911	1,035,420	754,116	585,595	13,844	10,358
Large companies	173,214	227,682	100,075	68,178	2,794	323
SMEs and individual traders	713,697	807,739	654,041	517,417	11,050	10,035
Other households	34,684	-	27,222	-	499	-
Capitalised expenses (Note 4.6.2)	16,254	17,561	-	-	-	-
Impairment losses	(967,772)	(259,378)	-	-	-	-
Total	**33,174,259**	**37,498,508**	**31,907,413**	**34,849,570**	**243,003**	**408,355**

Recovery measures - debt refinancing and restructuring

As part of the recovery management carried out by the Company, a number of measures have been implemented to provide borrowers with the conditions required to meet their established contractual obligations, on the basis that the continuation of their activities is the main guarantee of their honouring those obligations.

These measures include, inter alia, the foreclosure of property guarantees or dation in payment (see Note 5), settlement of guarantees and debt refinancing and restructuring transactions.

The recovery activities, especially in the case of debt refinancing and restructuring transactions, have been carried out on the basis of objective criteria that took into account both circumstances common to certain portfolios of loans and credit facilities and the specific circumstances of the borrowers, such as their economic and financial position and the viability of their business activities. The essential criterion governing the analysis and performance of these recovery measures is to provide a solution to existing payment problems, avoid deferring them over time and maximise the recoverable value of the assets received.

The debt refinancing and restructuring tools implemented include changes in the conditions originally agreed with debtors in respect of terms to maturity, interest rates, guarantees provided and, in certain circumstances, forgiveness or partial reduction of the amounts owed. Refinancing or restructuring transactions require that the related debt payments be brought fully or partially up to date.

In no case has the refinancing of transactions given rise to an equity impact for the Company with respect to the status of the refinanced or restructured transaction, or to a deferral of the recognition of possible impairment losses on such transactions based on the circumstances thereof. Therefore, all transactions which have to be classified as impaired in accordance with the regulatory framework applicable to the Company have been classified as such for the purposes of preparing these financial statements.

The number of transactions refinanced in 2014 and 2013 and the amounts thereof are as follows:

2014:

	Number of transactions	Amount (Thousands of euros)
Refinanced/restructured transactions	468	739,935
Renegotiated/renewed transactions	18	6,056
Total	486	745,991

2013:

	Number of transactions	Amount (Thousands of euros)
Refinanced/restructured transactions	376	783,802
Renegotiated/renewed transactions	26	5,480
Total	402	789,282

Geographical distribution of loans and credit facilities

The geographical distribution of “Non-Current Financial Assets - Loans to Third Parties”, “Current Financial Assets - Loans to Third Parties” and “Cash and Cash Equivalents” at 31 December 2014 and 2013 is as follows:

Thousands of euros	**31/12/14**	**31/12/13**
Andalusia	3,219,051	3,370,173
Aragon	1,507,430	1,651,867
Asturias	543,092	597,469
Balearic Islands	774,046	743,259
Canary Islands	717,587	791,635
Cantabria	451,922	472,502
Castilla-La Mancha	1,048,293	1,202,894
Castilla y León	1,923,891	2,075,273
Catalonia	6,619,151	7,072,418
Extremadura	338,020	361,897
Galicia	1,997,640	2,334,896
Madrid	9,065,806	12,280,316
Murcia	1,566,284	1,570,996
Navarre	100,473	111,507
Valencia	6,268,206	6,832,060
Basque Country	402,989	476,742
La Rioja	509,975	546,533
Ceuta and Melilla	22,536	28,020
Other non-resident sectors	-	2,323
- Other - Capitalised expenses (Note 4.6.2)	16,254	17,561
- Impairment losses	(967,772)	(259,379)
Total	**36,124,874**	**42,280,962**
Of which: Cash and cash equivalents	2,950,615	4,782,454

Of which: Non-current and current loans to third parties	33,174,259	37,498,508

7.3.2 Liquidity risk

Liquidity risk is defined as the risk that SAREB might not have sufficient funds to meet its debt repayments at their maturity dates.

The Company determines cash requirements periodically and specifically through the preparation of a cash budget with a twelve-month time horizon, which is updated on a recurring basis with the aim of identifying any short-term cash requirements or cash surpluses. Additionally, for liquidity risk management purposes, generic medium- and long-term funding requirements are identified, as well as how to address them in a manner consistent with business projections.

In any event, liquidity risk is also mitigated by the Company having the power to renew on maturity the bonds issued as consideration for the assets received from the transferor institutions (see Note 13.2).

During the first years of the Company's life, criteria of prudence prevailed in liquidity management, which it is intended to provide with greater versatility. For this purpose, a system of liquidity auctions has been established among entities to which counterparty risk limits have been assigned. The auctions are carried out in accordance with SAREB’s principles of transparency, competition and maximisation of profitability.

Also, the Board of Directors has approved a liquidity risk management policy for the Company that envisages the measurement and periodic monitoring of a series of short- and long-term liquidity indicators and the activation, where appropriate, of contingent measures aimed at maintaining the Company's liquidity position.

Detail of financial assets by maturity date

As discussed in Note 2.4, the Company considers that its financial assets will be recovered in accordance with the contractual payment schedule, except for those experiencing difficulties - doubtful financial assets - (see Note 1), which will be recovered over a period of more than 12 months, according to the Company’s updated estimates.

Due to the unilateral option for the renewal of the maturity of the senior debt (see Notes 2.4 and 13.2), the Company classifies the probable maturities of this debt in accordance with updated forecasts. The detail of the maturities of the Company's financial assets and liabilities at 31 December 2014 is as follows:

	Thousands of euros						
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
Assets:							
Cash and cash equivalents	***2,950,615***	-	-	-	-	-	***2,950,615***
Financial assets	***3,964,028***	***3,042,592***	***3,321,281***	***3,305,767***	***3,062,378***	***19,163,929***	***35,859,975***
- Loans and credit facilities to third parties	3,934,129	3,042,592	3,321,281	3,305,767	3,062,378	16,508,112	33,174,259
- Other financial assets	29,899	-	-	-	-	2,655,817	2,685,716
Investments in associates	***605***	-	-	-	***10,768***	***18,962***	***30,335***
- Equity instruments	-	-	-	-	-	8,614	8,614
- Loans to companies	605	-	-	-	10,768	10,348	21,721
Total at 31 December 2014	**6,915,248**	**3,042,592**	**3,321,281**	**3,305,767**	**3,073,146**	**19,182,891**	**38,840,925**
Liabilities:							-
Non-current and current liabilities	**3,323,502**	**4,009,556**	**4,481,353**	**4,844,436**	**4,812,333**	**31,090,376**	**52,561,556**
- Debt instruments and other marketable securities	3,179,053	3,919,084	4,390,290	4,752,909	4,723,232	28,190,085	49,154,653
- Bank borrowings	53,233	-	-	-	-	-	53,233
- Other financial liabilities	91,216	90,472	91,063	91,527	89,101	190,301	643,680
- Derivatives	-	-	-	-	-	2,709,990	2,709,990
Total at 31 December 2014	**3,323,502**	**4,009,556**	**4,481,353**	**4,844,436**	**4,812,333**	**31,090,376**	**52,561,556**

The Company's cash position amounted to EUR 2,950,828 thousand at 31 December 2014. This liquidity, together with the cash generated from full or partial repayments and sales of loans and credit facilities, from sales of property assets and from rentals of the Company's assets, enables the Company's directors to be confident that sufficient resources will be available to meet cash needs resulting mainly from the maturity of senior bonds and accrued finance costs. In this respect, it must be stated that SAREB has the unilateral right to redeem the senior bonds on maturity by delivering new senior bonds with similar features, which would reduce the liquidity risk to a highly significant extent. In addition, if certain circumstances arise, SAREB also has the option to lengthen the terms of the marketable securities issues.

7.3.3. Interest rate risk

Structural interest rate risk is defined as the Company's exposure to changes in market interest rates resulting from the different maturity and repricing dates of the asset and liability items on its balance sheet. The purpose of the management of on-balance-sheet interest rate risk is to maintain the Company's exposure to fluctuations in market interest rates at levels that are in line with its strategy and compatible with its Business Plan.

Regarding assets, tools have been developed internally that allow loan principal and interest flows to be simulated in accordance with contractual terms and conditions based on the information provided by the managers. These tools enable interest rate fluctuation scenarios to be included and the impact on future interest flows to be evaluated, taking into account the probability of the borrower being solvent.

Similarly, the modelling of liabilities enables cash flows of issued debt to be simulated considering market conditions or simulated scenarios and such debt to be valued. To mitigate the Company's heavy exposure to interest rate fluctuations, resulting from the high level of sensitivity of the Company's liabilities and the considerable insensitivity of its assets to such fluctuations, in 2013 the Company decided to hedge, with derivative instruments, around 85% of the expected outstanding balance of the senior debt over a time horizon of nine years (at 31 December 2014: eight years) with the aim of reducing the risk that increases in interest rates could have a significant adverse effect on the income statement in the future. This decision was taken bearing in mind that the rates in force at the date the hedge was entered into were compatible with the Company's Business Plan.

Benchmark interest rates

Regarding the contractual interest rates to which the acquired portfolio of loans and credit facilities is linked, 91.4% (31 December 2013: 90.1%) of the aforementioned loans and credit facilities are benchmarked to variable interest rates and 8.6% (31 December 2013: 9.9%) are benchmarked to fixed interest rates. However, since a significant portion of the portfolio of loans received are non-performing, the actual sensitivity thereof to fluctuations in interest rates is very low.

The variable interest rates applied to the above balances are benchmarked to Euribor for various maturities, plus the related spread. However, the Company accrues interest income as described in Note 4.13.

Interest rate hedging derivatives

As indicated in Note 13.3, the Company has arranged interest rate derivatives with various financial institutions enabling it to fix the interest rate of approximately 85% of the estimated senior bonds for the next eight years, thus eliminating uncertainty in the coming years regarding the income statement and future cash flows resulting from fluctuations in benchmark interest rates.

The Company’s directors consider that, in view of the low sensitivity of its portfolio of financial assets to fluctuations in interest rates and the management of the interest rate risk of its financial liabilities, at 31 December 2014 interest rate risk exposure was not significant for the purposes of the Company’s financial position.

8 Inventories

The detail of "Inventories" at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	31/12/14	31/12/13
Completed buildings	**12,338**	**-**
Residential property	12,338	-
Offices, premises and multi-purpose industrial buildings	-	-
Other properties	-	-
Residential property other than the borrower's usual residence	-	-
Buildings under construction	**94,507**	**50,420**
Residential property	94,507	12,930
Offices, premises and multi-purpose industrial buildings	-	279
Other properties	-	34,641
Residential property other than the borrower's usual residence	-	2,570
Advances to suppliers	**3,628**	**114**
Total	**110,473**	**50,534**

The changes in “Inventories” in 2014 and 2013 were as follows:

	Thousands of euros			
	Completed buildings	Buildings under construction	Advances to suppliers	Total
Balance at 31 December 2012	**1,760,094**	**470,124**	**-**	**2,230,218**
Additions due to Group 2 transfer (Note 1)	-	3,290	-	3,290
Additions	798	13,994	114	14,906
Disposals	-	(10,071)	-	(10,071)
Corrections (Note 1)	(37,317)	-	-	(37,317)
Transfers to investment property (Note 5)	(1,723,575)	(426,917)	-	(2,150,492)
Impairment losses	-	-	-	-
Balance at 31 December 2013	**-**	**50,420**	**114**	**50,534**
Additions	-	6,358	3,514	9,872
Disposals	(4,807)	(242)	-	(5,049)
Corrections (Note 1)	-	(7,342)	-	(7,342)
Transfers to completed buildings	17,145	(17,145)	-	-
Transfers from investment property (Note 5)	-	62,458	-	62,458
Impairment losses	-	-	-	-
Balance at 31 December 2014	**12,338**	**94,507**	**3,628**	**110,473**

The most significant changes in "Investment Property" in 2014 and 2013 were as follows:

Additions

In 2014 the Company incurred expenses amounting to EUR 6,358 thousand relating to the execution of construction work and the development of its construction in progress. The value of the inventories at 31 December 2014 was increased by this amount.

Transfers between items

In 2014 the Company conducted a detailed analysis of its assets under construction with the aim of attempting to maximise their value. It differentiated those assets from which it expects to obtain a higher level of return through the execution of construction work, the development and completion of properties, and their sale through the retail channel. As a result of this analysis, the Company reclassified from "Investment Property" EUR 62,458 thousand relating to various construction projects in progress that had been interrupted at that date.

In 2013, as a result of the analysis that the Company performed of the property assets acquired in the asset transfer carried out by the Group 1 and Group 2 institutions, it reclassified various properties amounting to EUR 2,150,492 thousand from "Inventories" to "Investment Property" (see Note 5). The Company performed this reclassification since, after carrying out a due diligence review and updating the forecasts it made in 2013 (see Notes 2.4, 2.7 and 5), it considered that these assets met the conditions described in Note 4.3 and, therefore, that they are assets held by the Company on its balance sheet for capital appreciation. This transfer did not affect the 2013 income statement.

Corrections

In 2014 the Company carried out corrections to inventories amounting to EUR 7,342 thousand (see Note 1). These corrections were carried out for certain assets classified as "inventories" that did not meet the scope requirements of assets that had to be transferred to the Company and for others that should have been transferred but whose price had been calculated incorrectly based on the type of asset.

In 2013 the Company carried out a correction with Banco Financiero y de Ahorros, S.A./Bankia, S.A. whereby it returned to the latter a property for tertiary use located in Santa Pola (Alicante) amounting to EUR 37,317 thousand. This asset was returned since it did not meet the scope requirements of assets that had to be transferred to the Company.

Other information

At 31 December 2014 and 2013, all the Company's inventories were free of liens and encumbrances.

Furthermore, in 2014 and 2013, borrowing costs were not capitalised as an increase in the cost of inventories.

As a standard procedure, substantially all of the presales are subject to late delivery indemnity clauses as they are formalised in agreements with similar characteristics. The aforementioned late delivery indemnity clauses comprise mainly the legal interest on the amounts delivered between the forecast contractual delivery date and the effective delivery date. The Company does not expect these clauses to have any impact mainly because the forecast delivery date in the agreements includes a safety margin of a specific number of months with respect to the forecast delivery date. Accordingly, and in view of the few transactions of this type in 2014, the Company did not recognise any impact in this connection in the 2014 and 2013 financial statements. In addition, presales generally include compensation payable to the Company in the event of cancellation by the customer. However, no amount is recognised in this connection until the contract is formally terminated for reasons not attributable to the Company.

The Company’s policy regarding guarantees backing advances received from customers is that all advances received from customers must be secured. At 31 December 2014, the advances delivered by customers as down payments amounted to EUR 477 thousand in total.

The Company's directors consider that the carrying amount of the balances included under "Inventories" in the balance sheet approximates their fair value.

9 Trade and other receivables

The detail of "Trade and Other Receivables" at 31 December 2014 and 2013 is as follows:

	31/12/14	31/12/13
Trade receivables for sales	129,634	76,818
Accounts receivable	206,562	1,337
Doubtful trade receivables	7,806	5,850
Allowance for doubtful debts	(7,806)	(5,850)
Current tax assets (Note 15.1)	19,051	10,559
Other accounts receivable from public authorities (Note 15.1)	2,258	-
Total	**357,505**	**88,714**

"Accounts Receivable" includes the deferred amount relating to the Fab Crossover I and Fab May transactions amounting to EUR 10,337 thousand and EUR 16,420 thousand, respectively (see Notes 5 and 4.6.1). It also includes EUR 176,750 thousand relating to the guarantees arising from the Íbero Project which were uncollected at 31 December 2014 (see Note 1).

The amount recognised by the Company under "Trade Receivables for Sales" includes the uncollected amount arising mainly from the sales of property assets and rental income earned by the Company in 2014 and 2013. The most significant amount, totalling EUR 18,405 thousand, relates to the deferred sale price for the "Dorian" transaction (see Note 5), which falls due in 2016.

The Company's directors consider that the carrying amount of trade and other receivables approximates their fair value.

10 Cash and cash equivalents

"Cash and Cash Equivalents" includes the Company's cash and short-term bank deposits with an original maturity of three months or less.

The detail of "Cash and Cash Equivalents" at 31 December 2014 and 2013 is as follows:

	31/12/14	31/12/13
Cash equivalents	9,118	2,474,980
Cash at banks	2,941,497	2,307,474
Total	**2,950,615**	**4,782,454**

At 31 December 2014, the amount recognised under "Cash Equivalents" relates to several fixed-term deposits held by the Company at various banks amounting to EUR 9,119 thousand (31 December 2013: EUR 2,474,980 thousand. Although the initial maturity of these fixed-term deposits was set at more than three months, the Company decided to classify them under "Cash Equivalents" since it may opt to redeem them early without having to pay a penalty fee.

In 2014 the Company recognised EUR 33,292 thousand (2013: EUR 49,145 thousand) of interest on these investments and on the money deposited in current accounts (see Note 16.6).

At 31 December 2014 and 2013, there were no restrictions on the use of cash and cash equivalents.

11 Equity

11.1 Share capital

At 31 December 2014, the Company's share capital was represented by 300,060,000 fully subscribed and paid bearer shares of EUR 1 par value each. All these shares carry identical voting and dividend rights.

At 31 December 2014 and 2013, the shareholders holding an ownership interest of more than 2.5% of the Company's share capital were as follows:

	% ownership interest	Share capital	Share premium
Fondo de Reestructuración Ordenada Bancaria (FROB)	45.01%	135,060	405,000
Banco Santander, S.A.	17.28%	51,850	155,550
Caixabank, S.A.	12.44%	37,325	111,975
Banco de Sabadell, S.A.	6.93%	20,800	62,400
Banco Popular Español, S.A.	5.97%	17,925	53,775
Kutxabank, S.A.	2.62%	7,875	23,625
Other shareholders	9.75%	29,225	87,675
Total	**100%**	**300,060**	**900,000**

The Company is unaware of other ownership interests of 3% or more of the Company’s share capital or voting power, or of interests lower than the percentage established, but that permit significant influence to be exercised over the Company.

11.2 Legal reserve

- Use of the legal reserve is restricted by several legal provisions. According to Article 274 of the Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least one fifth of the share capital. The legal reserve can be used for offsetting losses or increasing capital provided that the remaining reserve does not fall below 10% of the increased share capital amount, and for distribution to the shareholders in the event of liquidation.

11.3 Other reserves

- The detail of "Other Reserves" at 31 December 2014 and 2013 is as follows:

Thousands of euros	**31/12/14**	**31/12/13**
Prior years' losses	(266,021)	(5,488)
Total	**(266,021)**	**(5,488)**

11.4 Valuation adjustments

- "Valuation Adjustments" in the accompanying balance sheet includes the amount of changes in the value of financial derivatives designated as cash flow hedging instruments, net of the related tax effect (see Note 13.3).

- The changes in "Valuation Adjustments" in 2014 and 2013 were as follows:

- **<u>2014</u>**

	Thousands of euros		
	Beginning balance	Additions / Reductions (*)	Ending balance
Measurement of derivatives	(265,959)	(1,766,533)	(2,032,492)
Balance	(265,959)	(1,766,533)	(2,032,492)

- (*) This decrease includes EUR 123,421 thousand as a result of the change in the tax rate from 30% to 25% since the Company considered that the deferred tax on the market value of the derivatives will be applied at the latter rate (see Note 15).

- **<u>2013</u>**

	Thousands of euros		
	Beginning balance	Additions / Reductions	Ending balance
Measurement of derivatives	-	(265,959)	(265,959)
Balance	-	(265,959)	(265,959)

- The valuation adjustments in equity are as follows:

	Thousands of euros	
	31/12/14	31/12/13
Interest rate derivatives (Note 13.3)	(2,709,990)	(379,942)
Tax effect (*)	677,497	113,983
Valuation adjustments - Hedges (net of taxes)	(2,032,492)	(265,959)

- (*) This decrease includes EUR 123,421 thousand as a result of the change in the tax rate from 30% to 25%, since the Company considered that the deferred tax on the market value of the derivatives will be applied at the latter rate (see Note 15).

12 Provisions and contingencies

"Provisions and Contingencies" in the balance sheets as at 31 December 2014 and 2013 includes the long-term provisions recognised by SAREB in order to cover certain contingent and other liabilities acquired by SAREB as part of its normal course of business, which are reasonably covered. The changes in "Provisions and Contingencies" in the 2014 and 2013 balance sheets were as follows:

	Thousands of euros	
	2014	2013
Beginning balance	53,322	-
Charge for the year	2,619	53,322
(Amounts used)	(6,055)	-
Transfers and other changes	-	-
Ending balance	**49,886**	**53,322**

The charge for the year recognised by the Company in 2014 amounting to EUR 2,619 thousand relates to the maximum level of risk acceptable by the Company in relation to the FAB May fund, i.e. in the transfer of a portfolio of land assets in which the Company undertook to assume a certain amount of urban development costs (see Note 4.6.1).

The Company is the defendant in certain proceedings in relation to the liability inherent to the business activities carried on by it. The provisions recognised in relation to litigation in 2014 represent immaterial amounts when considered individually, and there are no other particularly noteworthy lawsuits. In this regard, SAREB recognises provisions for likely litigation risks in accordance with the opinion of its legal advisers.

13 Detail of financial liabilities

The detail, as required by applicable legislation, of the financial liabilities assumed by SAREB at 31 December 2014 and 2013 is as follows:

2014

Classes / Categories	Thousands of euros						
	Non-current financial instruments			Current financial instruments			Total
	Bank borrowings	Debt instruments and other marketable	Derivatives and other	Bank borrowings	Debt instruments and other marketable	Derivatives and other	
Accounts payable	-	45,975,600	643,339	53,233	3,179,053	341	49,851,566
Hedging derivatives	-	-	2,709,990	-	-	-	2,709,990
Total	**-**	**45,975,600**	**3,353,329**	**53,233**	**3,179,053**	**341**	**52,561,556**

2013

Class / Category	Thousands of euros						
	Non-current financial instruments			Current financial instruments			Total
	Bank borrowings	Debt instruments and other marketable	Derivatives and other	Bank borrowings	Debt instruments and other marketable	Derivatives and other	
Accounts payable	-	49,176,000	45,068	130,268	3,457,298	9,296	52,817,930
Hedging derivatives	-	-	379,942	-	-	-	379,942
Total	**-**	**49,176,000**	**425,010**	**130,268**	**3,457,298**	**9,296**	**53,197,872**

13.1 Bank borrowings

At 31 December 2014, the Company had been granted credit facilities by various Group 1 and Group 2 institutions, against which EUR 47,628 thousand (31 December 2013: EUR 130,268 thousand) had been drawn down. The Company draws on these credit facilities in order to meet payment of the amounts drawn down against the loans and credit facilities described in Note 7.1.1 which mature in the short term.

The interest rate on the amounts drawn down against these credit facilities is tied to Euribor plus a market spread. The interest incurred in 2014, amounting to EUR 130 thousand (2013: EUR 1,209 thousand), was recognised under "Finance Costs - On Debts to Third Parties" in the accompanying income statement (see Note 16.5).

In addition, at 31 December 2014, the Company had recognised EUR 5,605 thousand under "Bank Borrowings" in relation to accrued interest payable on the hedging derivatives entered into in 2013 (see Note 13.3).

13.2. Non-current and current debt instruments and other marketable securities

The detail of “Non-Current Payables - Debt Instruments and Other Marketable Securities” and “Current Payables - Debt Instruments and Other Marketable Securities” at 31 December 2014 and 2013 is as follows:

Thousands of euros	31/12/14		31/12/13	
	Non-current	Current	Non-current	Current
Marketable securities- senior debt	42,375,600	3,152,000	45,576,000	3,421,200
Marketable securities- subordinated debt	3,600,000	-	3,600,000	-
Accrued interest payable	-	27,053	-	36,098
Total	**45,975,600**	**3,179,053**	**49,176,000**	**3,457,298**

Marketable securities - senior debt

The detail of "Marketable Securities - Senior Debt" in the foregoing table at 31 December 2014 and 2013 is as follows:

31 December 2014

	Issue date	Contractual maturity date	Current applicable rate	Thousands of euros
SAREB/VAR BO 20141231 2014-2	31/12/14	31/12/15	3-month Euribor + 0.297%	10,284,900
SAREB/VAR BO 20151231 2012-3	31/12/12	31/12/15	3-month Euribor + 2.964%	6,622,500
SAREB/VAR BO 20150228 2013-2	28/02/13	28/02/15	3-month Euribor + 2.017%	6,104,100
SAREB/VAR BO 20150228 2014-1	28/02/14	28/02/15	3-month Euribor + 0.272%	4,084,700
Total current contractual maturities				27,096,200
SAREB/VAR BO 20141231 2014-3	31/12/14	31/12/16	3-month Euribor + 0.428%	15,427,500
SAREB/VAR BO 20160228 2013-3	28/02/13	28/02/16	3-month Euribor + 2.464%	3,003,900
Total non-current contractual maturities				18,431,400
Total				**45,527,600**

31 December 2013

	Issue date	Contractual maturity date	Current applicable rate	Thousands of euros
SAREB/VAR BO 20131231 2012-1	31/12/12	31/12/13	3-month Euribor + 2.189%	-
SAREB/VAR BO 20140228 2013-1	28/02/13	28/02/14	3-month Euribor + 1.242%	4,217,600
SAREB/VAR BO 20141231 2012-2	31/12/12	31/12/14	3-month Euribor + 2.562%	15,722,300
SAREB/VAR BO 20141231 2013-4	31/12/13	31/12/14	3-month Euribor + 0.656%	10,481,300
Total current contractual maturities				30,421,200
SAREB/VAR BO 20151231 2012-3	31/12/12	31/12/15	3-month Euribor + 2.964%	8,734,600
SAREB/VAR BO 20150228 2013-2	28/02/13	28/02/15	3-month Euribor + 2.017%	6,326,700
SAREB/VAR BO 20160228 2013-3	28/02/13	28/02/16	3-month Euribor + 2.464%	3,514,700
Total non-current contractual maturities				18,576,000
Total				**48,997,200**

At 31 December 2014 and 2013, all the marketable debt securities are represented by book entries. They are also secured by an unconditional and irrevocable guarantee of the Spanish Treasury, with a waiver of the right of excussion.

The finance expense incurred on the marketable debt securities described above amounted to EUR 1,019,555 thousand in 2014 (2013: EUR 1,270,912 thousand) (see Note 16.5).

SAREB holds an option to unilaterally renew the senior debt issues described above at maturity. However, at the transaction date there are no significant differences between their fair value and their nominal amount.

This unilateral option enables the Company, also on the basis of its business forecasts and the experience acquired since its incorporation, to consider that the aforementioned contractual maturities, which are in the short term, will occur in the long term for an approximate amount of EUR 23,944,200 thousand.

The interest rates on these bonds are tied to 3-month Euribor plus a spread. This spread remains unchanged throughout the term of the issue.

2014

Redemption of bonds in 2014

The detail of the redemptions of senior debt carried out by the Company in 2014 is as follows:

	Redemption in cash	Redemption through corrections (Note 1)	Redemption through a new issue	Total
SAREB/VAR BO 20141231 2013-4	49,300	147,100	10,284,900	10,481,300
SAREB/VAR BO 20141231 2012-2	74,000	220,800	15,427,500	15,722,300
SAREB/VAR BO 20151231 2012-3	1,989,600	122,500	-	2,112,100
SAREB/VAR BO 20151231 2013-1	116,600	15,700	4,085,300	4,217,600
SAREB/VAR BO 20151231 2013-2	198,000	24,600	-	222,600
SAREB/VAR BO 20151231 2013-3	497,300	13,500	-	510,800
SAREB/VAR BO 20150228 2014-1	-	600		600
Total	**2,924,800**	**544,800**	**29,797,700**	**33,267,300**

Redemption in cash and through a new issue

On 28 February 2014, the Company simultaneously carried out a partial redemption and a renewal at maturity of the outstanding senior debt issued in 2013 to acquire the Group 2 assets, and an extraordinary redemption of the debt issue launched by the Company to acquire the Group 1 assets.

The simultaneous redemption and renewal are summarised below:

Bonds	2014 beginning balance (*)	Redemption	Renewal	Outstanding amount	Maturity	New ISIN following novation
SAREB BONOS SENIOR 2013-01	4,201,900	116,600	4,085,300	4,085,300	28/02/15	ES0352506077
SAREB BONOS SENIOR 2013-02	6,303,100	175,100	-	6,128,000	28/02/15	N/A
SAREB BONOS SENIOR 2013-03	3,501,600	97,300	-	3,404,300	28/02/16	N/A
Total Group 2		**389,000**	**4,085,300**			
SAREB/VAR BO 20141231 2012-2	15,722,300	74,000	-	15,648,300	31/12/14	N/A
SAREB/VAR BO 20151231 2012-3	8,734,600	41,200	-	8,693,400	31/12/15	N/A
SAREB/VAR BO 20141231 2013-4	10,481,300	49,300	-	10,432,000	31/12/14	N/A
Total Group 1		**164,500**	**-**			
Total redemption 28 February		**553,500**	**4,085,300**			

(*) Net of corrections formalised between the Company and the Group 2 institutions until 28 February 2014.

On 10 April 2014, the Company made an offer to the bondholders for the buyback and subsequent redemption of EUR 1,400,000 thousand. This bond buyback was carried out below par and gave rise to finance income of EUR 5,020 thousand, which was recognised under "Finance Income - From Marketable Securities" in the accompanying income statement (see Note 16.6). The detail of the redeemed bonds is as follows:

Bonds	Redemption	Buyback price	Discount	Maturity	ISIN
SAREB BONOS SENIOR 2012-03	1,000,000	999,480	520	31/12/15	ES0352506028
SAREB BONOS SENIOR 2013-03	400,000	395,500	4,500	28/02/16	ES0352506051
Total	**1,400,000**	**1,394,980**	**5,020**		

In addition, in 2014 the Company bought back, for subsequent redemption, 484 bonds of the 2012-3 series and 229 bonds of the 2013-2 series for EUR 48,400 thousand and EUR 22,900 thousand, respectively. The Company settled the purchase of these bonds was settled through the delivery of an office building located in Madrid and a series of mortgage loans owned by the Company.

Furthermore, on 31 December 2014, the Company simultaneously carried out the partial redemption and renewal at maturity of the outstanding senior debt in order to acquire Group 1 assets, in exercise of its right to novate the maturity of the issued bonds (see Note 1). This redemption is summarised as follows:

Bonds	Outstanding balance before redemption	Redemption in cash	Redemption through issue of new securities	Total amount redeemed
SAREB/VAR BO 20141231 2013-4	10,284,900	-	10,284,900	10,284,900
SAREB/VAR BO 20141231 2012-2	15,427,500	-	15,427,500	15,427,500
SAREB/VAR BO 20151231 2012-3	7,522,500	900,000	-	900,000
Total	**33,234,900**	**900,000**	**25,712,400**	**26,612,400**

Correction of asset purchase deed

As indicated in Note 1, in 2014 the Company redeemed the following bonds as a result of the corrections formalised in the year:

Thousands of euros	Novagalicia Banco, S.A.	Catalunya Caixa, S.A.	CEISS, S.A.	Banco Gallego, S.A.	Banco de Valencia, S.A.	BMN, S.A.	Total
SAREB/VAR BO 20151231 2013-1	-	-	15,700		-	-	15,700
SAREB/VAR BO 20141231 2012-2	82,200	92,500	-	5,700	40,400	-	220,800
SAREB/VAR BO 20151231 2012-3	45,600	51,300	-	3,200	22,400	-	122,500
SAREB/VAR BO 20140228 2013-4	54,800	61,600	-	3,800	26,900	-	147,100
SAREB/VAR BO 20150228 2013-2	-	-	23,600		-	1,000	24,600
SAREB/VAR BO 20160228 2013-3	-	-	13,100		-	400	13,500
SAREB/VAR BO 20150228 2014-1	-	-	-	-	-	600	600
Total	**182,600**	**205,400**	**52,400**	**12,700**	**89,700**	**2,000**	**544,800**

<u>2013</u>

The main changes in senior debt in 2013 were as follows:

Bond issue to acquire Group 2 assets

On 28 February 2013, the Company documented in a public deed the issue of 140,868 senior bonds, with a nominal value of EUR 100,000 each. The total amount of the issue was EUR 14,086,800 thousand. These bonds were fully subscribed by the institutions belonging to Group 2, in consideration for the assets that the latter transferred to the Company on the same date (see Note 1).

The bonds were issued at par and are represented by book entries. They are also secured by an unconditional and irrevocable guarantee of the Spanish Treasury, with a waiver of the right of excussion.

Redemption and issue of bonds in 2013:

The detail of senior debt redeemed in 2013 is as follows:

	Redemption in cash	Redemption through issue of new securities	Total
SAREB/VAR BO 20131231 2012-1	433,500	10,481,300	10,914,800
SAREB/VAR BO 20131231 2012-2	650,200	-	650,200
SAREB/VAR BO 20131231 2012-3	361,300	-	361,300
Total	**1,445,000**	**10,481,300**	**11,926,300**

On 31 December 2013, in exercise of its right to renew the issued bonds at maturity, the Company documented in a public deed the issue of 140,813 senior bonds of the SAREB/VAR BO 20141231 2013-4 series, with a nominal value of EUR 100,000 each. The issue, which amounted to EUR 10,481,300 thousand in total, was fully subscribed by the Group 1 institutions that held bonds belonging to the SAREB/VAR BO 20131231 2012-1 series, which matured on 31 December 2013. Following this issue and the redemption in cash detailed above, the SAREB/VAR BO 20131231 2012-1 series bonds had been redeemed in full.

Correction of asset purchase deed

In 2013 the Company redeemed the following bonds as a result of the corrections formalised in the year (see Note 1):

Thousands of euros	Bankia, S.A.	Catalunya Caixa, S.A.	CEISS, S.A.	Banco de Valencia, S.A.	BMN, S.A.	Total
SAREB/VAR BO 20131231 2012-1	38,000	33,800	-	21,500	-	93,300
SAREB/VAR BO 20141231 2012-2	57,100	50,700	-	32,200	-	140,000
SAREB/VAR BO 20151231 2012-3	31,600	28,100	-	17,900	-	77,600
SAREB/VAR BO 20140228 2013-1	-	-	900	-	7,400	8,300
SAREB/VAR BO 20150228 2013-2	-	-	1,400	-	11,100	12,500
SAREB/VAR BO 20160228 2013-3	-	-	700	-	6,200	6,900
Total	**126,700**	**112,600**	**3,000**	**71,600**	**24,700**	**338,600**

Other information

The interest incurred in 2014 in relation to these marketable securities, amounting to EUR 1,019,555 thousand (2013: EUR 1,270,912 thousand), was recognised under "Finance Costs - On Debts to Third Parties" in the accompanying income statement (see Note 16.5). At 31 December 2014, the accrued interest payable amounted to EUR 27,053 thousand (31 December 2013: EUR 36,098 thousand) which was recognised under "Current Payables - Debt Instruments and Other Marketable Securities" in the accompanying balance sheet. At the date of preparation of these financial statements, this interest had been paid in full.

At 31 December 2014 and 2013, the senior marketable securities issued by the Company had been listed and admitted to trading.

The directors consider that the carrying amount of the marketable securities approximates their fair value.

Marketable securities - subordinated debt

The detail of "Marketable Securities - Subordinated Debt" in the foregoing table at 31 December 2014 and 2013 is as follows:

31 December 2014

	Issue date	Maturity date	Current applicable rate	Thousands of euros
SAREB/8,00 OBSUBDCONV 20271127 2013	26/02/13	27/11/27	8.00%	3,600,000
Total				3,600,000

31 December 2013

	Issue date	Maturity date	Current applicable rate	Thousands of euros
SAREB/8,00 OBSUBDCONV 20271127 2013	26/02/13	27/11/27	8.00%	737,800
SAREB/8,00 OBSUBDCONV 20271127	27/12/12	27/11/27	8.00%	2,862,200
Total				3,600,000

On 1 July 2014, a deed was executed to convert the subordinated debt issue launched by the Company in 2012. Through this deed, the Company converted EUR 2,862,200 thousand of subordinated debt issued in 2012 into subordinated debentures of the same class as the issue launched in 2013. As part of the Company's funding strategy, in both 2013 and 2012 the Company launched an issue of subordinated marketable debt securities amounting to EUR 737,800 thousand and EUR 2,862,200 thousand, respectively. The issues were launched at par and are represented by book entries.

The main terms and conditions of the contingent convertible unsecured subordinated debentures are detailed below:

- All the securities belong to a single series and have the same terms and conditions. Therefore, they confer identical rights on the holders. They are freely transferable, are represented by book entries and are registered in the book-entry registries by Iberclear and its authorised participating entities.

- These bonds bear a fixed rate of interest that is accrued monthly, provided that profits are obtained and that there are sufficient distributable reserves. Accordingly, in 2014 and 2013 the Company did not incur or pay any coupon in this connection in view of the difficulty in estimating distributable future cash flows.

- Full redemption: obligatory on 27 November 2027.

- Partial redemption: at the Company's discretion, this is possible from the fifth year from the issue onwards, depending on the existing capital adequacy and gearing ratios.

- Conversion: the subordinated debt will be convertible into capital if the Company has insufficient capital as a result of: i) the existence of accumulated losses equal to or greater than its share capital plus reserves; or ii) the Company being in a situation of dissolution as a result of losses reducing its equity to below one-half of share capital. If the conversion takes place, the shares will have the same par value, be of the same class and series and have the same rights as the ordinary shares outstanding. Their amount will be such that the Company's share capital will represent 2% of the value of the assets following the conversion.

- Seniority: the convertible subordinated debentures are ranked in order of priority as follows:

- Junior to all the Company's general (senior) creditors;
- "Pari passu" with any of the Company's non-convertible or convertible subordinated debt already issued or that may be issued in the future, or any debt already incurred or that may be incurred in the future under any other security.
- Senior to the Company's preference or ordinary shares.

At 31 December 2014, based on the revised Business Plan, the Company's directors considered that the conversion is not likely to take place in the short term and, therefore, the issue is classed as a financial liability.

13.3 Derivatives

- At 31 December 2014 and 2013, SAREB's main source of funding comprised debt instruments and marketable securities issued in 2013 and 2012, or renewed where appropriate on maturity, in order to acquire the property and credit assets described in Note 1, which are tied to floating interest rates. In view of the large size of the transaction, and in order to reduce the high exposure and consequent risk for the Company to a possible interest rate increase, on 2 August 2013, the Company entered into an interest rate swap enabling it to hedge this risk for an initial notional amount of EUR 42,221 million, which will gradually decrease as the senior bonds hedged in future years mature. The debt was tied to fixed annual interest rates ranging from 0.491% to 3.145%. This transaction was not speculative in nature but rather it is classified as a cash flow hedge. It in fact gave rise to the conversion of a portion of the Company's debt in the hedging period into fixed rate debt in contrast with the floating rate profile of the issued bonds.

- The cash flow hedge was entered into at a time and in a market context in which interest rates were compatible with those envisaged in the Company's Business Plan. Therefore, the Company used this transaction to cover a substantial portion of this plan by reducing the uncertainty and risk that a rise in interest rates might jeopardise the Company's Plan and viability. In contrast, as a consequence of this transaction, the Company forwent any gains, in relation to the hedged items and term, from a possible decline in benchmark interest rates.

- The monetary policy easing measures adopted by the European Central Bank from 2013 year-end contributed to a gradual decline in interest rates that are currently at historic lows. This trend was transferred to the value of the hedging derivative entered into by the Company.

The entire amount of "Non-Current Payables - Derivatives" on the liability side of the balance sheet as at 31 December 2014 and 2013 relates to the fair value of this interest rate risk hedging derivative entered into with various financial institutions. At 31 December 2014, the fair value of this derivative, obtained using generally accepted measurement techniques based on the use of observable market inputs, amounted to EUR 2,709,990 thousand (31 December: EUR 379,942 thousand) (see Note 11.4).

The detail of the notional amount and the fair value of these transactions for the terms in which these cash flows are expected to arise and the years in which they are expected to affect the income statement, is as follows (in thousands of euros):

INTEREST RATE SWAPS	Fixed rate range	Expiry dates	2015	2016	2017	2018	2019	More than 5 years	Total
Notional amounts	0.49%-3.15%	2,015	36,467,000	30,571,000	25,453,000	22,181,000	18,986,000	42,855,000	176,513,000
Fair value			**(280,902)**	**(371,535)**	**(420,202)**	**(424,825)**	**(383,497)**	**(829,029)**	**(2,709,990)**

The Company estimates that the effect on the market value of these derivatives of an increase of one basis point in benchmark interest rates would give rise to a positive impact on its equity of EUR 18,047 thousand.

The estimated impact of a decrease of one basis point in benchmark interest rates would be a negative impact of the same amount.

In accordance with current accounting rules, changes in the value of hedging derivatives are recognised in the Company's equity until they are recognised in the income statement in the corresponding subsequent years. The entire fair value of this interest rate risk derivative, net of the related tax effect, was recognised under "Valuation Adjustments - Hedges" in the amount of EUR 2,032,493 thousand. As a result, the Company has negative equity. However, from a business perspective, pursuant to Article 36 of the Commercial Code, for the purposes of profit distribution, mandatory share capital reduction and mandatory dissolution as a result of losses, these changes in value arising from hedging derivatives that have not yet been recognised in the income statement are not classified as equity.

In addition, at 31 December 2014, EUR 113,241 thousand had been transferred from equity to "Finance Costs - On Debts to Third Parties" in the income statement (31 December 2013: EUR 168 thousand) (see Note 16.5).

- The credit risk associated with the derivative transactions is minimised by collateral swap agreements and other types of guarantees that depend on the nature and type of counterparty, in accordance with the standards of the International Swaps and Derivatives Association (ISDA).

- At 31 December 2014 and 2013, for the purpose of ensuring compliance with the clauses in the aforementioned derivative contracts, SAREB provided cash collateral to the counterparties of the derivatives entered into, representing a negative amount for the Company of EUR 2,431,900 thousand and EUR 228,400 thousand, respectively, which was recognised under "Non-Current Financial Assets - Other Financial Assets" on the balance sheet, and set up deposits at the counterparties for a total amount of EUR 217,500 thousand in both years (see Note 7.1.2).

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13.4 Other non-current financial liabilities

The detail of “Other Non-Current Financial Liabilities” in the balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	31/12/14	31/12/13
Fair value of the Íbero guarantees	563,629	-
Effect of interest cost effect of Íbero guarantees	24,971	-
Total nominal amount of Íbero guarantees	*588,600*	-
FAB 2013 Bull advance (Note 5)	25,685	25,685
Security deposits and Other	29,054	19,383
Total	**643,339**	**45,068**

- Pursuant to Recognition and Measurement Standard 9.5.6 of the Spanish National Chart of Accounts, the Company estimated the fair value of the guarantees detailed in Note 1 in relation to the Íbero Project. The weighted average cost of the Company's debt (see Note 13.1) was taken into consideration in order to calculate the interest cost.

14 Trade and other payables

The detail of “Trade and Other Payables” in the balance sheet as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	31/12/14	31/12/13
Payable to suppliers	68,466	16,715
Payable to suppliers - unreceived invoices	239,981	222,018
Remuneration payable	5,294	1,912
Current tax liabilities (Note 15.1)	-	-
Other accounts payable to public authorities (Note 15.1)	69,099	90,122
Customer advances	477	-
Total	**383,317**	**330,767**

“Trade and Other Payables” includes mainly the amounts outstanding for trade purchases and related costs, and the advances received from customers prior to recognition of the sale of the properties or land.

At 31 December 2014, "Payable to Suppliers - Unreceived Invoices" includes EUR 97,122 thousand and EUR 71,178 thousand (31 December 2013: EUR 95,207 thousand and EUR 73,865 thousand) in expenses incurred in relation to management fees and sales commissions, respectively, and EUR 71,681 thousand (31 December 2013: EUR 52,946 thousand) in general and maintenance expenses relating to the assets managed by the Company for which it had not received the related invoices.

The directors consider that the carrying amount of trade payables approximates their fair value.

Disclosures on the payment periods to suppliers. Additional Provision Three. “Disclosure obligation” provided for in Law 15/2010, of 5 July

- The disclosures required by Additional Provision Three of Law 15/2010, of 5 July, are as follows, in thousands of euros:

Thousands of euros	**Amounts paid and payable at year-end**			
	2014		**2013**	
	Amount	**%**	**Amount**	**%**
Paid in the maximum payment period	577,955	85%	314,047	95%
Remainder	101,952	15%	15,162	5%
Total payments made in the year	**679,907**	**100%**	**329,209**	**100%**
Weighted average period of late payment (days)	58		30	
Payments at year-end not made in the maximum payment period	5,715		1,421	

- The maximum payment period applicable to the Company under Law 3/2004, of 29 December, on combating late payment in commercial transactions and pursuant to the transitional provisions contained in Law 15/2010, of 5 July, is 60 days as from 1 January 2013.

- The figures shown in the foregoing table in relation to payments to suppliers relate to suppliers that because of their nature are trade creditors for the supply of goods and services and, therefore, they include the figures relating to “Payable to Suppliers” and “Sundry Accounts Payable” under “Current Liabilities” in the balance sheet.

- Weighted average period of late payment was calculated as the quotient whose numerator is the result of multiplying the payments made to suppliers outside the maximum payment period by the number of days of late payment and whose denominator is the total amount of the payments made in the year outside the maximum payment period.

- The Company considers that it strictly complies with the maximum payment period. However, as a result of the computer-based validation process for certain payments, the foregoing table includes amounts that exceed the term.

15 Tax matters

15.1 Current tax receivables and payables

The detail of the current tax receivables and tax payables at 31 December 2014 and 2013 is as follows:

<u>31 December 2014</u>

	Thousands of euros			
	Receivables		Payables	
	Non-current	Current	Non-current	Current
Deferred output VAT payable	-	-	-	-
VAT refundable	-	745	-	-
Deferred and other tax assets	1,018,846	-	-	-
Tax provision	-	-	-	28,132
VAT payable	-	-	-	38,961
Personal income tax withholdings payable	-	-	-	1,148
Canary Islands general indirect tax payable	-	-	-	458
Accrued social security taxes payable	-	-	-	330
Income tax	-	19,051	-	-
Other tax receivables and payables	-	1,513	-	70
Total	**1,018,846**	**21,309**	**-**	**69,099**

<u>31 December 2013</u>

	Thousands of euros			
	Receivables		Payables	
	Non-current	Current	Non-current	Current
Deferred output VAT payable	-	-	-	47
Other tax receivables	-	-	-	-
Deferred and other tax assets	258,694	-	-	-
Tax provision	-	-	-	30,575
VAT payable	-	-	-	53,603
Personal income tax withholdings payable	-	-	-	1,441
Canary Islands general indirect tax payable	-	-	-	957
Accrued social security taxes payable	-	-	-	254
Income tax	-	10,559	-	-
Other tax payables	-	-	-	3,245
Total	**258,694**	**10,559**	**-**	**90,122**

15.2 Reconciliation of the accounting loss to the tax loss

The reconciliation of the accounting loss for the year to the tax loss for income tax purposes is as follows:

2014

	Thousands of euros				
	Profit or loss		Income and expense recognised directly in equity		Total
Net income and expense balances for the year Profit / (loss)		(584,659)		(1,851,464)	(2,436,123)
	Increase	Decrease	Increase	Decrease	
Income tax	-	(196,619)	-	(617,155)	(813,774)
Permanent differences	1,823	(89,451)	-	-	(87,628)
Temporary differences	-	-	-	-	-
- Arising in the year	295,296	-	2,468,619	-	2,763,915
- Arising in prior years	78,156	(100,546)	-	-	(22,390)
Tax loss	**375,275**	**(971,275)**	**2,468,619**	**(2,468,619)**	**(596,000)**

2013

	Thousands of euros				
	Profit or loss		Income and expense recognised directly in equity		Total
Net income and expense balances for the year Profit / (loss)		(260,533)		(113,983)	(374,516)
	Increase	Decrease	Increase	Decrease	
Income tax	-	(142,359)	-	(265,959)	(408,318)
Permanent differences	-	(71,639)	-	-	(71,639)
Temporary differences	-	-	-	-	
- Arising in the year	384,037	-	379,942	-	763,979
- Arising in prior years	-	(7,640)	-	-	(7,640)
Tax loss	**384,037**	**(482,171)**	**379,942**	**(379,942)**	**(98,134)**

At 31 December 2014 and 2013, the main temporary differences arose from period depreciation and amortisation charges, among other items.

The foregoing tables are presented in accordance with the model required by the 2007 Spanish National Chart of Accounts. The amounts included under "Income and Expense Recognised Directly in Equity" relate to accounting adjustments that are not reflected in the tax loss for income tax purposes and, therefore, are not included in an effective manner in the tax loss for income tax purposes for the year.

The only significant tax effect recognised directly in equity at 31 December 2014 and 2013 relates to the financial derivatives designated as hedging instruments, amounting to EUR 677,497 thousand and EUR 113,983 thousand, respectively (see Note 11.4).

The reconciliation of the income tax expense recognised by SAREB to the result of multiplying the applicable income tax rate by the total recognised income and expense before tax for 2014 and 2013 is as follows:

2014

	(Income) / Expense (thousands of euros)		
	Profit or loss	Amounts recognised directly in equity	Total recognised income and expense
Profit / (Loss) before tax	(781,278)	(2,468,619)	(3,249,897)
Permanent differences	(87,629)	-	(87,629)
Total	(868,907)	(2,468,619)	(3,337,526)
Income tax rate	30%	30%	
Total	(260,672)	(740,586)	(1,001,258)
Tax credits and tax relief	-	-	-
(Profit) / Loss recognised for income tax purposes	**(260,672)**	**(740,586)**	**(1,001,258)**
Adjustments due to change in tax rate	66,573	123,431	190,004
Adjustment to income tax expense for previous year	(2,520)	-	(2,520)
Total (income)/expense recognised in profit or loss	**(196,619)**	**(617,155)**	**(813,774)**

The most significant changes introduced by Spanish Income Tax Law 27/2014, which was approved in 2014, were as follows:

- Tax losses may be offset over an unlimited period of time, compared to 18 years under the previous legislation. The limit for the offset of tax losses in 2015 is based on revenue: 60% of the tax base for 2016 and 70% of the tax base amount for subsequent years.

- The tax rate is reduced from the current rate of 30% to 28% for 2015 and to 25% for subsequent years.

Accordingly, the Company adjusted the valuation of the deferred tax assets and liabilities recognised at 31 December 2014 at the tax rates at which it expects them to be recovered. The impact of the remeasurement of the deferred tax assets at the corresponding tax rates was an expense of EUR 66,573 thousand which was recognised under "Income Tax" in the accompanying income statement.

2013

	(Income) / Expense (thousands of euros)		
	Profit or loss	Amounts recognised directly in equity	Total recognised income and expense
Profit / (Loss) before tax	(402,892)	(379,942)	(782,834)
Permanent differences	(71,639)	-	(71,639)
Total	(474,531)	(379,942)	(854,473)
Income tax rate	30%	30%	
Total	(142,359)	(113,983)	(256,342)
Tax credits and tax relief	-	-	-
(Profit) / Loss recognised for income tax purposes	**(142,359)**	**(113,983)**	**(256,342)**

The reconciliation of the tax loss to net income tax payable for 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Tax loss	**(596,000)**	**(106,560)**
Tax loss by tax rate (30%)	(178,800)	(31,968)
Tax credits and tax relief	-	-
Tax withholdings and prepayments	(9,458)	(10,559)
Net tax (refundable) / payable	**(9,458)**	**(10,559)**

The detail of the tax loss carryforwards recognised at 31 December 2014 and 2013 is as follows:

2014

	Thousands of euros	Last year for deduction
Tax loss carryforwards		
2012	200	-
2013	106,561	-
2014	596,000	-

The income tax expense accrued for 2014 and 2013 related in full to continuing operations.

15.3 Deferred tax assets

The detail of "Deferred Tax Assets" at 31 December 2014 and 2013 as follows:

	Thousands of euros	
	2014	2013
Tax assets	175,690	29,500
Temporary differences - 2013	96,791	115,211
Temporary differences - 2014	68,850	-
Fair value measurement of derivatives	677,498	113,983
Other	17	-
Total deferred tax assets	**1,018,846**	**258,694**

The deferred tax assets and the tax loss carryforwards were recognised on the balance sheet because the Company's directors considered that, based on their best estimate of the Company's future earnings, including certain tax planning measures, it is probable that these assets will be recovered.

15.4 Years open for review by the tax authorities

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired. At 31 December 2014, all taxes applicable to the Company that it had filed since its incorporation were open for review by the tax authorities. As a result of, among other factors, varying interpretations of current legislation, additional liabilities may arise as a result of a tax audit. In any case, the directors consider that these liabilities, should they arise, would not have a material effect on the financial statements.

At 2014 year-end, the Company did not have any tax audits in progress.

16 Income and expenses

16.1 Revenue

• The detail, by line of business, of "Revenue" at 2014 and 2013 year-end is as follows:

	Thousands of euros	
	2014	2013
Sales of loans and credit facilities (Note 7.1.1)	853,357	764,955
Finance income from loans and credit facilities (Note 7.1.1)	582,674	765,910
Income from sales of investment property (Note 5)	1,068,065	804,081
Income from sales of inventories	6,102	14,196
Rental income (Note 6)	49,435	68,198
Remuneration of Bank Asset Fund (FAB) securities (Note 7.2.2)	9,113	1,013
Recoveries of gains on loans and credit facilities (Note 7.1.1)	604,531	443,123
Total	**3,173,277**	**2,861,476**

The Company obtained all its revenue in Spain.

16.2 Cost of sales and changes in inventories

- The detail of these line items in the accompanying income statement is as follows:

	Thousands of euros	
	2014	2013
Changes in inventories	4,806	10,007
Total changes in inventories	**4,806**	**10,007**
Cost of investment property (Note 5)	850,162	629,191
Cost of sales of financial assets (Note 7.1.1)	720,453	627,530
Total cost of sales	**1,570,615**	**1,256,721**

16.3 Staff costs

The detail of "Staff Costs" in 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Wages and salaries	23,248	13,246
Employee benefit costs	4,067	1,637

Total	27,315	14,883

- The average number of employees in 2014 and 2013, by professional category, was as follows:

	Number of employees	
	2014	2013
Executives	50	31
Senior and line personnel	141	62
Clerical and sales staff	53	33
Total	**244**	**126**

-

- The distribution of employees by gender and by professional category at 31 December 2014 and 2013 was as follows:

	2014			2013		
	Women	Men	Number of employees	Women	Men	Number of employees
Executives	14	50	64	10	29	39
Senior and other line personnel	65	117	182	40	64	104
Clerical and sales staff	41	27	68	26	25	51
Total	**120**	**194**	**314**	**76**	**118**	**194**

- In 2014 the Company employed one person with a disability greater than 33%. In 2013 the Company did not employ anyone with that level of disability.

16.4 External services

- The detail of “Outside Services” in 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Management fees and asset sale commissions (Note 1)	207,818	196,266
Rent and royalties	1,380	664
Repair and upkeep expenses	53,887	40,138
Independent professional services	58,164	37,764
Insurance premiums	3,187	3,468
Advertising, publicity and public relations	788	514
Banking services	97	492
Utilities	4,338	595
Other services	3,500	18,470
Total outside services	**333,159**	**298,371**
Total taxes other than income tax	**122,040**	**87,359**

- In 2014 "Repair and Upkeep Expenses" includes mainly the expenses of community associations relating to the property assets, amounting to EUR 49,169 thousand (2013: EUR 39,237 thousand). "Taxes

Other than Income Tax" includes mainly the cost of property tax on the Company's property assets, and non-deductible input VAT borne by it in 2014 and 2013.

- The fees paid to Pricewaterhouse Coopers Auditores, S.L. for the audit of the Company's separate financial statements for 2014 amounted to EUR 780 thousand (2013: EUR 588 thousand). In 2014 fees amounting to EUR 174 thousand were paid to other companies using the PricewaterhouseCoopers brand for other services (2013: EUR 25 thousand).

16.5 Finance costs - On debts to third parties

The detail of “Finance Costs - On Debts to Third Parties” in the income statement for 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Interest on debt instruments and other marketable securities (Note 13.2)	1,019,555	1,270,912
Interest on financial derivatives (Note 13.3)	113.241	168
Interest on credit facilities (Note 13.1)	130	1,209
Other finance costs	7,458	171
Total	**1,140,384**	**1,272,460**

"Other Finance Costs" includes mainly the finance charge arising from the funding granted by the investor of FAB Bull 2013 amounting to EUR 7,095 thousand, which was not derecognised from the accompanying balance sheet (see Note 4.6.1).

16.6 Financial income

The detail of “Finance Income” in the income statements for 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Interest on cash and cash equivalents (Note 10)	33,292	49,145
Proceeds from “Other Financial Assets” (Note 7.1.2)	3,325	1,107
Other finance income	5,664	290
Total	**42,281**	**50,542**

“Other Finance Income” includes, mainly, EUR 5,020 thousand as a result of the redemption under par of senior debt carried out by the Company (see Note 13.2).

17 Related party transactions and balances and legal information relating to the Board of Directors

17.1 Related party transactions

The detail of the balances held and the transactions performed by SAREB with related parties recognised in these financial statements in 2014 and 2013 is as follows:

2014

	Thousands of euros				
	FROB and entities under FROB's control	Significant shareholders	Bank asset funds	Board of Directors	Senior executives
Assets:					
Credit facilities and loans	583,055	-	-	-	-
Non-current investments in Group companies and associates	-	-	30,335	-	-
Current investments in Group companies and associates	-	-	-	-	-
Cash and cash equivalents	253,928	-	-	-	-
Liabilities:					
Non-current debt instruments and other marketable securities	31,643,700	-	-	-	-
Current debt instruments and other marketable securities	-	-	-	-	-
Income statement:					
Income from sales of investment property	-	-	100,685	-	-
Remuneration of Bank Asset Fund (FAB) securities	-	-	9,113	-	-
Other operating expenses	(125,126)	-	-	(1,527)	(2,187)
Impairment of financial instruments	-	-	(7,593)	-	-
Financial income	2,481	-	-	-	-
Financial costs	(708,379)	-	-	-	-
Contingent liabilities:		-	-	-	-
Guarantees provided	-	-	-	-	-

2013

	Thousands of euros				
	FROB and entities under FROB's control	Significant shareholders	Bank asset funds	Board of Directors	Senior executives
Assets:					
Credit facilities and loans	571,321	-	-	-	-
Non-current investments in Group companies and associates	-	-	71,496	-	-
Current investments in Group companies and associates	-	-	-	-	-
Cash and cash equivalents	195,772	-	-	-	-
Liabilities:					
Non-current debt instruments and other marketable securities	39,796,360	-	-	-	-
Current debt instruments and other marketable securities	-	-	-	-	-
Income statement:					
Income from sales of investment property	-	-	146,358	-	-
Other operating expenses	(126,873)	-	-	(1,435)	(2,023)
Financial income	6,061	-	-	-	-
Financial costs	(1,052,766)	-	-	-	-
Contingent liabilities:		-	-	-	-
Guarantees provided	-	-	-	-	-

17.2 Disclosure of directors' ownership interests and activities

With regard to conflicts of interest, pursuant to Article 22 of the Board Regulations and the Conflict of Interest and Related Party Transactions Policy, the directors are obliged to notify the Board of any direct or indirect conflict of interest with the interests of the Company in which they may be involved. Pursuant to the procedure established in the Conflict of Interest and Related Party Transactions Policy, once the Company becomes aware of the existence of a conflict of interest, either on its own or through notification by the director, it shall not provide information about the transaction in question to the director, and the latter shall not take part in the debate, or vote, on the matter giving rise to the conflict of interest.

As part of their duties to avoid conflicts of interest with the Company's interests, the directors who held positions on the Board of Directors in the year complied with the obligations set forth in Article 228 of the Consolidated Spanish Limited Liability Companies Law and in the Company's Conflict of Interest and Related Party Transactions Policy. Furthermore, the directors and persons related to them did not become involved in the cases of conflict of interest provided for in Article 229 of the aforementioned law.

17.3 Remuneration and other benefits of directors and senior executives

For the purpose of preparing these financial statements, twelve persons were considered senior executives (31 December 2013: eleven persons) and were classified as key personnel for SAREB.

The salaries, attendance fees and remuneration of all kinds earned in 2014 by the members of the Company's governing bodies and management amounted to EUR 3,714 thousand (2013: EUR 3,458 thousand), the detail being as follows:

2014

	Thousands of euros		
	Board of Directors (*)	Senior executives (**)	Total
Fixed remuneration	1,527	2,187	3,714
Total	**1,527**	**2,187**	**3,714**

(*) Including the fixed remuneration, amounting to EUR 613 thousand, of the two executives who, at 31 December 2014, were members of the Board of Directors. In the first quarter of 2014, the Managing Director of SAREB submitted his resignation, having received EUR 64 thousand in total for services rendered until that date. A non-executive proprietary director submitted his resignation in March 2014, having received EUR 21,000 for services rendered until that date.

One of the executive directors earned EUR 83,000 in variable remuneration in 2014, the payment of which, pursuant to the Remuneration Policy for the members of SAREB's Board of Directors, is deferred over three years. The other executive director waived receipt of his variable remuneration for 2014.

(**) This section includes aggregate information for SAREB's senior management at 31 December 2014. In 2014, two members of senior management ceased to perform their duties, having received an aggregate total amount of EUR 253 thousand for services rendered until their respective resignations.

The senior executives earned an aggregate total amount of EUR 473 thousand in variable remuneration in 2014, the payment of which, pursuant to the Remuneration Policy, is deferred over three years.

2013

	Thousands of euros		
	Board of Directors (*)	Senior executives	Total
Fixed remuneration	1,435	2,023	3,458
Total	**1,435**	**2,023**	**3,458**

(*) Including the remuneration, amounting to EUR 680 thousand, of the two executives who are members of the Board of Directors.

The Company has taken out third-party liability insurance for directors and senior executives. Pursuant to current tax legislation, SAREB stated the cost of the premium for each director as remuneration. However, the cost of this premium was passed on to each director and senior executive and, therefore, it did not represent remuneration in excess of that approved at SAREB's 2014 Annual General Meeting.

At 31 December 2014 and 2013, the Company had not granted to the executive directors or senior executives any guarantee or golden parachute clauses in the event of termination of the employment contract caused by changes in control of the Company or by events depending in full or in part on the executive's volition.

The Company does not have any pension obligations to the directors or senior executives.

The Company has granted no advances, loans or guarantees to the members of the Board of Directors and has made no share-based payments to any director or senior executive.

18 Guarantee commitments to third parties and other contingent liabilities

At 31 December 2014 and 2013, the Company had provided the following guarantees to third parties:

	Thousands of euros	
	2014	2013
For outstanding obligations relating to land, urban developments and other items	10,505	-
Total	**10,505**	**-**

The Company's directors do not expect any additional liabilities to arise for the Company in connection with these guarantees.

19 Events after the reporting period

On 17 February 2015, the Company carried out an additional redemption of the bonds issued for the acquisition of the assets transferred by the Group 1 institutions amounting to EUR 34,200 thousand.

The detail of this redemption is as follows:

	Outstanding balance before redemption	Redemption in cash	Balance after redemption	Maturity
SAREB/VAR BO 20151231 2012-3	6,622,500	34,200	6,588,300	31/12/15
Total	**6,622,500**	**34,200**	**6,588,300**	

On 28 February 2015, the Company simultaneously carried out a partial redemption and novation of the maturity of the outstanding senior debt issued in 2013 to acquire the Group 2 assets.

Bonds	2015 beginning balance (*)	Redemption	Novation	Outstanding amount	Maturity	New ISIN following novation
SAREB/VAR BO 20150228 2013-2	6,104,100	-	6,104,100	6,104,100	28/02/17	ES0352506119
SAREB/VAR BO 20160228 2013-3	3,003,900	465,800	-	2,538,100	28/02/15	N/A
SAREB/VAR BO 20150228 2014-1	4,084,700	-	4,084,700	4,084,700	28/02/16	ES0352506101
Total Group 2	**13,192,700**	**465,800**	**10,188,800**	**12,726,900**		

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

Directors' Report for the year ended 31 December 2014

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

Directors' Report
for the year ended 31 December 2014

1 Highlights of 2014

The extent of the original challenge facing SAREB at the end of 2012 was borne out by the size of the figures involved: EUR 50,781 million in transferred assets in the form of almost 200,000 property and financial assets, over 18,000 borrowers, and more than 400,000 properties securing loans and credit facilities.

This challenge was even more manifest in view of the human and technical resources available to face it in the first year: a small team (3 employees at the beginning and around 100 on average in 2013), with no integrated technological support, which compounded the technological dependence on the transferring banks. The latter differed greatly from each other and showed signs of weakness as a result of their own restructuring processes. The information they provided on the assets was at times limited and their asset management and sales efforts were not always sufficiently active.

In this context, in 2013 SAREB had to work on two fronts at the same time:

- firstly, to build its own internal structure, forming teams and creating procedures to achieve progress in the orderly process to liquidate its assets; and

- at the same time, to address its main mission, which is none other than to manage and sell the properties, loans and credit facilities acquired, thereby enabling the transferor institutions not only to boost their commercial activity but also to offset their budgetary shortfalls, by actively positioning itself in the wholesale markets through portfolio sales.

2014 is the Company's second full year of activity. While the shortcomings arising from the urgency in incorporating the company are still evident, it is also true that the work performed in 2013 and carried on in 2014, in terms of building the company and gaining more detailed knowledge of the assets, is beginning to produce results. In 2014, in line with the progress of the previous year, the Company focussed on: unifying the main criteria for optimising the centralised management of the assets received; disposing of assets with a degree of maturity considered ideal for this purpose; strengthening logistical aspects; and rolling out the implementation of the technical, legal and human infrastructure required for carrying on the Company's activities. In this regard:

- the Company's management structures were consolidated, with a clearer definition of roles and responsibilities in order to improve its ability to achieve its business objectives;

- the Company's policy map in the strategic, management, business and business support areas was practically completed. This enables the Company to take and execute decisions within a structured, traceable and consistent framework;

- further progress was made in improving information and knowledge on assets under management, enabling the Company to be more precise in the definition of divestment strategies and channels, and in the related management approaches;

- sales dyamic improvement, which the Company strove so hard to achieve in 2013, continued, and progress was made in the consolidation of certain business lines (e.g. the sales growth plans); and

- SAREB's position as a significant actor in the institutional market was reinforced, thereby contributing significantly to growth in this segment.

Furthermore, in the operational area, having become aware of the difficulties of maintaining the administration and sales arrangement with the transferor institutions once the agreements matured at year-end, the Company launched the Íbero Project in the second quarter of 2014. The main purpose of this project was to end the transitional model of managing and administering the transferred assets. Although this was a necessary and useful arrangement initially, it appeared not to be the most appropriate management model over the long term. This is the definitive step in putting an end to the transitional nature of the arrangement and replacing it with an externalised management model that is professional and vocational. The purpose of this process is not only to resolve this problem but also to achieve a clearer identification and alignment of objectives among the parties, based on the principles of wilfulness, specialised management and commitment to service. This process concluded at year-end with the allocation of the various portfolios to four servicers, as described in Note 1 to the financial statements, which will gradually take over control of the portfolios in 2015.

The Íbero Project is also, in a sense, a refounding of the Company, in that it represents a starting point in the re-engineering of its internal procedures structured around complex information projects (Colabora, Medea, Carcasa, etc.). These projects, placed in relation to the communication and activity delegation mechanisms, form a structure that provides greater and more direct control by SAREB of the activities carried out by its servicers.

This process was implemented without neglecting the Company's main task, which is to maximise the value of its assets and their orderly liquidation, and to meet the business targets set forth in its business plan.

In relation to the latter, the following items of the 2014 financial statements are worthy of note:

- The losses for the year before tax and impairment amounted to EUR 55 million, compared with EUR 144 million in 2013.

- It is also important to note that the Company achieved a EUR 312 million increase in its revenue on the previous year to EUR 3,173 million.

- The following aspects in relation to profit from operations are also noteworthy:

    - Sales of properties amounting to EUR 1,074 million, with a margin of EUR 219 million (19.4% on average). This represents a 33% improvement in income and a 25% increase in property asset sales in comparison with the previous year.

    - With regard to the sale of financial assets, the Company achieved an increase of EUR 88 million (up 12% with respect to 2013) due primarily to greater commercial activity by the Company in the wholesale channel.

    - Finance income totalling EUR 1,196 million, of which EUR 583 million (2013: EUR 766 million) related to the interest accrued on loans and credit facilities and EUR 605 million (2013: EUR 443.1 million) related to recoveries, through the collection of nominal amounts on loans and credit facilities acquired at a discount.

    - Overhead costs (operating expenses, depreciation and amortisation and staff costs) amounted to EUR 558 million (2013: EUR 517 million), most of which related to building maintenance expenses, local taxes (property tax), management fees and commissions on asset sales.

Lastly, the Company's losses after tax increased by EUR 324 million on 2013. This increase in losses, despite the improvement in earnings before tax and provisions, was caused by the write-down that the Company recognised on a sub-portfolio of assets in 2014, pursuant to the reply to the consultation submitted to the Bank of Spain by the Company in this regard (see Note 4.7.2).

With regard to cash generation, in its second year in existence, the Company managed to generate a sufficient cash surplus to repay EUR 2,371.3 million in addition to the EUR 553.3 million paid with cash from the previous year. This was in addition to the Company's overhead costs, the asset maintenance expenses, the management fees, sales commissions and, in particular, almost EUR 1,100 million in finance charges relating to the senior debt and its hedging derivatives.

In relation to the reduction in senior debt, the main aspect of the Company's activity, in addition to the ordinary redemptions, bonds amounting to EUR 555 million were cancelled in 2014 as a result of the corrections to the transfer process. As a result, the Company reduced the volume of issued senior debt in 2014 by EUR 3,469.6 million. Together with the EUR 1,783.6 million from the previous year, this reduction in the original debt is EUR 5,253.2 million in total, i.e. 10.3%. Furthermore, EUR 500 million were redeemed in the first quarter of 2015, raising the percentage to 11.3% of the original debt.

Lastly, it is important to note that the average payment period to suppliers and creditors is 58 calendar days, as explained in Note 14 to the accompanying financial statements.

2 Outlook

The Company is prepared for 2015 since it has a more solid base with regard to corporate resources and structure and it has completed a key exercise in the reorganisation and restructuring of its internal processes and resources in order to align them with the new relationship framework with its new servicers as a result of the Íbero Project.

The Company redoubled its efforts in order to improve the information on, and status of, its assets (legal situation, ownership, characteristics, location, etc.). This is necessary for asset management and to focus the marketing of the assets in order to meet the dual objective of generating funds and sustaining margins.

The mechanisms used are:

- Continuity with the legal and court-related filtering process launched through the due diligence review in 2013.
- Improvements to the monitoring of the court proceedings in progress in relation to the foreclosure of assets to provide wider and more precise underlying information on the loans and related collateral.
- Extension of the asset measurement project which, pursuant to the potential Bank of Spain Circular, aims to identify, with all their attributes, both the assets owned by the Company and those held as collateral for financial assets.
- Monitoring of information on the prices and volumes of transactions performed by the Company and third parties, in order to evaluate market trends and apply intelligence measures enabling it to offer more competitive prices.

As a result of this range of improvements, there is more information, which is more granular and of a higher quality and enables the Company in 2015 to better identify assets for either sale or property development. This information was also used to carry out the annual update of the Business Plan, which is a contractual requirement. This plan includes the improvements to the business model that are required in order to ensure that the Company meets the objectives for which it was created.

In particular, as demonstrated in the updated Business Plan, the Company's directors consider that it must explore proactive value creation opportunities in its assets that it has at its disposal and that, in the short term, are:

- Development of assets under construction that were received as property assets.
- Encouragement, from the borrower's balance sheet, of the development and sale of the assets under construction that represent the guarantee for the loans in the Company's portfolio.
- Urban transformation of land.
- Maximisation of the profitability of the commercial assets and those residential assets held by the Company that do not have immediate sale prospects.

The Company's Business Plan has a time horizon encompassing the whole lifetime of the Company and is updated each year. This plan is based on the Company's cash flow projections arising from the orderly disposal of the assets according to the amount expected to be recovered on each asset at the disposal date. In relation to the cash flows, the 2015 Business Plan does not consider the impact of impairment on the financial statements. Instead, any such losses arising are included in the cash flows at the disposal date. Accordingly, the principle of offsetting the value of assets and their value over a long-term time horizon is applied to the Business Plan. In relation to loans with personal guarantee only, the Company already envisaged a very low likelihood of recovery in its business plans and, therefore, the projected cash flows already include a very substantial loss in value, in line with the write-offs forecast for these exposures. Consequently, it is important to note that the losses reflecting these write-downs were already included in the Company's Business Plan, albeit distributed over time. Therefore, their recognition before 2014 did not have a material impact on the expected cash flows or on shareholder return over the whole lifetime of the Company.

Another strategic goal for the Company is to strengthen its corporate infrastructure in order to streamline its activities and optimise its efforts in relation to management and information, thereby enabling it to achieve greater operating efficiency. To this end, the Company reorganised and restructured the various areas, and extended the coordination mechanisms among them, while continuing to increase functional specialisation.

However, the main driver of this structural change was the Íbero Project which was implemented through migrations and a new relationship model with the new servicers. The servicers' higher degree of professionalism and the alignment of the various parties' objectives constitute a challenge for SAREB, which must be able to respond to the setting and monitoring of business and sales strategies and to the management and information rules required in order to optimise the external asset management services.

This relationship with the servicers is structured around the "Transformation Offices", whose main responsibility is to ensure the migration and transition of orderly and effective management of the assets from the previous managers to the new managers.

Simultaneously, several technological projects are in progress under the name "Hispalis" that aim to complete a proprietary technological infrastructure that will enable interaction with the new servicers' systems. These projects include, most notably:

- Medea: generation of a data warehouse at SAREB containing both the inventory of assets with regard to their master data and other business data required, and any economic events occurring in relation to them.

- Alejandría: a document manager associated with the assets, and to their static and dynamic data.

- Colabora: a set of tools to channel the work flows (authorisations, communications, service levels, etc.) and the interconnection between SAREB's systems and those of the servicers in order to ensure agile, systematic communication among the parties.

- Carcasa: construction at SAREB, and subsequent connection with the servicers, of a proprietary, independent accounting system for property assets.

With regard to the market performance forecast for 2015, it seems evident that, although the property market is highly fragmented, signs of stabilisation and even a slight recovery in certain sub-markets are being observed. In addition, the return of confidence to the Spanish market, and the monetary environment, have encouraged the appearance of new players in the property market with a strong investment appetite. This has led to a market rally and higher levels of competition on the demand side. However, caution is advised since these monetary flows could easily disappear or may simply be channelled to other countries in the eurozone.

Therefore, the volume of transactions in the domestic end-customer market is expected to grow on last year. With regard to housing (our main property asset and collateral), prices are expected to stabilise (or to fall more slowly). In this regard, modest growth in prices and transactions is being observed in certain geographic areas of Spain, which will enable the Company to focus its sales efforts in these areas. Overall, the appearance of positive expectations in the macroeconomic environment (however slight they may be), the infrastructure that has been created, the strong capabilities of our wholesale channels and the commercial dynamism of the servicers point to even better business figures in 2015 than in 2014. However, on the risk side, the slowdown in sales by former managers and the challenges of the effective migration to the new managers could create a drag on these expectations. Nevertheless, the Company aims to remain among the five largest housing property sellers in Spain.

3 Main risks inherent to the business, risk management and use of financial instruments

In addition to the financial risk factors and the related management described in Note 7 to the accompanying financial statements, the Company had initially identified the following risk factors that may potentially affect its ability to meet its objectives:

- Crisis in the property market (prices, occupancy and non-payment).
- Falling asset values, although the recent market trend points to stabilisation in the property market.
- The financial and liquidity crisis that may affect future purchasers of the Company's assets. This risk is mitigated by a certain macroeconomic improvement in the Spanish market, although the effects on purchasers are not yet very evident.
- Impact of possible changes in tax and legal legislation. In particular, it is important to note the potential impact of the implementation, through a Bank of Spain Circular, of certain accounting policies such as the entry into force of changes in autonomous community legislation governing the property market.
- While in the previous year the risks of changes in the Company's servicing model became evident, following the Íbero Project, the risks for the current year stem from the complexity of the migration from the previous servicers to the new servicers, the twofold dimension of the administrative challenge (whereby the new servicers have to take effective and technological control of the assets) and the business challenge. The latter refers to the fact that, for a certain amount of time, gaps may appear in sales management. As a result, turnover may be lower than in a situation in which effective control had been taken.

With regard to the use of interest rate hedging instruments, it is important to note that in 2014 the Company maintained the hedge structure that it had defined in 2013 for the purpose of reducing the potential negative impact of an upward interest rate trend that could jeopardise the viability of the Company.

4 Acquisition of treasury shares

- At 31 December 2014, the Company did not own any treasury shares and did not carry out any transactions involving treasury shares in 2014.

5 Related party disclosures

Note 17 to the accompanying financial statements details the transactions with related parties. Most of these transactions relate to financing agreements and the related finance costs, and management fees and sales commissions accrued in the year, payable to the financial institutions entrusted with the management and sale of the Company's assets.

6 Events after the reporting period

No subsequent events took place other than those detailed in Note 19 to these financial statements.

7 Research and development

The Company did not incur any significant research and development expenditure in 2014 due to the nature of its business activities.

In compliance with the provisions of Article 253 of the Spanish Limited Liability Companies Law and Article 37 of the Spanish Commercial Code, on 30 March 2015 the Board of Directors of Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A. authorised for issue the financial statements and the directors' report for the year ended 31 December 2014, which consist of the attached documents preceding this page.

Jaime Echegoyen Enríquez de la Orden Chairman	Rodolfo Martín Villa Director
Ana María Sánchez Trujillo Director	Remigio Iglesias Surribas Director
Antonio Massanell Lavilla Director	José Ramón Montserrat Miró Director
Miquel Montes Güell Director	Antonio Trueba Bustamante Director

Rafael de Mena Arenas

Director

José Ramón Álvarez-Rendueles Medina

Director

Emiliano López Atxurra

Director

Isidoro Lora-Tamayo Rodríguez

Director

José Poveda Díaz

Director

Luis Ángel Sánchez-Merlo Ruíz

Director