ANNUAL REPORT 2013

Sareb

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

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Contents

Letter from the President

2013 was the first full year of operation for the "Management Company for Assets Arising from the Banking Sector Reorganisation" (Sareb), and it saw the establishment of the bases required to tackle the important task with which the company had been entrusted: to design and implement a 15-year programme for divestment of the assets transferred by Spanish financial institutions that have received public aid. Our primary aim is to comply with our mandate and to do this without incurring any further cost to the taxpayer.

During 2013, the company focused on the following objectives: creating an organisational structure, developing Good Governance rules and procedures, establishing commercial channels and analysing the portfolio it had acquired under the terms of its legal obligation.

All this meant that, during its first full year of operation, Sareb achieved all of the targets set out in its Business Plan, as well as establishing the bases required to engage in its business in a sustainable way. As has been publicly stated, the Spanish government and the relevant financial authorities decided to create Sareb in order to comply with the Memorandum of Understanding that the government signed with the European and international authorities in June 2012 when seeking the financial assistance it required to restructure part of the Spanish financial system.

During this first year of operation, Sareb has had to complete its establishment as a company while at the same time commencing its business activities. During the first few months, among other milestones, it finalised its shareholder equity structure, put together a large part of its staff, issued debt in order to acquire the assets and took responsibility for the portfolio in two phases. In total, around 200,000 real estate and financial assets were received, valued at 50,781 million euros.

In addition, the company set down its bases for Good Governance and initiated a due diligence process in relation to the portfolio acquired, while at the same time designing a commercial structure based on the agreements signed with the banks that had transferred the assets and other market players.

The huge amount of effort invested meant that in just six months Sareb was able to engage in both retail and wholesale operations that immediately aroused interest among international investors. We acted as a beacon for the return of institutional foreign investment to Spain and devoted our efforts to changing external perceptions of Spain.

The bulk of Sareb's commercial activities during 2013 were therefore concentrated in the second half of the year, though this did not stop us from positioning ourselves among the leading market agents in terms of the sale of real estate, disposing of an average of 25 properties a day, virtually one per hour. In total, during the course of 2013 Sareb sold more than 9,000 of its own properties and more than 2,000 properties belonging to its borrowers.

The company conducted its commercial business through two separate channels: the sale of wholesale portfolios to institutional investors and the retail marketing of assets both through the branch networks of the nine financial institutions that originally sold us the assets and through other specialist sales agents. We should not forget the importance of the direct channel, aimed at medium-sized investors, specialising in the marketing of unique assets.

In total, the sale of properties and the management of the assets portfolio (loans, rented properties and loans) resulted in total income of more than 3,800 million euros during 2013. Of this figure, 3,200 million was allocated to repay the debt acquired when taking on the assets, which had required the issue of more than 50,000 million euros in state-guaranteed debt. As a result, 2013 saw the repayment of 2,000 million euros of debt and the payment of 1,200 million euros in the form of interest.

The repayment of debt is our principal undertaking as a Company. At Sareb we are working resolutely to comply with our undertakings and to avoid any need for the state's guarantee to be called upon, thus ensuring that the taxpayer will not have to bear any further cost in the financial restructuring process. We have therefore set ourselves the goal this year of repaying 50% more debt during 2014, up to a total of 3,000 million euros.

During its first year of operation, the company obtained a positive operating result of around 1,200 million euros. After covering its financial charge, Sareb recorded a negative result before tax and impairments of 144 million euros, in line with the calculations set out in the business plan approved in March 2013. The final accounting figures for the year showed a negative result of 261 million euros, after setting aside an allowance of 260 million for the company's portfolio of financial assets.

As regards the company's duties during 2013, I should like to make particular mention of the exhaustive review process carried out in relation to our portfolio over the course of the year. This due diligence process involved almost a year's work carried out by 24 companies and more than 1,000 specialist professionals, and provided a key benchmark for our commercial activities. The conclusion reached in this review process was that Sareb acquired its portfolio, as a whole, at prices that were in line with the 2013 market, which meant reduced sales margins.

During 2014, the main business aims pursued will be as follows: firstly, to provide the company with an internal organisation that is focused on the company's two main objectives, namely maximising its commercial potential and creating value; secondly, to revise its Business Plan based on the information obtained from the due diligence process; and finally, to generate market mechanisms that will allow us to apply our demanding procurement policy to servicing, one of the fundamental elements in the development of Sareb's business.

As a result, during 2014 we have revised the Business Plan to include a strategy for the generation of value, a strategy that will allow us to obtain greater profitability at the time of sale. This is what we have called moving from a "warehouse" to a "factory" model and it means, for example, completing unfinished building work, promoting rentals in the medium-term and even preparing plots of land for sale.

We have also undertaken another, equally important challenge: to further promote our business activities with a view to becoming one of the five leading operators in the marketplace. This year, Sareb wants to go from selling 25 properties a day to 30, and I should point out that the first few months of 2014 give us reason to be optimistic.

The market situation is showing signs of returning to normality. During 2013, the real estate sector showed some very slight signs of improvement, the first time this has happened since the beginning of the recession. On the one hand, the fall in the number of transactions would appear to have bottomed out, and there has even been growth in some secondary markets. On the other, the fall in prices has slowed. This slowdown, combined with the upturn in foreign demand, has led us to be moderately optimistic as regards developments in the market.

In order to take full advantage of these improvements and attain the financial targets we have set ourselves, in 2014 Sareb has already begun to create a new organisational structure, and this has been further strengthened by the appointment as Managing Director of Jaime Echegoyen, a financial expert with a prestigious reputation and a wealth of professional experience. We are convinced that his experience and wide-ranging knowledge of the financial sector will help the company to meet the challenges of the future with great success.

I would also like to make particular mention of the good corporate governance practices that have accompained our company's activities since its formation and that are enshrined in three values that guide all our activities: transparency, integrity and commitment to society. During the first months of its operation, Sareb established a Code of Conduct that is compulsory for all the company's employees and managers, along with a policy for the resolution of Conflicts of Interest and Related Operations for the Board of Directors.

The performance of both of these processes has been highly satisfactory during their first year of implementation. We intend to continue strengthening the Good Governance system that regulates relations with the different stakeholder groups.

I would also like to mention the initiative launched at the end of 2013 as part of our Corporate Social Responsibility Policy, involving the temporary assignment of 2,000 residential properties to the Autonomous Communities for use as affordable housing to let. Aware of the current housing problem in Spain, and remaining mindful of its mandate to disinvest, Sareb has sought during its first year of operation to converse with the authorities that have competence in this area with a view to reaching temporary agreements that will complement their social housing policies.

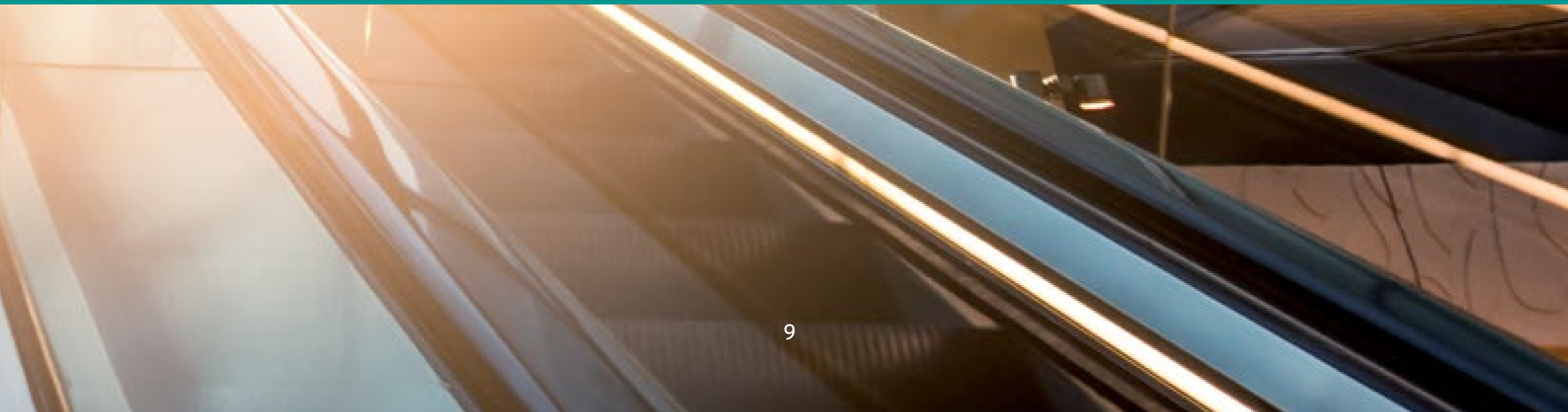
Finally, it should be mentioned that during the course of 2014 the Bank of Spain will publish a Circular establishing the accounting framework within which the company's business will be conducted. If necessary under the terms of this framework, the Business Plan will undergo a further review.

I would like to end this letter with an express acknowledgment of the effort, dedication and performance shown by all of Sareb's staff over this first year. Their exemplary action and commitment have been key to turning this project into a reality. I would finally like to acknowledge the trust shown by our clients, suppliers, investors and shareholders, along with the institutions with which we do business, since they have all contributed to ensuring that the task with which we have been entrusted can be successfully accomplished.

Thank you.

Belén Romana
President

2 Key Figures



Key Figures

2013 was marked by the completion of the process for the transfer of assets from the contributing banks, with the incorporation of the assets from Group 2 (Liberbank, BMN, Caja3 and CEISS) in February, the continuing process for the creation of an internal structure and commercial strategy, and the simultaneous performance of operations relating to the management and sale of assets.

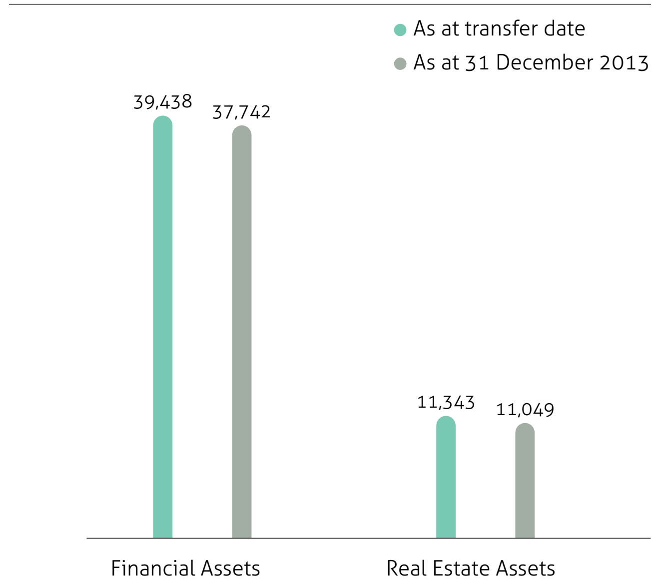
For this reason, the company's main income and expenses figures continued to grow over the course of the year, beginning almost from zero and reaching levels of business (investment, disinvestment and sales, expenses, etc.) that were in line with the targets set for the company during 2013. By the end of the year Sareb was fully operational.

Asset portfolio

Following the incorporation of the Group 2 assets on 28 February, the portfolio managed by Sareb during 2013 was worth a total of 50,871 million euros.

Over the course of the year there have been changes to the make-up of the original portfolio, brought about mainly by corrections to asset values (changes that were made after a detailed analysis of the assets transferred) and by the sales made as part of the company's ordinary business.

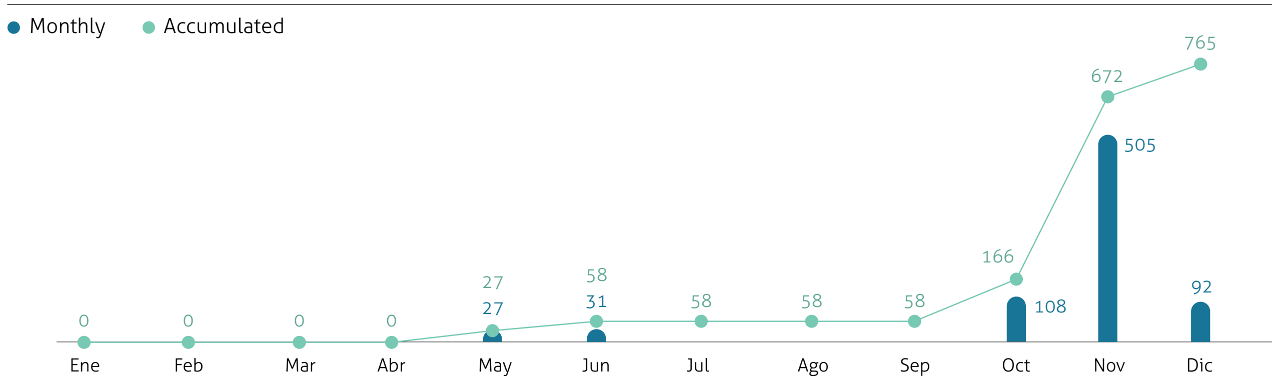
Assets at acquisition cost (Millions of euros)



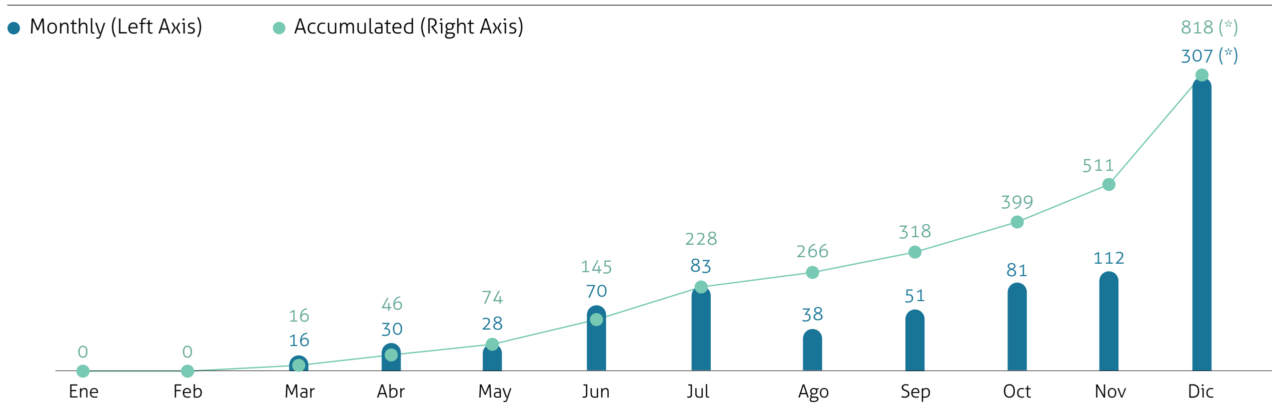
Sales revenue

Despite this being only its first year of operation, Sareb generated sales revenue of 1,583 million euros: 765 million euros in financial assets and 818 million euros in real estate assets. As regards financial assets, sales were concentrated mainly in the last quarter of the year and took the form of sales of portfolios to wholesale customers. In the case of real estate assets, significant growth in sales volumes was seen from the second quarter onwards in relation to preceding months.

Financial asset cash flow (€ M)



Real estate asset cash flow (€ M)

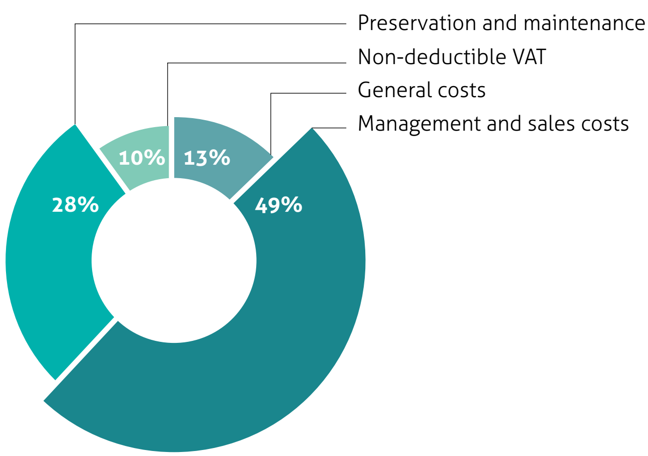


(*) includes 146 million euros corresponding to the Teide portfolio, transferred to the BAF of the same name.

General costs

General costs totalled 401 million euros during 2013, and 49% of these related to the fees agreed with the suppliers of asset management services.

Special mention should also be made of building preservation and maintenance costs, which accounted for 28% of the total. A significant part of this is the expense resulting from the payment of the Spanish Property Tax (Impuesto de Bienes Inmuebles, "IBI") and other taxes associated with the properties, which amounted to 52 million euros.



Results and cash-flow generation

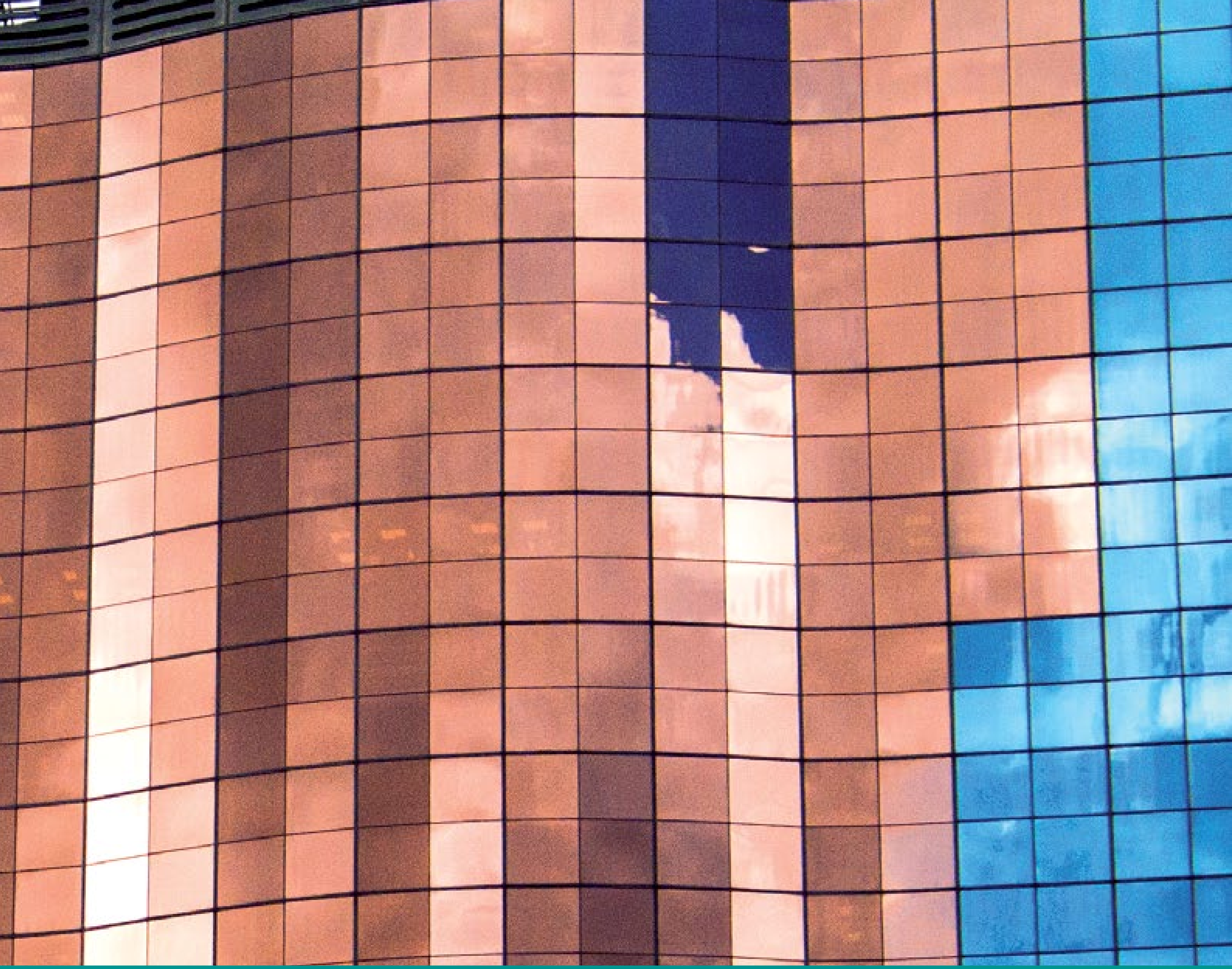
In its first full year of operation, Sareb obtained a net turnover of 2,861 million euros, with Gross Margin and Ebitda figures of 1,594 million and 1,195 million euros respectively.

Net financial expenses were 1,222 million euros which, combined with repayment costs and allowance for contingencies of 117 million euros, and impairment provisions of 259 million, led to a pre-tax negative result of 404 million euros. Once the effects of taxes had been included this gave a post-tax negative result of 261 million euros.

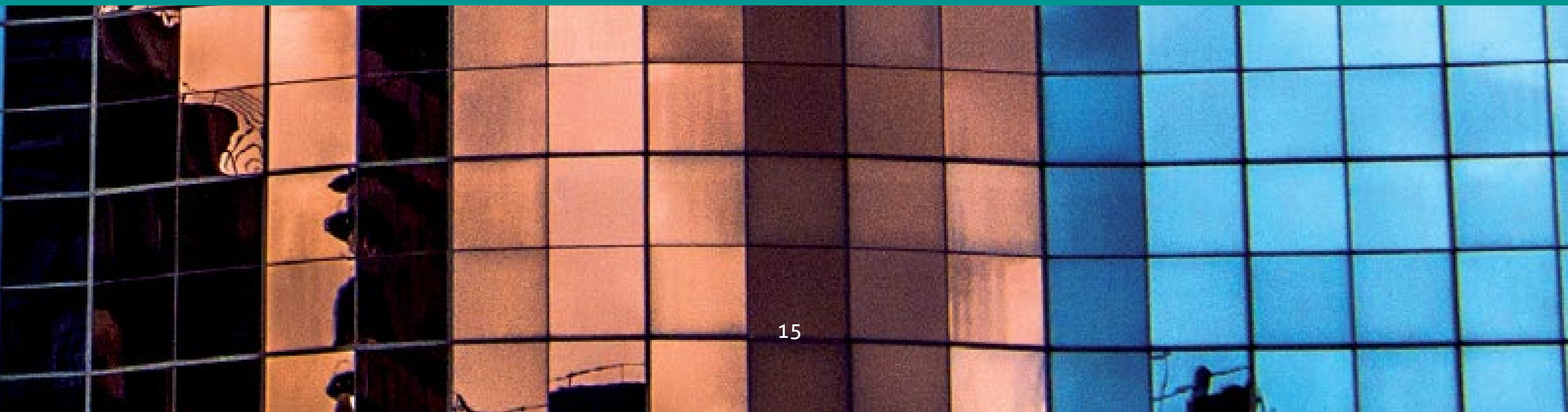
Cash flow generated during 2013 totalled 3,863 million euros, which in addition to covering Sareb's operating costs, as described above, was mainly allocated to the payment of financial interest on the debt (1,243 million) and repayment of the debt itself (1,999 million).

Net debt

Debt at the end of the 2013 financial year stood at 48,996 million euros of senior debt, and by March 2014 this had been reduced to 48,391 million euros with completion of the process for the repayment of bonds that had begun at the end of 2013. Subordinated debt on the same date totalled 3,600 million euros.



3 Introduction



3.1
Background. The Formation of the Management Company for Assets Arising from the Banking Sector Reorganisation (Sareb)

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

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

One of the conditions included in the MoU was that any credit institution that obtained public financial assistance was obliged to transfer some of its real estate exposure (in particular, real estate assets handed over in lieu of payment of debts and credits in the property development sector) to an asset management company that was to be created to this end before the end of November 2012. The specific selection of the assets to be transferred would be the duty of the Fund for the Orderly Restructuring of the Banking Sector (FROB). This decision by the FROB, classified as an administrative act, meant an obligation to transfer on the part of the institution receiving the assistance.

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

After the foregoing actions had been taken, the following was defined:

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

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

In total, 50,781 million euros in real estate and financial assets were transferred to Sareb for management during the period specified.

3.2 Management bodies

The Annual Corporate Governance Report for the 2013 financial year, which was approved by the Board of Directors at a meeting held on 26 March 2014 and has been made available on the corporate website, includes detailed information on the performance of the company's management bodies.

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

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

The General Meeting of Shareholders includes all of Sareb's shareholders and it meets to discuss and adopt resolutions on all the matters that fall within its responsibility. Three General Meetings were held during 2013, on 13 February, 29 May and 27 November, and resolutions were adopted on issues for which the shareholders were deemed competent under the terms of the applicable legislation and Sareb's own articles of association.

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

A further two committees have been formed from members of the Board: the Audit Committee and the Appointments and Remuneration Committee. Each of these has 9 members, all of whom are non-executive members and the majority Independent Directors. Both Committees are chaired by Independent Directors.

The structure, rules of operation and main duties of the Board of Directors, the Audit Committee and the Appointments and Remuneration Committees are set out in their respective Operational Regulations, which can also be found on the company's website (www.sareb.es).

During 2013, the Board of Directors met 16 times, the Audit Committee 9 times and the Appointments and Remuneration Committee 8 times.

The Annual Corporate Governance Report for the 2013 financial year, which was approved by the Board of Directors at a meeting held on 26 March 2014 and has been made available on the corporate website, includes detailed information on the performance of the company's management bodies.

In addition to the above bodies, the company also has a number of Support Committees, formed from members of Sareb's management team and representatives of the company's shareholders. The main duty of these committees is to provide assistance to the Board of Directors.

Details of the Support Committees and their main duties can be found in Royal Decree 1,559/2012, and they are as follows:

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

3.3
Supervisory regulations

As indicated in Royal Decree 1,559/2012, Sareb was formed as a limited company with a number of special characteristics that resulted from its unique corporate purpose and the public interest issues associated with its business activities. Its purpose is defined by the receipt, management and disposal of the assets transferred by the credit institutions, which have assigned these assets within the framework of the process to restructure and clean up the Spanish banking sector.

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

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

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

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

In accordance with Act 9/2012, a Monitoring Committee was set up, for the purposes of overseeing compliance with Sareb's general objectives. Its duties include analysing the company's business plan and any potential deviations, as well as examining the plans for the disinvestment and amortisation of the debt being underwritten. The company provides the Monitoring Committee with quarterly reports detailing its asset liquidation activities, the management and quality of the assets remaining in its portfolio and the evolution of the main accounting numbers. During 2013, the Monitoring Committee met 9 times.

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

The company must prepare a Six-Monthly Report on its activities. The report for the first half of 2013 has been published on Sareb's website (www.sareb.es). In addition, in order to comply with the established requirements, the company must submit to a Compliance Report prepared by an independent expert. This independent expert has been selected on the basis of criteria set down by the Bank of Spain, and his report will contain an external analysis of the suitability of the business activities and strategies employed by Sareb in its performance of the duties with which it has been legally entrusted.

Pursuant to Article 26 of Royal Decree 1,559/2012, the Six-Monthly Business Report must be submitted to the Bank of Spain and the Monitoring Committee, which may require it to be supplemented with any additional information they consider necessary.

Structure of Bank Asset Funds (FAB)

Bank Asset Funds **(Fondos de Activos Bancarios - "FAB")**, are an instrument exclusive to Sareb, created by Act 9/2012. They are bundles of assets and liabilities formed as separate entities that have no individual legal status, though they may become the owners of rights and obligations.

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

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

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

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

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

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

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

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

4 Economic situation and state of the sector

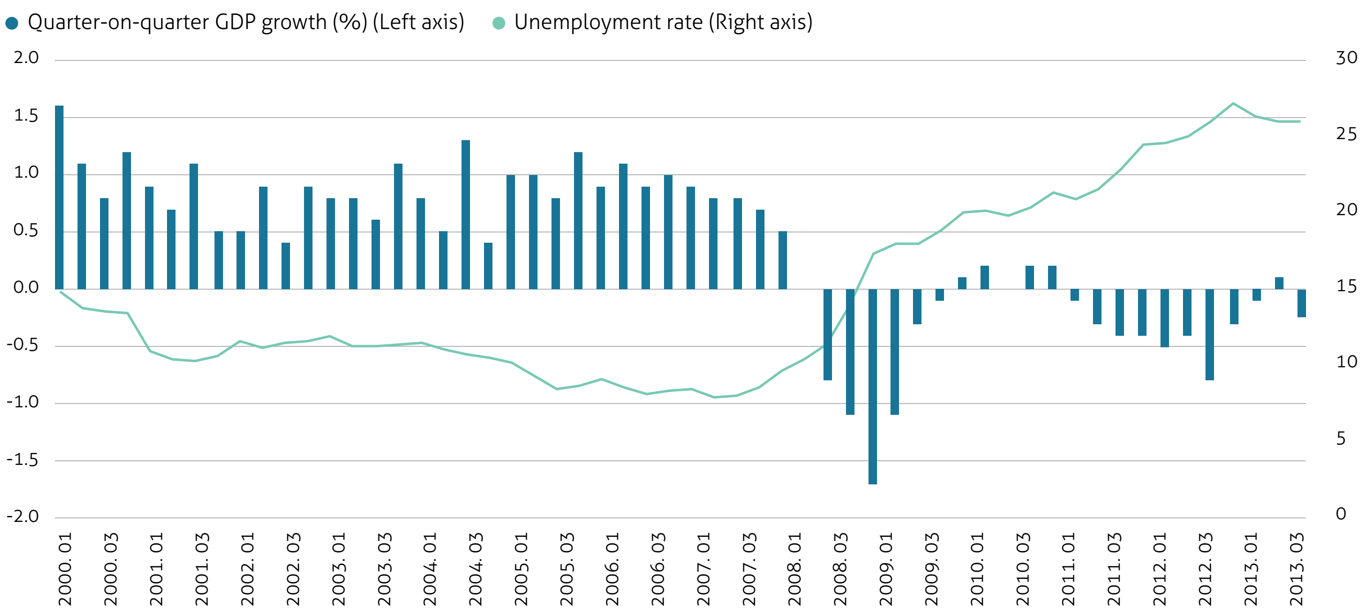
4.1 Economic context

Key Figures

Over the course of 2013, the downturn in the Spanish economy slowed in comparison with previous years. According to advance figures from the Spanish Statistical Institute ("INE"), the fall in GDP slowed in 2013 to - 1.2% on a year-on-year basis.

During Q3 and Q4, GDP returned to positive growth, recording figures of 0.1% and 0.2% respectively, indicating that the country had technically come out of recession.

GDP growth and Unemployment rate (Source: Ministry of the Economy)



The reasons for this improvement are due, in the first place, to a significant slowdown in the fall in internal demand. The main components in this group have all experienced this slowing fall. Consumption also returned to positive year-on-year figures during the last quarter of 2013, which is consistent with the consumer confidence data gathered by the CIS, which showed an improvement of 20 points over the last 12 months. Consumer behaviour can, therefore, be attributed to a certain level of improvement in expectations regarding the economy, along with the more stable employment situation.

				2012				2013
GDP Demand Indicators	**T I**	**T II**	**T III**	**T IV**	**T I**	**T II**	**T III**	**T IV**
GROSS DOMESTIC PRODUCT (at market prices)	-1.3	-1.7	-1.7	-1.9	-2.5	-1.7	-0.6	-0.1
Final household consumption	-2.0	-2.5	-3.4	-3.5	-4.8	-3.2	-1.2	1.1
Final public sector consumption	-5.4	-3.8	-5.2	-4.8	-2.3	-3.3	0.5	-3.7
Gross fixed capital composition	-6.0	-7.0	-7.2	-7.7	-7.1	-5.5	-5.4	-2.4
• Tangible fixed assets	-7.0	-7.7	-8.3	-8.3	-7.7	-5.6	-5.8	-3.2
- Construction	-9.1	-10.0	-10.1	-9.5	-9.4	-10.8	-9.7	-8.3
- Capital goods and others	-3.1	-3.5	-3.7	-5.6	-4.9	3.5	3.0	7.5
• Intangible fixed assets	4.7	2.6	6.7	-1.6	-0.6	-4.3	-1.8	5.5
Changes in stock levels (against GDP)	0.3	0.0	-0.1	0.1	0.2	0.0	0.1	-0.4
NATIONAL DEMAND (against GDP)	-3.4	-3.8	-4.5	-4.7	-4.6	-3.8	-1.7	-0.6
Exports of goods and services	-1.4	-0.7	3.9	6.7	2.5	10.1	3.7	3.2
Imports of goods and services	-8.0	-7.4	-4.4	-2.9	-4.4	3.6	0.5	1.8

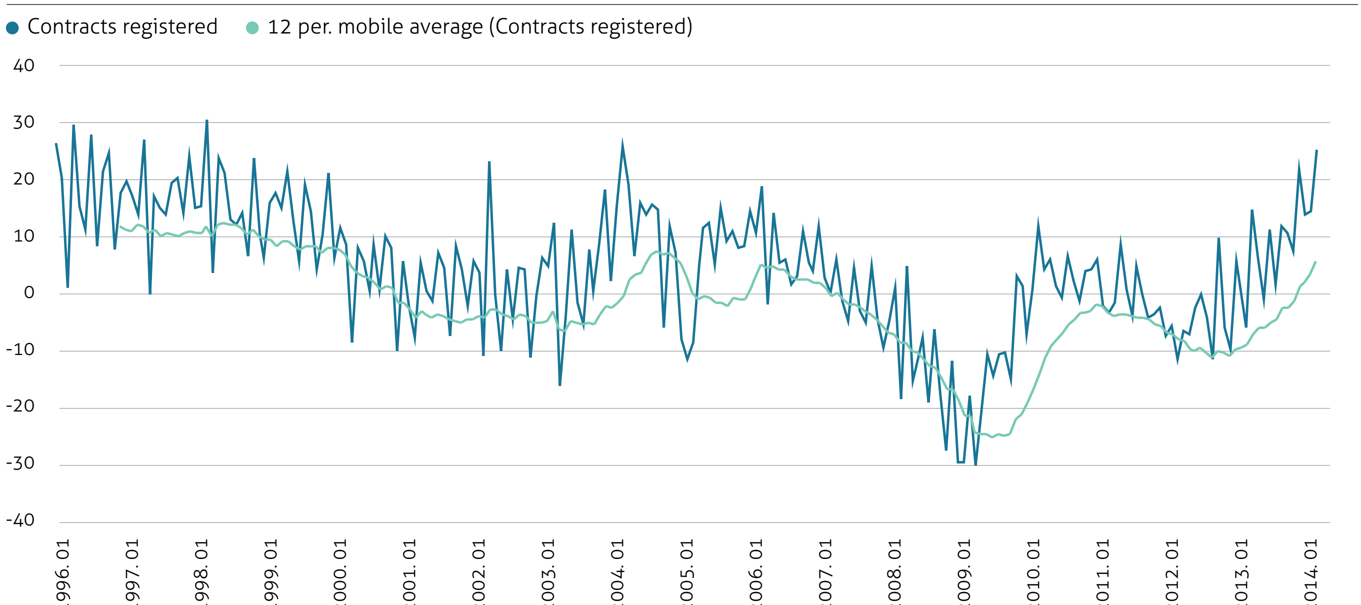
Source: INE Year-on-year rates of change (%)

The fall in investments also slowed. The most important news is that overall investment in capital goods showed year-on-year growth of 2.2% for the whole of 2013, with the quarterly growth rate reaching 7.5% in the last quarter of the year. This has been helped both by the fall in long-term interest rates (with the 10-year Treasury bond reference rate in March 2014 at more than 160 basis points lower than it was last year), and by the upturn in business confidence, with the qualitative indicator rising by 3.4 points over Q4 2013 and a further 0.8 points during Q1 2014.

The foreign sector has been the main sustaining factor for Spanish economic activity during this recession. In contrast to the way that Spanish businesses have traditionally reacted when faced with a fall in the domestic market, the improvement shown by this sector has substantially stronger foundations, with penetration into new markets that has led to diversification in demand for Spanish exports (37.3% to non-EU countries), greater quality and added value in Spanish exports and competitive prices, on top of a significant reduction in unit labour costs that continued through the first half of 2013 but fell back during the second half of the year, leaving a small average growth figure of 0.2% for the year.

On the supply side there was a lower fall in growth in all the production sectors during 2013, except for agricultural activity, which even managed to show some growth. Indeed, both agriculture and the industrial and service sectors ended the final quarter of last year with positive growth figures. The construction sector is the one that is still experiencing the greatest downturn, given that it suffers the combined effect of the large amount of accumulated housing stock (the number of residential properties continued to increase during 2012, reaching 25.3 million due to inertia in the sector) and a surplus of supply, which was estimated at 583,000 unsold units of new housing at the end of 2012, according to revised data from the Spanish Development Ministry.

Employment growth (%) (Source: Ministry of Economy)



Consistent with the negative dynamics within the sector, there was no pressure on prices, which according to the CPI showed year-on-year growth of 0.3% at the end of 2013 and entered negative territory during February of this year. However, the jobs figure was a different story, with low levels of positive growth in the number of people in work during the last quarter of 2013 and a fall of 1.2 % in the unemployment rate over the year. This is an important development if it can be maintained during 2014, given the potential effects both at a macroeconomic level and in terms of the real estate market. The possible causes include the reduction in salary costs, the gradual introduction of flexibility in the job markets and, in part, the knock-on effect of the growth in the export and tourism sectors.

Most relevant regulatory changes

Over the course of 2013, perhaps the most palpable effects of regulatory reform can be found in the modest changes to the employment figures. Despite the fact that the structural reforms date back to the beginning of 2012, we had to wait for a more favourable economic context in order to confirm the potential for substantial improvement in the flexibility of the jobs market in relation to growth in GDP. This was not the only change that resulted from the introduction of labour reforms, as the fall in unit labour costs has strengthened the competitive pricing of Spanish exports and the attractiveness of Spain as a target for direct foreign investment, though the usefulness of this formula as a way of improving competitiveness could be coming to an end.

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

This process, which was aimed at dispelling any uncertainty regarding institutions that had been recapitalised and had handed over assets, also sought to restore full access to external financing by the Spanish economy (a net financing capacity amounting to 3% of GDP). The index that was most closely watched was the difference between the country's debt risk premium and that of Germany's 10-year bond, which fell from an average of 354 points at the beginning of 2013 to 231 points in December 2013, and which has continued to fall, reaching a figure of 175 basis points in March 2014. This rate not only affects the financing of the Spanish state but also has an influence on the entire rate curve, acting as a highly positive factor on both investment and the consumption of durable goods.

Future prospects

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

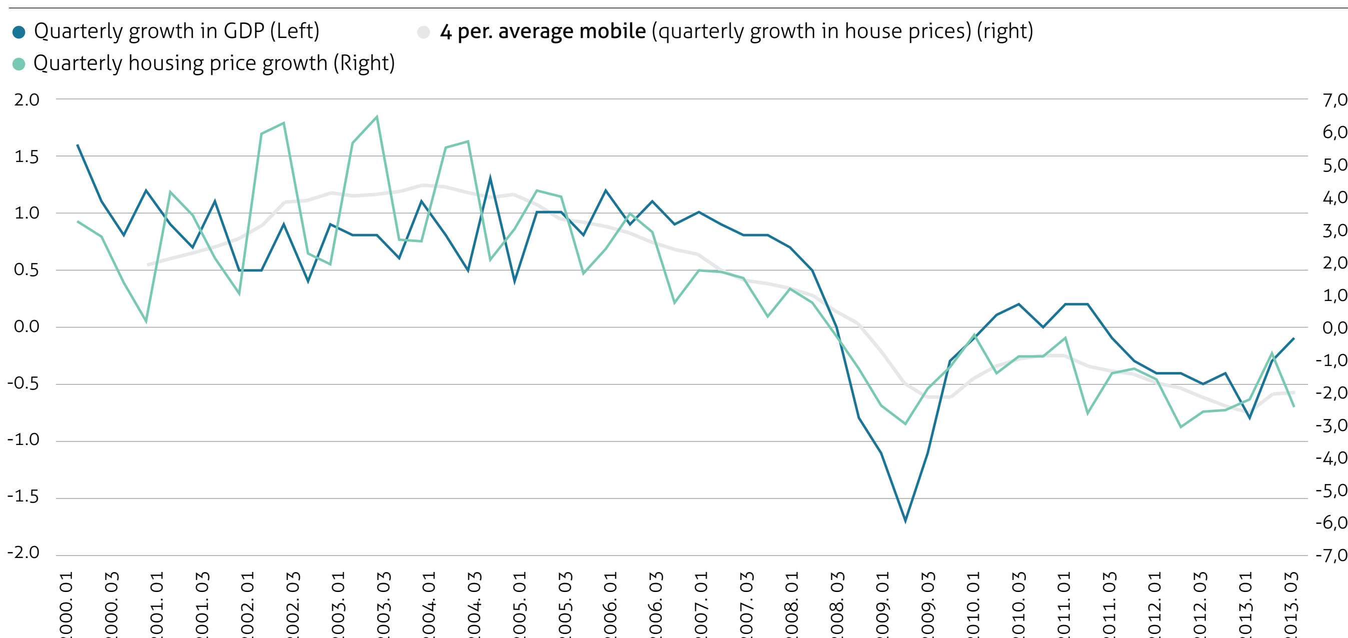
4.2
Change in prices and transactions

Until the end of 2013, House prices in Spain suffered a sharp downward correction from their peak at the end of 2007 and the beginning of 2008. The accumulated drop in the price of an average residential property reached 29.5%, a figure that is further accentuated if one takes account of quality-adjusted data or simply ignores state-subsidised housing, which maintains a more stable price. In this case, the average drop in residential housing prices would be 30.2%, according to the Spanish Development Ministry.

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

The potential effect that coming out of technical recession will have on prices will be uneven and will depend on the quality of the assets up for sale and their location. A strong recovery of the willingness to buy among foreigners, who are not affected by the cyclical nature of the Spanish economy but who merely make price comparisons between the kinds of property on offer and the alternatives available in other countries, could be a significant fact, particularly in coastal locations. Evidence of this uneven response can be seen in six Spanish provinces (Las Palmas, the Balearic Islands, Alicante, Pontevedra, Madrid and Guipúzcoa), all of which have seen growth in the year-on-year property prices in the open housing market.

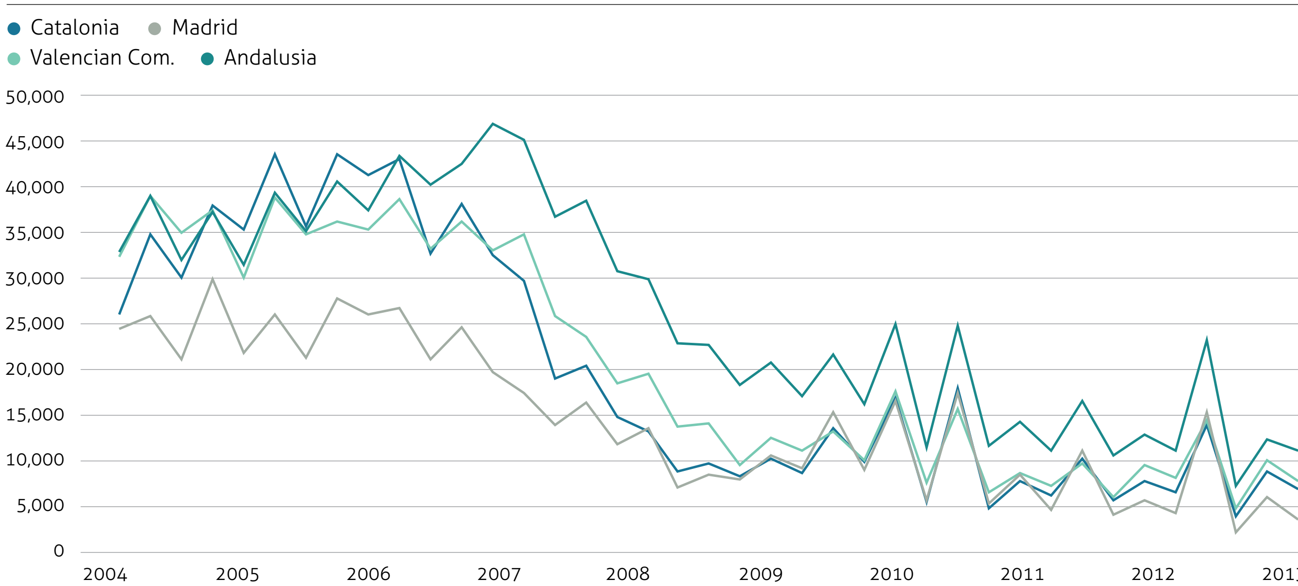
Housing prices and GDP growth (Source: INE and Spanish Development Ministry) (%)



Evolution of housing prices

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

Housing Transactions (Source: Spanish Development Ministry)

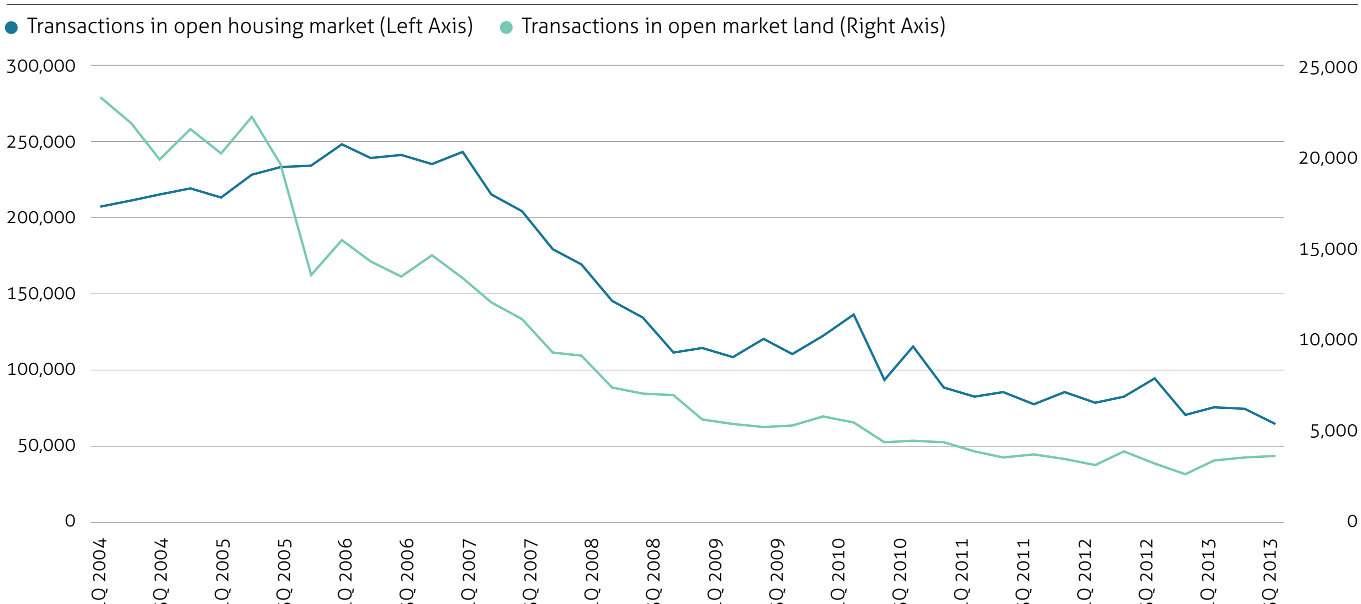


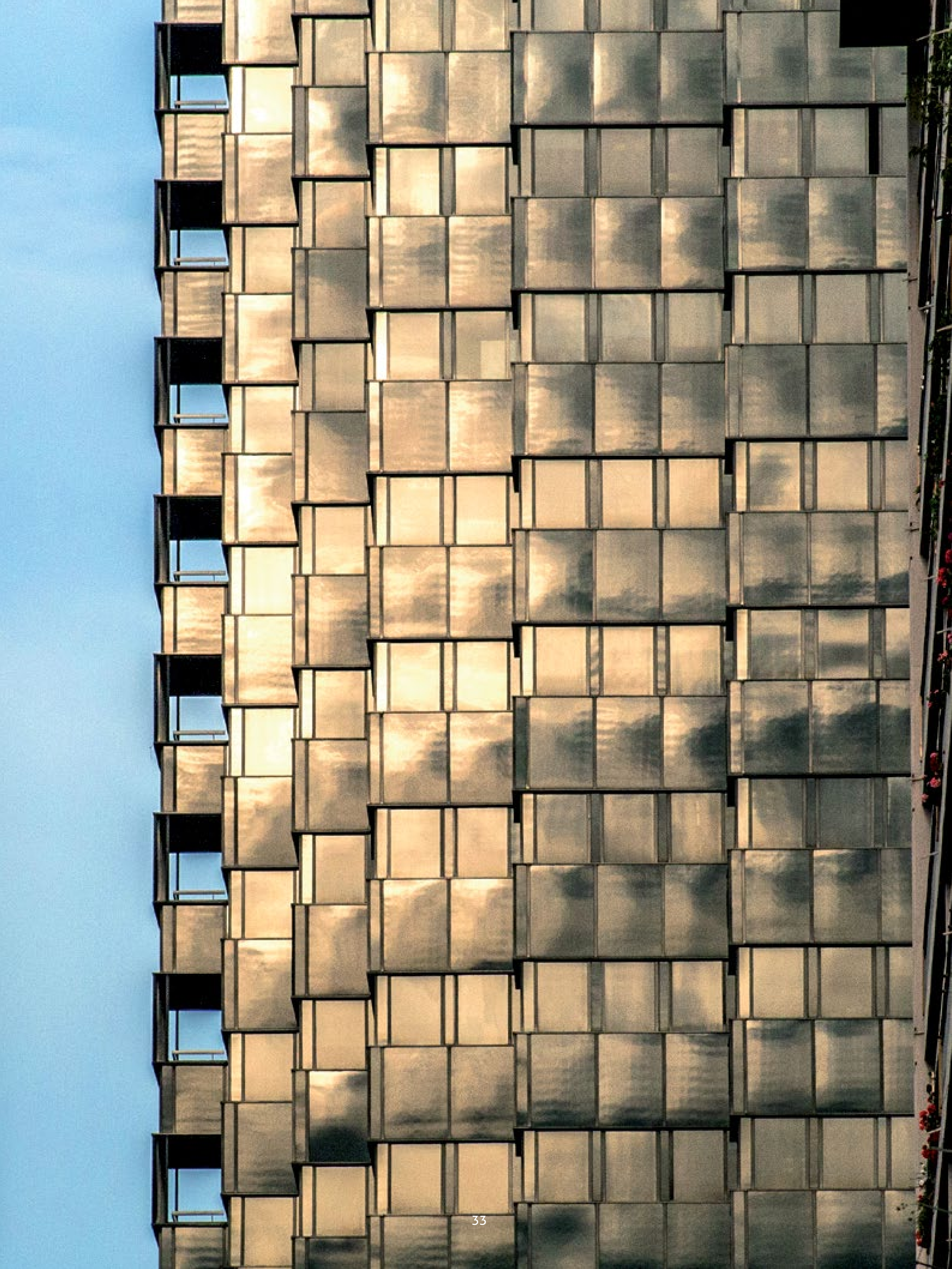
Evolution of residential property transactions

The situation described above is reflected in the number of transactions recorded in the real estate sector, which fell significantly from a high in 2006-2007, when the figure was around 900,000 transactions per year, to 300,000 in 2013. Some sub-sectors have ended up losing all their liquidity. The sharp drop in prices, which disincentives the supply side, combines with expectations of further falls which also act as a brake on demand. This vicious circle would seem, however, to have slowed to the point of stabilising in the case of residential property transactions over the last year (if we only take account of confirmed data up to Q3 2013), a development that could be linked to the improvement in expectations regarding the future of the economy and the perception of a marketplace with tighter pricing in which potential opportunities are beginning to emerge.

This stabilisation in residential property transactions has not affected transactions involving unoccupied new-build properties, though one should bear in mind that the sharp fall in new residential development has meant that this sector (defined as no older than 2 years) is gradually forming a smaller proportion of the residential property available. In the case of state subsidised housing, the trend is very slightly downward.

Housing and Land Transactions (Source: Spanish Development Ministry)





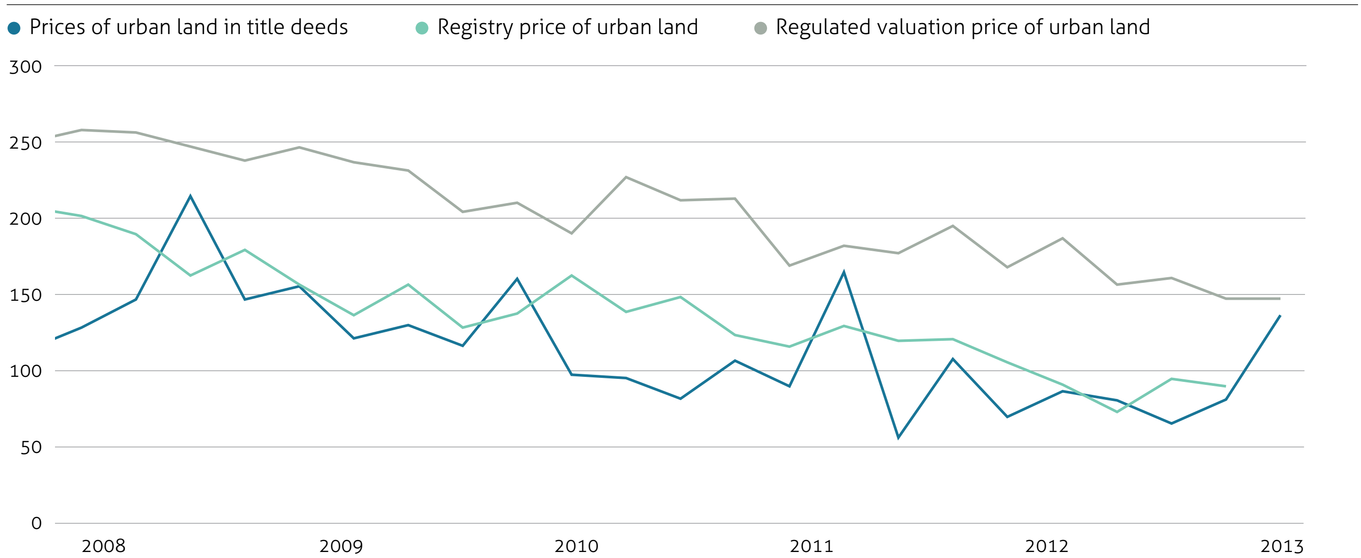
At a geographical level, one can see that the most liquid areas of Madrid, Barcelona, Tarragona, Girona and Valencia are the least affected by the fall in the number of transactions since the beginning of the recession (< 55%), which offers further positive expectation with regard to Sareb's portfolio.

Similarly, it is worth pointing out that if one takes the area formed by the Mediterranean coast, Madrid, Catalonia and Andalusia as a whole, the number of transactions for which there are confirmed data increased last year by 5.4%, in contrast to the average for the whole of Spain which grew by only 1.5%. This is an important factor for Sareb, given that its real estate assets and the collateral for its financial assets are heavily concentrated within this area.

Evolution of land prices and transactions

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

National average price for urban plots of land (€/sq m) (Source: Spanish Development Ministry, Spanish Council of Notaries Public, Bank of Spain)

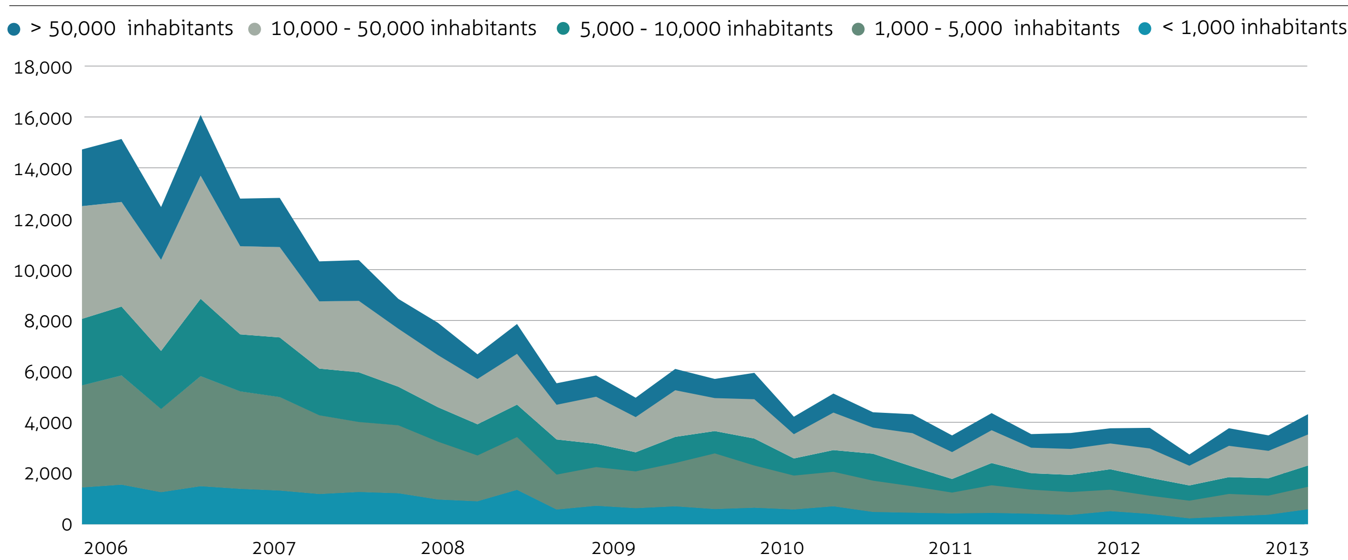


It is not the fall in prices, but the huge fall in the number of transactions that is crucial to an understanding of the evolution of the land sector. The total number of transactions has fallen to less than a fifth of the figure recorded at its peak (from more than 80,000 a year in 2006 to fewer than 15,000 a year in 2013).

Given the characteristics of this market sector (which is less liquid and has, on occasion, completely stagnated in certain geographical areas), it is expected to recover more slowly. In some geographical territories, however, there are signs of an upturn, and the total number of transactions in 2013 exceeds the figure for 2012. 19 of Spain's provinces now find themselves in this position.

The average transaction cost has also fallen substantially, standing at €165,000 in 2013. Against this background, it is encouraging to note that Sareb's land portfolio falls within the range of unit values showing most liquidity in the marketplace.

Land Transactions (Source: Spanish Development Ministry) (Towns)



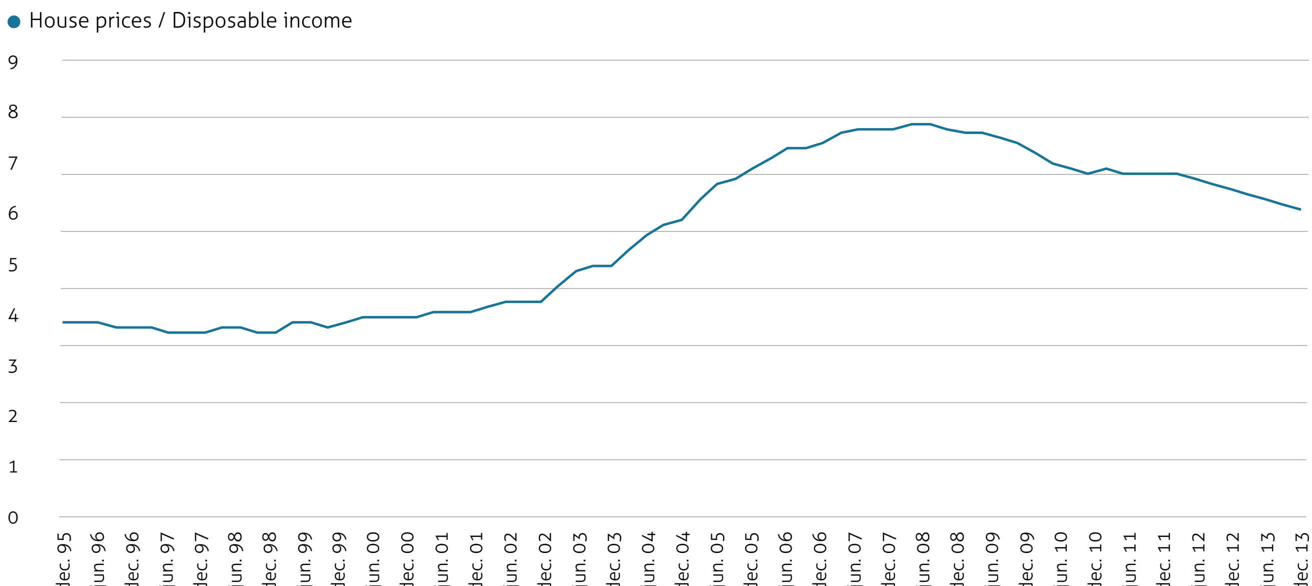
4.3
Conditioning factors

Mortgage loan conditions and accessibility indicators

Price corrections have led to a substantial improvement in some of the indicators relating to access to housing. The ratio of house prices to gross disposable income, for example, fell from a factor of 7.7 at its peak to the current level of 5.8.

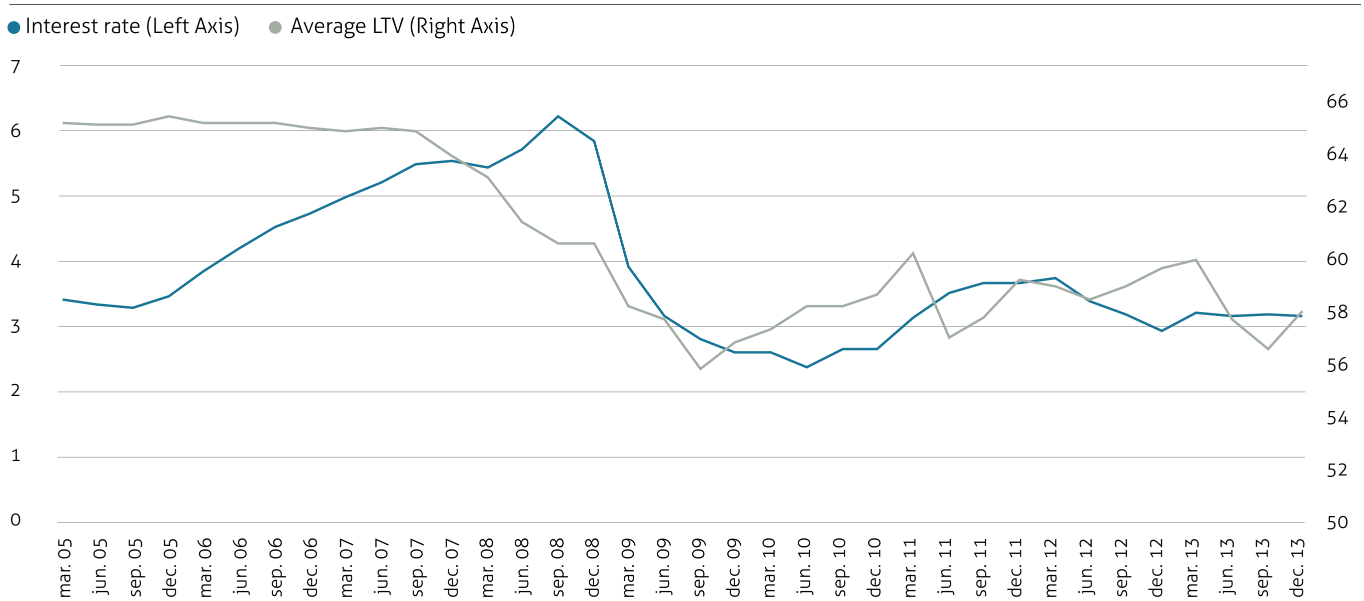
“Despite this, we must not forget that the year-on-year growth rate in mortgages for purchasing a home continues to be negative and stands at around -4.5% and that the year-on-year fall in the number of loans at the end of 2013 stands at more than 30%.”

House Prices / Disposable Income (Source: Bank of Spain)



On the other hand, the last few months have seen slight improvements in medium-term conditions (22.3 years), average Loan to Value figures (57.4) and average interest rates for new mortgages (3.2%), though this last indicator remains a long way from the tighter differentials with the Euribor that were seen towards the end of the surge in this sector.

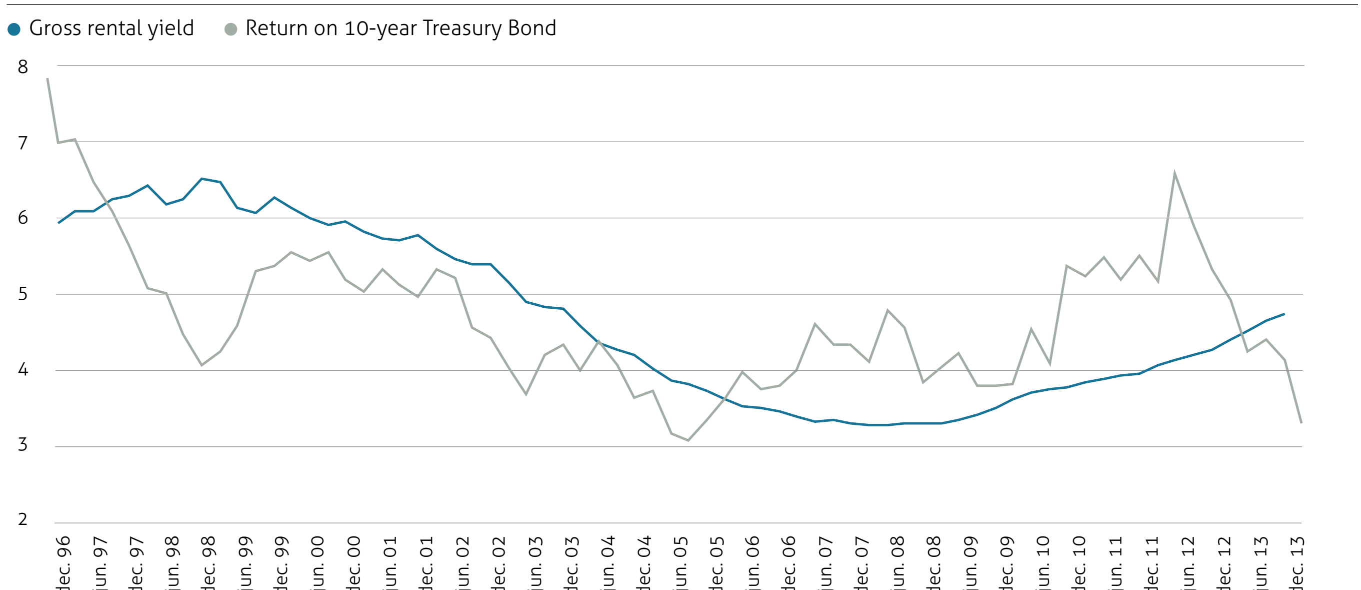
Interest rate and average LTV for new mortgage loans (Source: Bank of Spain)



Profitability of residential properties as an investment

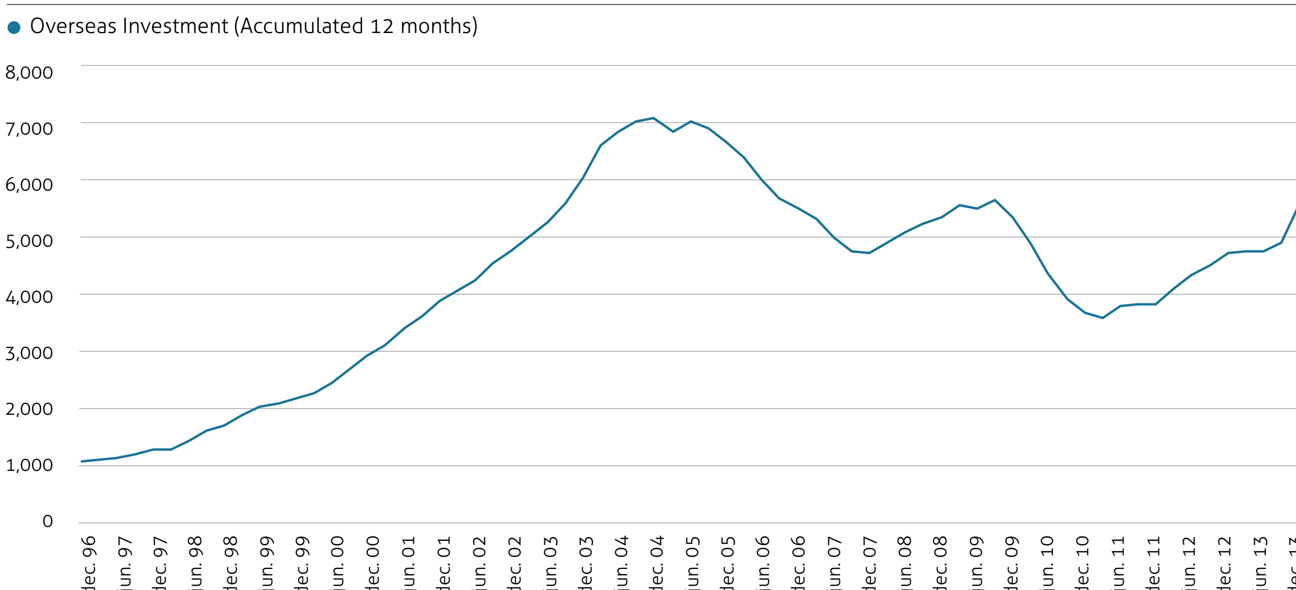
The way that real estate assets have evolved in terms of their profitability as an investment is consistent with the signs that the property market may be reaching the final stages of its correction process. Gross return from renting, which offers an alternative to fixed income securities for both individual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

Return on investment in rental housing (Source: Bank of Spain)



Similar results have been seen in terms of the evolution of gross foreign investment in housing in Spain, which has improved by more than 15% each quarter since Q4 2012. The fact that foreign nationals who are not resident in Spain and are not affected by the domestic employment and business cycles have steeply increased their levels of investment would give credence to the idea that a large part of the price bubble correction is now behind us.

Gross Foreign Investment in housing (€M) (Source: Bank of Spain)



4.4
Non-residential market

Evolution of the office market and conditioning factors

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

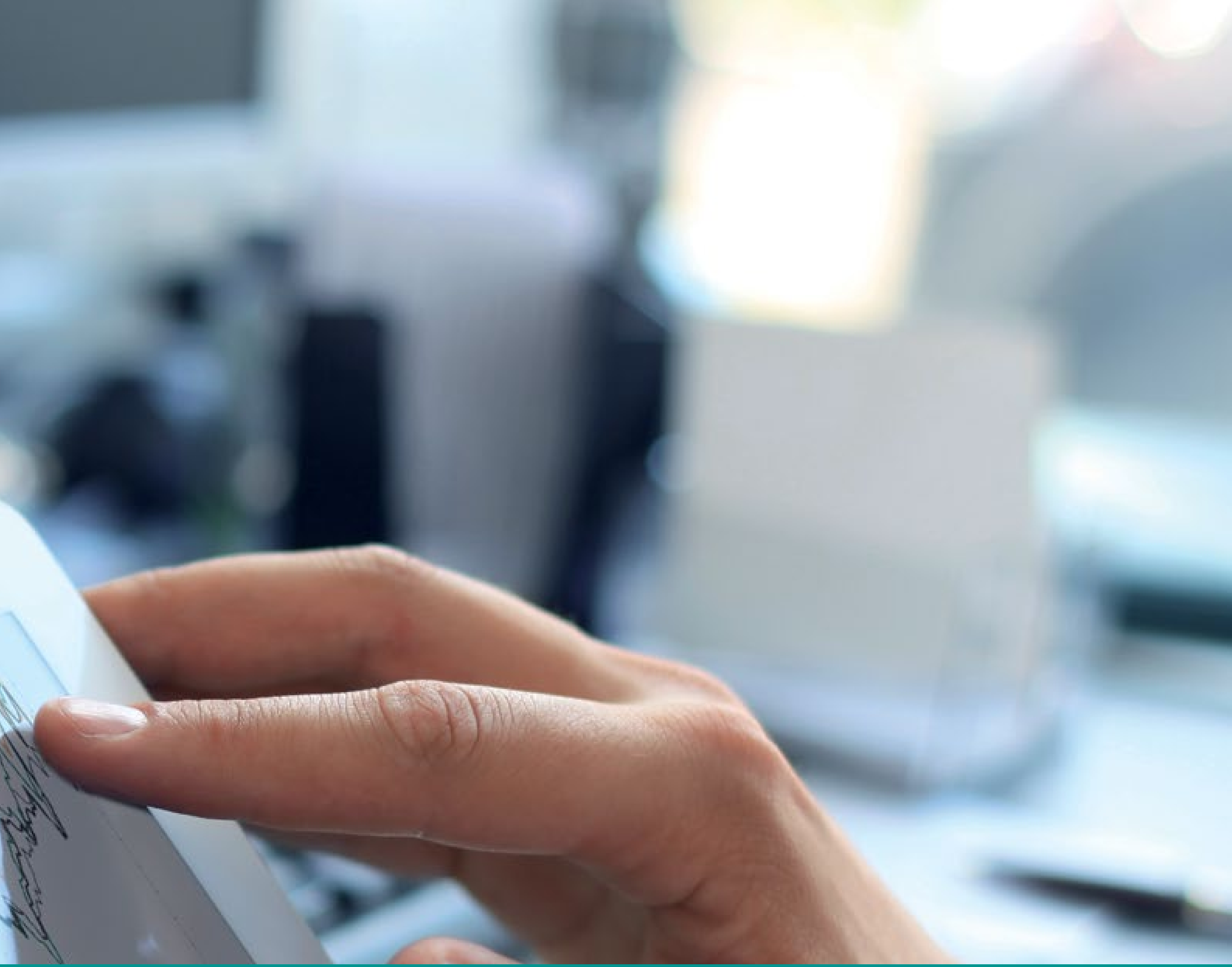
In Madrid, there was a slight fall in investment in office properties in 2013, though the figures for Barcelona were positive and contributed to an improved climate of confidence among investors in the sector. The principal players are still, in the main, international investors who are gradually showing an increased interest in the Spanish real estate market.

Public authorities also continued to dispose of their assets via public auctions, making some isolated sales over the course of the year.

The amount of available office space in Madrid remains very high in historical terms (around 15%), which would explain the fall in average rents and the increase in the number of rent renegotiation processes that were seen during 2013. The correction process among prime quality properties and locations in this sector would seem to have stabilised.

In Barcelona, activity among international investors continued to increase during 2013. The amount of available office space reached a high of around 16%, and there was a sharp fall in average rents in all quality categories, though this fall began to slow towards the end of the year.

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



5 Sareb in figures

5.1
Description of the portfolio

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

As explained in chapter 3 of this report, Sareb has been entrusted with managing assets transferred by banks that were about to receive government assistance.

Under the terms of Article 48.1 of Royal Decree 1,559/2012, these assets were limited to the bulk of their exposure in the real estate sector. The categories that were eventually included under the terms of the transfer were the following:

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

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

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

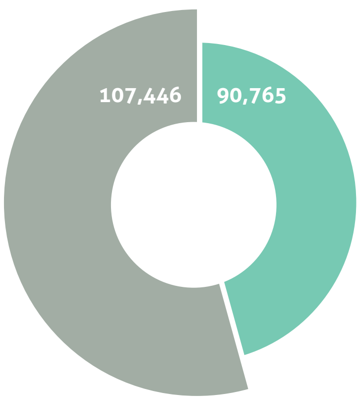
In total, Sareb received assets with an acquisition cost of 50,781 million euros, of which 34,438 million related to financial assets (loans and credit lines for developers) and 11,343 million related to real estate assets.

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

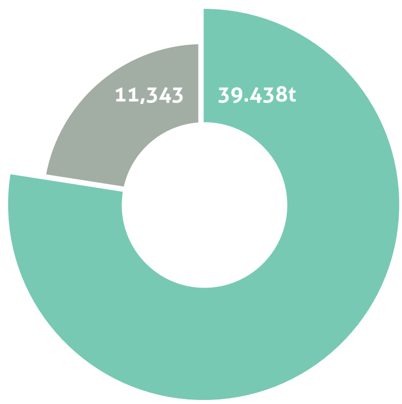
Average discounts (%)	
Financial Assets	
Completed housing	32.40
Projects under construction	40.30
Urban land	53.60
Other land	56.60
Other guarantee	33.80
No guarantee	67.60

Average discounts (%)	
Real Estate Assets	
New build housing	54.20
Projects under construction	63.20
Land	79.50

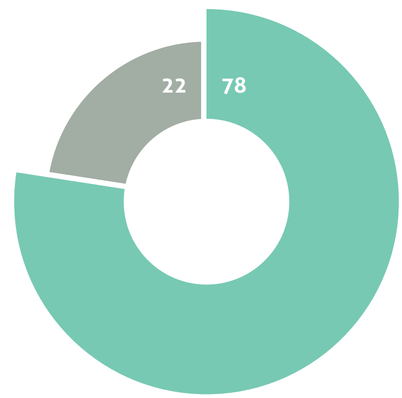
No. of Assets



Purchase Cost (€ M)

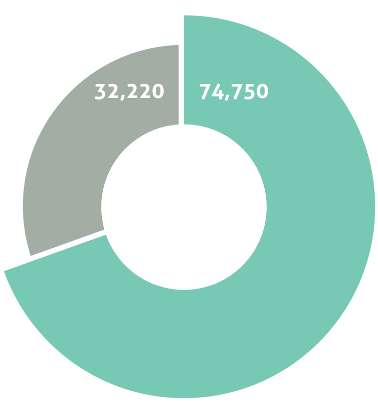


Purchase Cost (%)



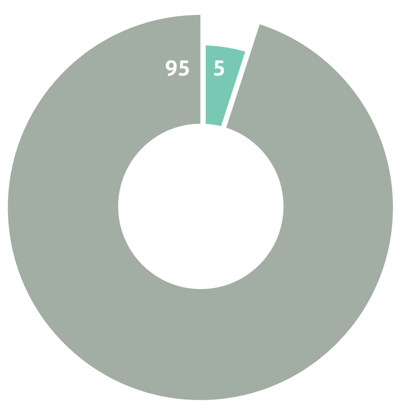
- Real Estate Assets
- Financial Assets

Gross Value (€ M)



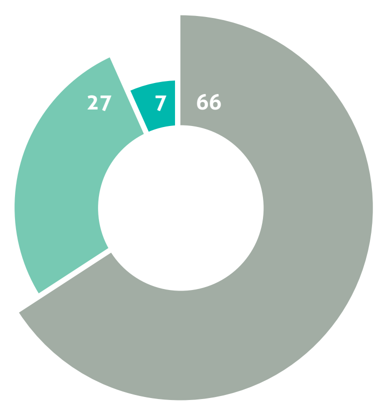
- Real Estate Assets
- Financial Assets

Financial Asset Portfolio (%)



- Loans
- Credit

Real Estate Asset Portfolio (%)



- Completed product
- Projects under construction
- Land

5.2
Business performance

During its first full year of trading, Sareb's activities were divided into two distinct phases, coinciding with the first and second halves of the year:

The first six months were Noteble as the period during which the company itself was being structured, both internally and with regard to its external relations.

The following were some of the challenges it faced during this first phase:

Logistical challenges, resulting from start-up requirements such as the fitting-out of offices, the arrangement of basic support systems, the gradual recruitment of personnel, etc. In short, the creation of the technical, legal and human infrastructure required in order for the company to perform its duties.

Operational challenges, such as the need to define the basic processes required to manage the assets transferred by the contributing banks In this regard, management agreements were signed with these banks, under which some of the ordinary asset management activities were delegated to allow them to act as the main retail channel for the sale of the properties transferred to Sareb.

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

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

During the second half of the year, the company continued to move forwards on two levels:

Organisation and internal and external management

- Continuing the processes designed to build and develop the company's internal structure, through the reorientation of its management structure towards greater functional specialisation.
- Monitoring and assessing the performance of its principal asset managers and examining the potential for optimising external services for the management of the company's assets.

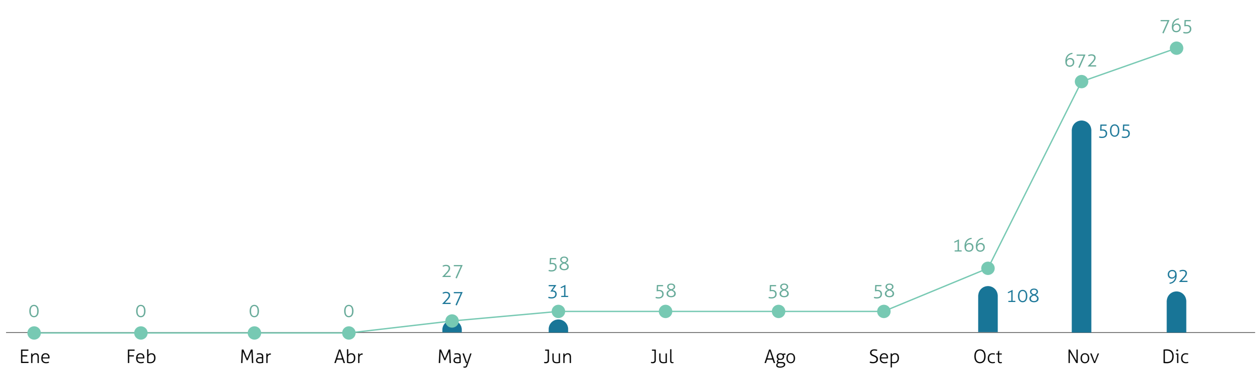
Boosting commercial activities

- Continuing with the due diligence process for the company's real estate assets and any other assets offered as guarantees for the loans transferred. Valuations were carried out on more than 107,000 real estate assets and more than 215,000 assets guaranteeing the loans transferred to the company. This process provided improved information on the legal and registry status of both real estate properties and collateral for loans, thus facilitating the task of estimating the value and price of each individual item.
- Improving existing marketing channels and creating new direct channels that allow for the creation of a direct relationship between the company and clients that are potentially interested in acquiring our assets.
- Establishing sales drives aimed at offsetting the lower than expected levels of assets sold during the first half of the year and reaching volumes that are more in line with the company's expectations by the end of the year.

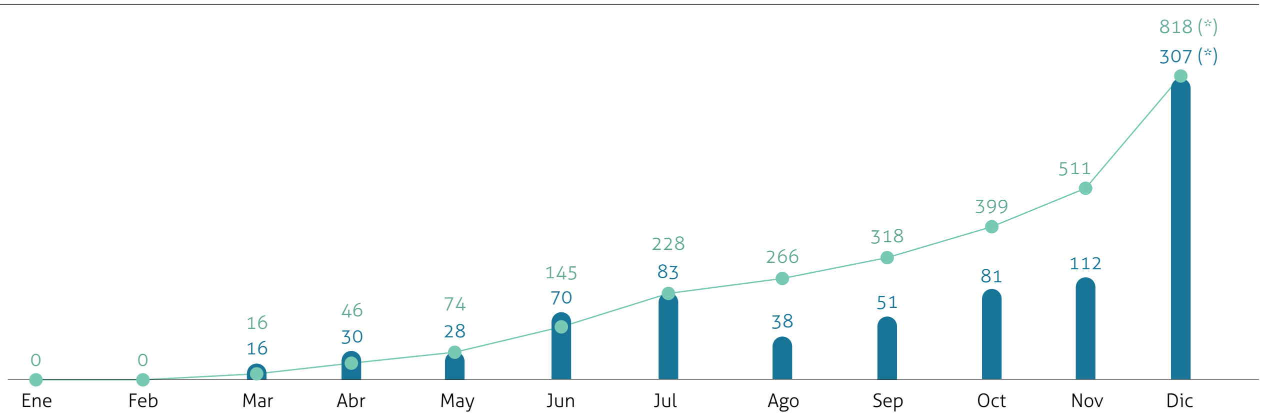
All of these activities have led to the acceleration of the company's commercial business during the second half of the year, with total sales of 1,583 million euros, 765 million in financial assets and 818 million in real estate assets (9,142 units), as shown in the following graph:

Financial asset cash flow (€ M)

● Monthly ● Accumulated

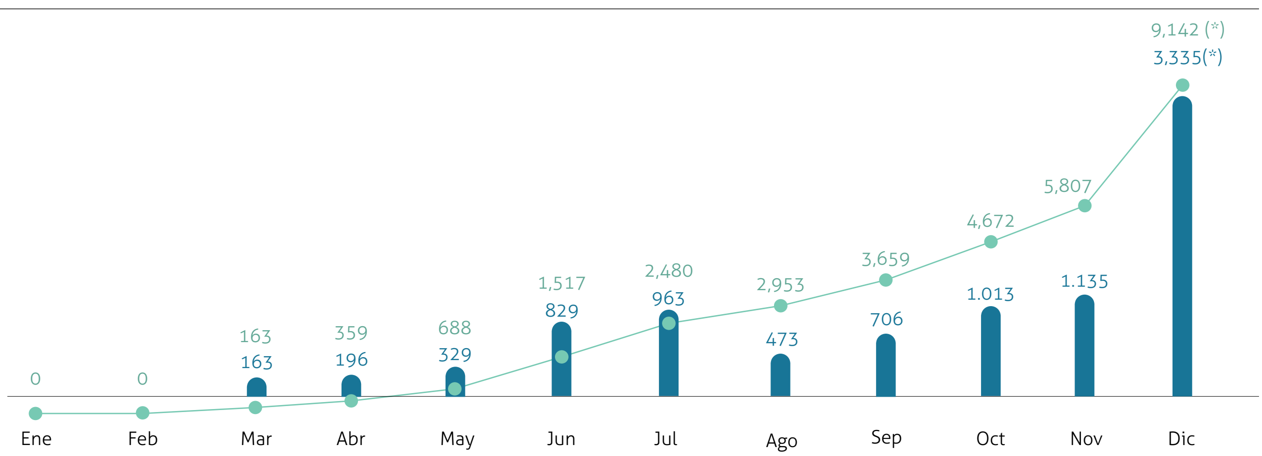


Real estate asset cash flow (€ M)



(*) Includes 146 million euros relating to the Teide portfolio, transferred in to a BAF with the same name.

Real estate asset cash flow (in units)



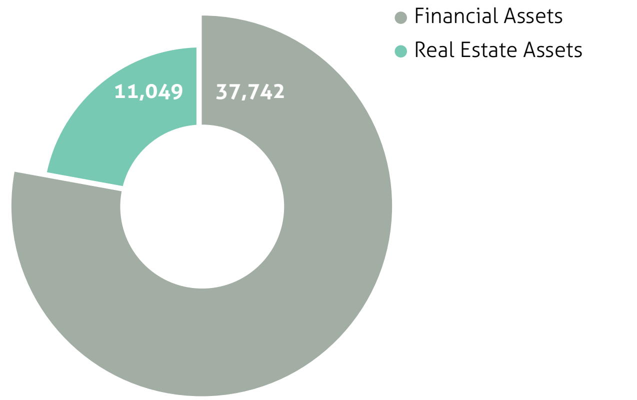
(*) Includes 146 million euros relating to the Teide portfolio, transferred in to a BAF with the same name.

In terms of units sold, this dynamic marketing activity is reflected in the upward trend in sales, with particularly Noteble results achieved during the month of June, when the sales figure reached 120% of the accumulated sales made over the previous five months, and during the last quarter of the year, with total sales for the year reaching 9,000 units.

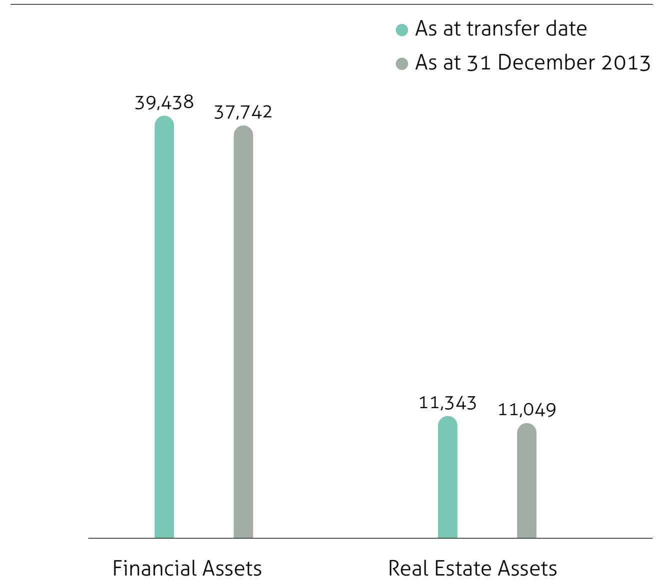
Particular mention should be made of the sale of the Teide portfolio in December, which accounted for the sale of 2,019 units in a single transaction.

The portfolio's performance over the course of the last year showed the following result as of 31 December 2013:

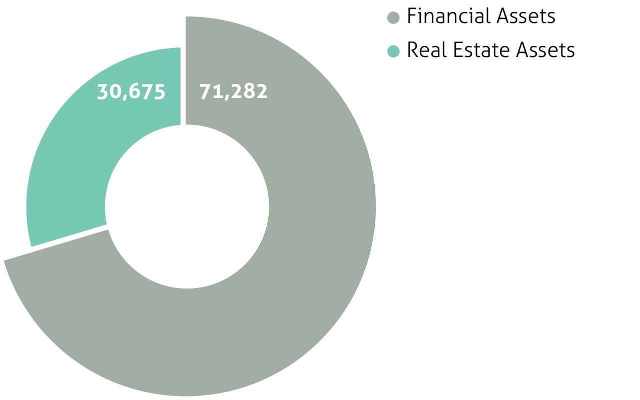
Acquisition cost (€ M)



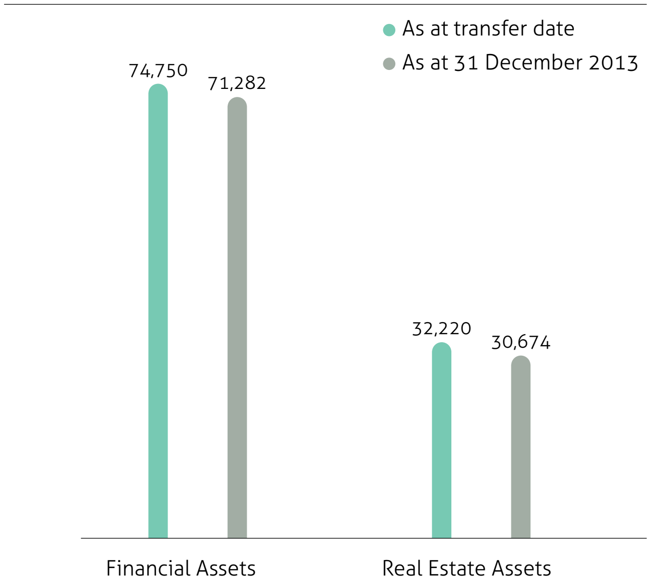
Assets at acquisition cost (Millions of euros)



Gross Value (€ M)



Gross value of assets (€ M)



The composition of the balance sheet has changed, not only as the result of the reduction caused by sales made over this period (items removed), but also because of other kinds of movement, particularly:

a) Transfers from the financial asset portfolio to the real estate asset portfolio, caused by the handing over and donation in lieu of assets that until now have been acting as a guarantee for loans and credits. The value of mortgage foreclosures and donations in lieu over the year was 399 million euros.

b) An increase in the financial assets balance due to new drawdowns, as the items transferred also included operations involving amounts that were yet to be drawn down, and Sareb was therefore subrogated to the obligations originally held by the contributing banks. The relevant transfer agreements established a mechanism for the subsequent repayment of any further amounts drawn down. Amounts newly drawn down over the year amounted to 679 million euros.

c) An increase in the real estate assets balance due to investments in the development of land or the completion of building work. Investment in real estate assets over the year totalled 41 million euros and mainly related to construction work on developments and individual plots and to the advancement and completion of building work already in progress.

d) Corrections made as the result of a detailed review of the transferred portfolio and the identification of errors or variations in the valuations made on the date of transfer. The total value of corrections made amounted to 340 million euros.

5.3
Result for the year

Profit and Loss Account 2013 (€ M)	
Net Revenues	**2,861**
Real Estate Assets	887
Real Estate Assets Sales	818
Letting Revenue	68
FABs and others	1
Financial Assets	**1,974**
Financial Asset Sales (portfolios)	765
Financial Revenue from Loans and Credits (margin)	1,209
Cost of Asset Sales	**-1,267**
- from Real Estate Assets	-639
- from Financial Assets	-628
Gross Margin	**1,594**
Other operating income	1
General and administration cost	-401
Ebitda	**1,195**
Depreciation and Others	-117
Net Financial Cost	-1,222
Income Before Taxes and Impairment	**-144**
Financial Instruments Impairment	-259
Income Before Taxes	**-404**
Taxes	142
Net Income	**-261**

Real Estate assets

There was significant growth in sales of real estate assets from the second half of the year onwards, particularly in the retail sector, following the introduction of the new marketing channels. Particularly Noteble in the wholesale sector was the transfer in December of the Teide portfolio to the FAB of the same name.

The 665 million euros obtained from the sale of real estate assets was further supplemented with the amounts obtained from the more than 6,200 assets in the rental portfolio, which totalled 68 million euros during 2013.

The gross margin obtained from real estate asset transactions was 248 million euros, 28% of total income.

Financial assets

The efforts made to reduce total financial assets intensified during the final months of the year as a result of various initiatives, resulting in the sale of several loan and credit portfolios to buyers with a variety of profiles.

The sale of portfolios generated income of 765 million euros, most of which was obtained during the final quarter of the year and particularly during the month of November.

In terms of financial assets, income totalling 1,209 million euros was obtained from the interest generated by these assets, as well as from the amortisation and cancellation of loans and credits. This last item included both ordinary amortisation and cancellations and the amortisation and cancellations resulting from the recovery of transactions as part of the Sales Boost Plan, the Opportunity Plan and other similar initiatives.

The gross margin obtained from financial assets transactions totalled 1,346 million euros, of which 137 million related to the sale of portfolios (18% margin on the sale price), with the remainder obtained from the collection of interest and from the amortisation and cancellation of loans.

Operating costs

The breakdown of operating costs for 2013 is as follows:

	2013
Management and sales costs	**196**
Asset management commissions	103
Asset sales costs	93
Repair and maintenance costs	**115**
Service charges	39
Property tax (IBI) and other taxes	52
Other maintenance costs	24
Non-deductible VAT	**39**
General costs	**51**
Personnel expenses	15
Structural costs	36
TOTAL	401

The company's annual non-financial costs totalled 401 million euros. 49% of the total corresponded to the fees agreed with the companies supplying asset management services, which are mainly the same credit institutions that transferred the assets to Sareb while maintaining responsibility for managing them.

The costs incurred in the preservation and maintenance of real estate assets accounted for 28.7% of the total, with Spanish Real Estate Tax forming a significant portion of this amount.

Almost three quarters of these costs were incurred during the second half of the year, due to the following factors:

- Increased levels of commercial business, with the relevant increase in fees paid to managers.
- An increase in the company's internal staffing levels, with the proportional increase in personnel costs.
- Completion of the *due diligence*.
- The company's start-up, with the necessary investment in strategic, technological, legal and operational projects, which have required the provision of services by external partners and advisors.

Financial result

The financial result for 2013 comprises:

- Financial income of 51 million euros, mainly interest from the management of the company's cash holdings, as a process of liquidity auctions was implemented in order to optimise the cash flow available from the commencement of operations and the cash generated over the year.
- Financial costs of 1,272 million euros, of which 1,271 million correspond to the interest on the debt issued by Sareb in the form of bonds, such as Senior Debt and Subordinated Debt.

As a result of Sareb's business activities during 2013, sufficient cash flow was generated to cover the payment of the financial interest incurred as a result of this debt and to repay part of the debt itself, thus reducing the company's liabilities, which is its main objective.

Provisions

The company possesses all the mechanisms required in order to manage the risks inherent in its nature as a business, both in terms of specific procedures and as regards the overseeing and monitoring of these procedures.

The company is exposed to credit risk as a consequence of the structure of its balance sheet, which includes a high percentage of financial assets.

Aware of this situation, the company manages its financial assets in a way that always takes account of the credit risk associated with each of its individual product and customer profiles, identifying the specific risk involved in each operation until it is completed, measuring and assessing this risk in accordance with methodologies that have been specifically put in place for this purpose, and taking action for recovery in any operations where this is required.

As at 31 December, Sareb entered a value correction of 259 million euros in respect of its portfolio of participating loans and credits.

The calculation and entry of this provision resulted from applying the Bank of Spain's response to an enquiry from Sareb, since, on the date that the accounts were drawn up, the Circular explaining the criteria supporting the methodology to be used by Sareb to estimate the value of its assets (which would be in line with the methodology used to determine the price of transferring the assets to Sareb) had not yet been published. The eventual definition of these criteria may have a significant impact on a final estimate of the potential impairment of Sareb's assets.

In its response, the Bank of Spain concluded that, bearing in mind the methodology used for the asset transfer process, together with developments in the economic situation, which has come close to the forecasts set out in the stress test to which the Spanish financial system was subjected, it may be reasonably assumed that there is no evidence of any deterioration in Sareb's real estate and financial assets portfolio, taken as a whole.

Notwithstanding the above, the aforementioned response to the enquiry also called on the administrators to make a much more detailed study of the types of exposure in which, according to available information, the debtor's position can be classified as particularly weak.

As a consequence, with regard to the financial assets identified as participating loans or credits, and following a more detailed analysis, the company's Directors, have concluded that, in general, the possibility of recovering their book value is remote, given their subordination in relation to the other common creditors, meaning that this exposure can be assimilated as holdings in the share capital of the debtor companies which, in general, find themselves in a highly compromised financial situation. The company has therefore proceeded to enter the relevant impairment, as indicated above.

Nevertheless, it is worth pointing out that the Bank of Spain should, in the short term, be drawing up the Circular that will finally define the criteria to be used by Sareb to estimate the value of its assets in the future.

Generation of cash flow

The company's business, as shown in its results, generated the following accumulated cash flow as at 31 December: In line with the observations made above, the company's performance measured in cash flow terms pointed to a very clear upward trend over the second quarter.

Total cash flow	**3,863**
Financial asset cash flow	**3,047**
Amortisation, cancellations and interest (received)	2,282
Loan sales (portfolios)	765
Real estate asset cash flow	**818**
Sales	764
Rental Income	68

The bulk of the company's cash flow, some 3,047 million euros from a total of 3,863 million euros, came from financial asset transactions. A total of 2,282 million euros in cash was generated by the collection of financial interest and by amortisations and the cancellation of loans. Another potential source of liquidity from these kinds of assets is the sale of loans to wholesale customers in the form of portfolios, and this generated an accumulated cash flow of 765 million euros.

In addition, the evolution of cash flow from the sale of real estate assets was highly positive from the second half of the year onwards, particularly in the retail sector, following the introduction of the new marketing channels. Accumulated cash from sales as at 31 December came to a total of 764 million euros.

The cash flow obtained from the sale of real estate assets was further supplemented with the amounts obtained from the rental portfolio, giving a total of 68 million euros for the year.

(*) It should be taken in to consideration that operations for the amortisation of loans and credits are only entered as income in the company's profit and loss account in the amount of the difference between the value of the loan being cancelled and the acquisition cost that this asset involved for Sareb.

Establishment of FABs

During the month of December, the company established a series of Banking Asset Funds (FABs), using the powers afforded by Royal Decree 1,559/2012, which allows for the creation of vehicles with the status of funds but with no individual legal status, for the purposes of liquidating the portfolio of assets and liabilities contributed by the company.

The only operation that has so far been entered in Sareb's accounts statements, insofar as a transfer of assets and liabilities has been made from the company to the fund, is detailed below:

FAB 2013 Teide: Formed as a result of the contribution of real estate investment assets with a value of 146 million euros. Sareb initially subscribed 100% of the fund's securities and subsequently sold 85% of them to an investment group. In this case, Sareb has removed the assets transferred to the fund from its balance sheet, entering the corresponding income from their sale in its profit and loss account.

5.4 Financial structure

As at 31 December, the value of the bonds issued to the benefit of the banks had been reduced in two ways: write-downs and cash redemptions using the surplus from the discretionary cash flow generated during 2013.

As far as write-downs are concerned, it was found that a series of financial and real estate assets had been wrongly included in the lists of assets subject to transfer, since they did not meet the requirements necessary to be included in any of the relevant asset categories under the terms of Article 48 Royal Decree 1,559 of 15 November 2012 and the Resolution handed down by the FROB's Steering Committee regarding the conditions governing the transfer. In other words, these were assets that did not fall within the transfer parameters on the actual date of transfer and were, therefore, excluded from the legal duty to transfer contained in Additional Provisions 8 and 9 of Act 9/2012, on which the Transfer Agreement was based.

Thus, the par value of the Group 1 bonds was reduced in 2013 by means of write-downs in the amount of 311 million euros.

As far as Group 2 is concerned, the par value of the bonds has been reduced by 28 million euros, meaning that combined write-downs came to a total of 339 million euros.

The following table gives a breakdown of the bonds amortized by means of write-downs in 2013:

Write-downs of Sareb bonds during 2013
(Figures in euros)

	Maturity 31/12/2013	Maturity 31/12/2014	Maturity 31/12/2015	Total
Group 1	93,300,000	140,000,000	77,600,000	310,900,000
	Maturity 28/02/2014	Maturity 28/02/2015	Maturity 28/02/2016	Total
Group 2	8,300,000	12,500,000	6,900,000	27,700,000
			Total G1 + G2	338,600,000

The process to correct the classification of transferred assets will continue throughout the coming year.

As regards cash redemptions, the company decided to make use of the call options incorporated in the securities issued (options that may be executed on 31 December under the bonds issued for Group 1 and on 28 February under the bonds issued for Group 2) in order to make a partial amortization of these bond issues.

The amount allocation to these amortizations totalled 1,998.5 million euros.

On 31 December 2013, bonds with a par value of 1,445 million euros were amortized in Group 1. This amount was shared out among the amortized securities in the same proportion that they were issued, meaning that 30% of the amount was allocated to amortizing the Sareb 1-year bonds, 45% was allocated to the Sareb 2-year bonds and 25% was allocated to the Sareb 3-year bonds, in order to respect the relative weight of each of the three issues.

The following table gives a breakdown of the bonds amortized in cash in February 2014:

Cash write-downs of Sareb bonds during 2013
(Figures in euros)

	Maturity 31/12/2013	Maturity 31/12/2014	Maturity 31/12/2015
Group 1	433,500,000	650,200,000	361,300,000
TOTAL			1,445,000,000

In February 2014, there was an additional amortization of 164.5 million euros in Group 1 bonds, along with the amortization of 389 million euros in Group 2 bonds, with amounts being distributed among securities in the same way as they were in the amortization made on 31 December 2013.

The following table gives a breakdown of the bonds amortized in cash on 31 December 2013:

Cash write-downs of Sareb bonds during February 2014
(Figures in euros)

	Maturity (New 1 Year Bond) 31/12/2014	Maturity 31/12/2014	Maturity 31/12/2015	Total
Group 1	49,300,000	74,000,000	41,200,000	164,500,000
	Maturity 28/02/2014	Maturity 28/02/2015	Maturity 28/02/2016	Total
Group 2	116,600,000	175,100,000	97,300,000	389,000,000
			G1 + G2	553,500,000

The following table gives a breakdown of movements in the value of Group 1 and Group 2 bonds during 2013:

Evolution of bonds issued and handed over to Group 1 banks in 2013
(Figures in euros)

Par value issued	Maturity	Coupon	Write-downs	Redemptions in cash (*)	Balance 31-12-2013
11,008,100,000	31/12/2013	Eur 3M + 2.189%	93,300,000	433,500,000	10,481,300,000
16,512,600,000	31/12/2014	Eur 3M + 2.562%	140,000,000	650,200,000	15,722,400,000
9,173,600,000	31/12/2015	Eur 3M + 2.964%	77,600,000	361,300,000	8,734,700,000
36,694,300,000			310,900,000	1,445,000,000	34,938,400,000

Evolution of Group 2 bonds issued and handed over in 2013
(Figures in euros)

Par value issued	Maturity	Coupon	Write-downs	Redemptions in cash (*)	Balance 31-12-2013
4,225,900,000	28/02/2014	Eur 3M + 1.242%	8,300,000	0	4,217,600,000
6,339,200,000	28/02/2015	Eur 3M + 2.017%	12,500,000	0	6,326,700,000
3,521,600,000	28/02/2016	Eur 3M + 2.464%	6,900,000	0	3,514,700,000
14,086,700,000			27,700,000		14,059,000,000

(*) In February 2014 there were additional amortizations in the amount of 164.5 million euros in Group 1 bonds and 389 million euros in Group 2 bonds.

In line with the subscription agreement, on the maturity date of the various senior bonds, the company partially amortized the "Sareb 2012-1" issue, which matured on 31 December 2013, with 443.5 million euros in cash, paying the remainder by means of the issue of new one-year senior bonds maturing on 31 December 2014.

The differential set for this issue was 68.6 basis points, as compared with the 218.9 basis points for the issue being amortised[1].

[1]For the issue made on 28 February 2014, the differential set was 27.2 basis points, as compared with the 124.2 basis points for the issue that was maturing.

The financial charges that accrued during the financial year amounted to 1,272 million euros. This is the main expense borne by the company. Despite this, the company generated a gross cash flow figure for the year that exceeded the 3,800 necessary to service its debt and to allocate 1,998.5 million euros to the amortisation of senior debt, as already indicated above.

As regards capital structure, Sareb's shareholder equity totalled 1,200 million euros on the date of its incorporation, divided between share capital (300 million euros) and issue premium (900 million euros). This shareholder equity was fully paid up in February 2013, with the transfer from the Group 2 banks. The largest shareholder is the FROB, with a 45% holding, while the remaining 55% is in private hands.

The share capital was initially distributed as follows:

	Subordinated debt (€ M)	Subordinated debt (%)
Santander	207.4	17.30%
Caixabank, S.A.	149.3	12.40%
Banco Sabadell	83.2	6.90%
Popular	71.7	6.00%
Kutxabank	31.5	2.60%
Banca March, S.A.	4.9	0.40%
Bankinter	17	1.40%
Ibercaja	17.7	1.50%
Unicaja	15.8	1.30%
Cajamar Caja Rural, S.C.C.	15	1.30%
Barclaysbank, S.A.	3	0.30%
Caja Laboral Popular, C.C.	7.4	0.60%
Deutsche Bank, S.A.E.	3.7	0.30%
Cecabank	4.2	0.40%
Banco Cooperativo Español, S.A. (1)	3.9	0.30%
C.C. Caminos	0.8	0.10%
Mapfre	10	0.80%
Axa Seguros Generales	2	0.20%
Mutua Madrileña	6	0.50%
Catalana Occidente	3	0.30%
Iberdrola Inmobiliaria	2.5	0.20%
FROB	540	45.00%
TOTAL	1,200.00	100%

(1) In December 2013, Banco Cooperativo Español assigned some of its shares to its associate rural savings banks.

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

	Subordinated debt (€ M)	Subordinated debt (%)
Santander [1]	598.2	16.60%
Caixabank, S.A.	431.9	12.00%
Banco Sabadell [2]	238.1	6.60%
Popular [3]	204.6	5.70%
Kutxabank	91.2	2.50%
Banca March, S.A.	14.3	0.40%
Bankinter	49.2	1.40%
Ibercaja	51.3	1.40%
Unicaja	45.6	1.30%
Cajamar Caja Rural, S.C.C.	43.4	1.20%
Barclays Bank, S.A.	8.6	0.20%
Caja Laboral Popular C.C.	21.3	0.60%
Deutsche bank, S.A.E. [4]	10.7	0.30%
Cecabank	12.1	0.30%
Banco Cooperativo español, S.A.	11.4	0.30%
C.C. Caminos	2.2	0.10%
Mapfre	40	1.10%
Axa Seguros Generales	8	0.20%
Generalli	5	0.10%
Mutua Madrileña	24	0.70%
Catalana Occidente	12	0.30%
Mutua Pelayo	3	0.10%
Asisa	2	0.10%
Reale	3	0.10%
Zurich	5	0.10%
Santa Lucía	4	0.10%
Iberdrola Inmobiliaria	7.5	0.20%
FROB	1,652.40	45.90%
TOTAL	**3,600,000**	**100%**

(1) Indirect holding of 12 million through Openbank, S.A.
(2) Indirect holding of 1.2 million through Sabadell Solbank, S.A.
(3) Indirect holding of 1.2 million through Popular Banca Privada; 0.8 million through Bancopopular.es; and 2.3 million through TargoBank.
(4) Transferred by Deutsche Bank AG on 27 December 2013.

5.5
Performance in comparison with business plan

In March 2013, Sareb updated its initial Business Plan, once it had completed an analysis of the assets transferred in December 2012 and February 2013, along with the final details of its liabilities.

Based on a like-for-like comparison of the results obtained by the company in 2013 and the Business Plan in the form of its March update, one can see that the company's results before tax and impairments is in line with the projection made in the Business Plan for 2013.

Sareb must update its business plan on an annual basis, and this will apply to every year that it remains in business, currently scheduled until 2027.

Thanks to the experience gained from this year's business activities, combined with the information obtained from the due diligence process with regard to the contributing banks and the business already completed, Sareb will continue to improve its business plan model in order to ensure that the company meets the objectives that it has been legally set.

The modification of strategic lines that will be detailed in the business plan is intended to transform this plan into one that is focused on the proactive creation of value for the assets that it is managing, and in the short term this will entail:

- Developing unfinished construction work received as real estate assets.
- Strengthening the development and sale of unfinished construction work used to guarantee loans in the company's portfolio from the debtor's balance sheet.
- Continuing the planning process on land.
- Maximising the rental of the company's commercial assets and the residential properties for which there is no prospect of immediate sale.

Another strategic area for the company is implementing a process for the generation of corporate infrastructure beyond the basic plan achieved in 2013, with the aim of increasing Sareb's operational efficiency.

In this regard, the management agreements signed with the contributing banks will end on 31 December 2014, which will mean the establishment of new collaborative models based on service agreements that will be signed following a process for the tendering and award of services to manage and market Sareb's assets. This new situation will mean that the purchasing policies developed by Sareb will have to be adapted to these new collaborative models, and this will have an economic impact that should also be reflected in future versions of the company's Business Plan.

The asset transfer process

As explained in chapter 2 of this Report, Sareb received assets worth 50,781 million euros under management from banks that had required government assistance during the course of the restructuring of the Spanish financial system, under the terms set out in the MoU.

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

- It was a compulsory process, defined in a number of different administrative rulings by the FROB that provided specific detail regarding the set of assets that were to be subject to transfer;

- The price was also determined administratively in a ruling by the Bank of Spain. To this end, under the terms of Article 13 of Royal Decree 1,559/2012 and the contents of paragraph 21 of the MoU, the price was calculated on the basis of the long-term economic value of the assets in a manner consistent with the results of the stress test carried out by Oliver Wyman.

There were two components to this price:

  - The value of the assets obtained, on the basis of the loss expected in each category according to the base scenario for the Oliver Wyman stress test.

  - An additional discount to take account of elements not included in the foregoing valuation, such as maintenance costs, financing costs, legal costs, recovery costs, etc.

- This price was applied in the form of an average discount on gross value for each category of assets on the transfer date.

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

Group 1 (€ M)				
BFA-Bankia	CX	NCG Banco	B. Val.	B. Gallego
22,317	6,708	5,097	1,962	610

Group 2 (€ M)			
BMN	Liberbank	CEISS	Caja3
5,820	2,918	3,137	2,212

TOTAL
50,781

Initial management of the assets by the contributing banks

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

These agreements, which followed guidelines from Sareb, set out the legal framework that would govern the way in which the contributing banks would exercise delegated management duties, ranging from the administration, maintenance and marketing of properties to the management and coverage of risk. During the company's first year of operation, the contributing banks were Sareb's main management service providers or servicers.

In return for providing this service, the contributing banks receive a management fee and commissions on sales of assets that are intended to bring the aims of the contributing banks into line with the duties entrusted to Sareb.

These management agreements are scheduled to expire on 31 December 2014 and, given the significant changes seen in the Spanish servicing sector, which has begun to assume an important role as an alternative to other asset management models, this has led Sareb to design a new servicing strategy aimed at increasing efficiency in the asset management process.

This new service provision model will be launched during the second half of 2014 and subsequently consolidated during 2015.


METROPOLIS

6 Performance of the real estate assets business

6.1 Description of the portfolio

The stock of real estate assets transferred to Sareb in the two operations in December 2012 and February 2013 comprised 106,856 assets, including land, buildings under construction and finished product, the value of which (at acquisition cost) came to a total of 11,343 million euros.

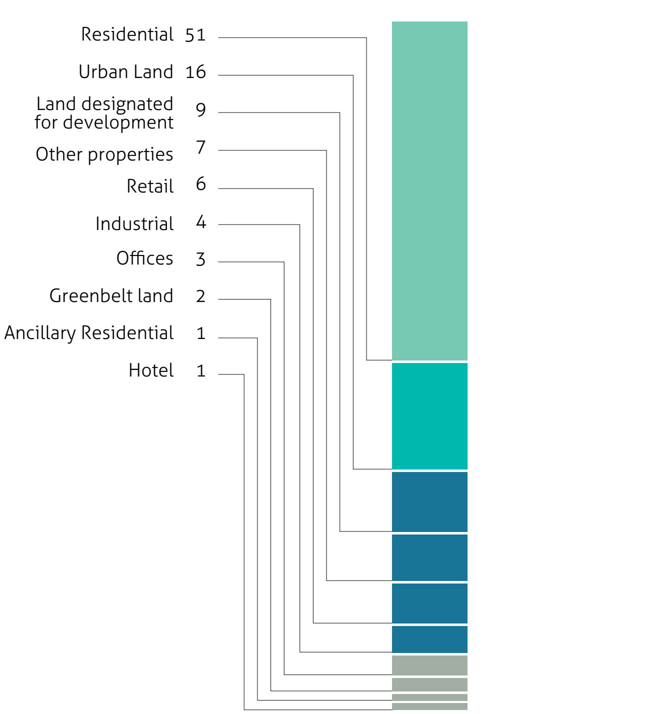
The first part of this portfolio contained 76,753 assets with an acquisition value of 8,396 million euros, and this was transferred on 31 December 2012. The remainder of the portfolio was subsequently transferred on 28 February 2013, and it comprised 30,104 assets with an acquisition value of 2,947 million euros.

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

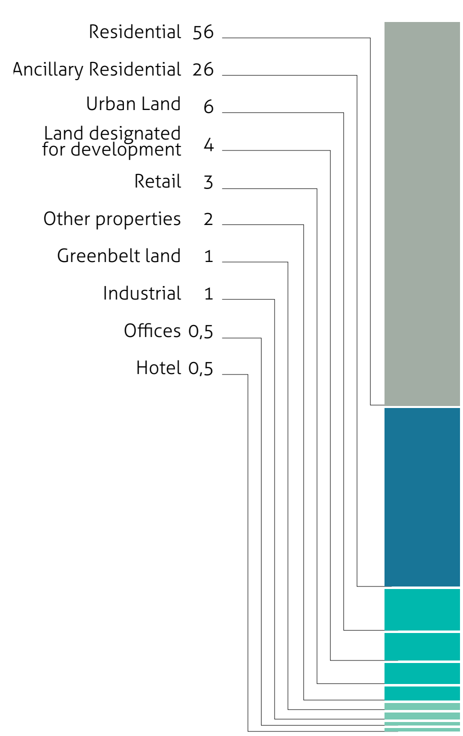
The remaining 48% (in terms of acquisition cost) included both land (green belt and land under development, amounting to 27% of the portfolio) and property assets for commercial property use (offices, retail), industrial and to a lesser extent, other buildings, (21%).

Broken down by number of assets, 82% of the portfolio comprised assets intended for residential use.

Asset type (% in € M)



Type properties (% in number of assets)



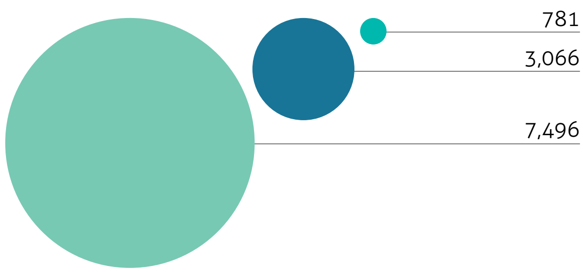
Depending on the stage of development reached by each asset, this real estate portfolio was initially broken down into the following groups, based on volume:

Classification of assets based on level of completion

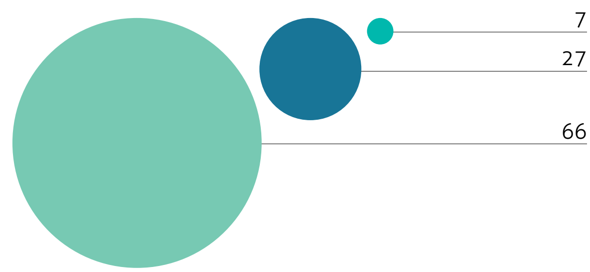
- Completed product
- Land
- Projects under construction and others

Total real estate Assets 11,343

Millions of euros



%

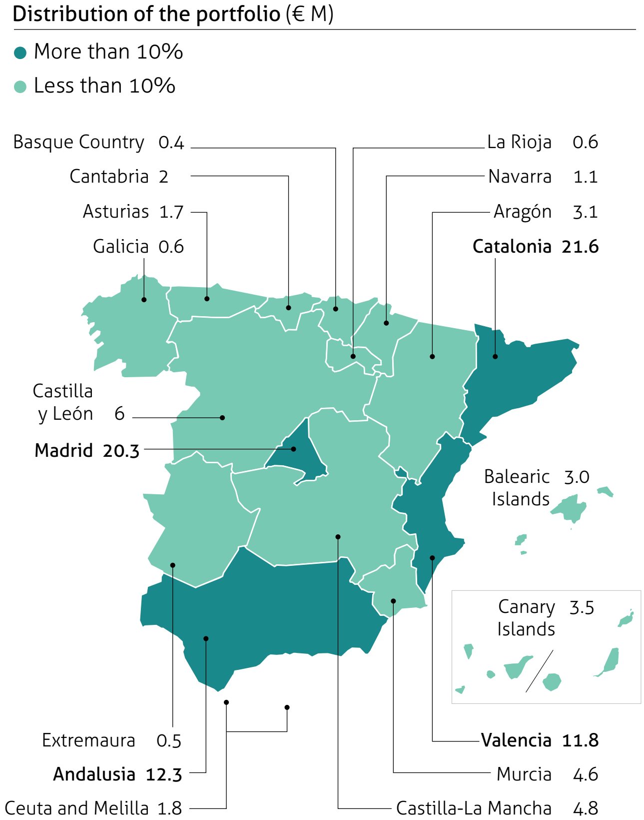


The portfolio contains a huge number of assets, and these can be found across the length and breadth of Spain. Sareb has received and is managing real estate assets in all 17 Autonomous Communities and the autonomous city of Ceuta. In provincial terms, assets are located in all 50 of Spain's provinces, while at a municipal level, these assets can be found in more than 2,000 of Spain's approximately 8,100 towns and cities.

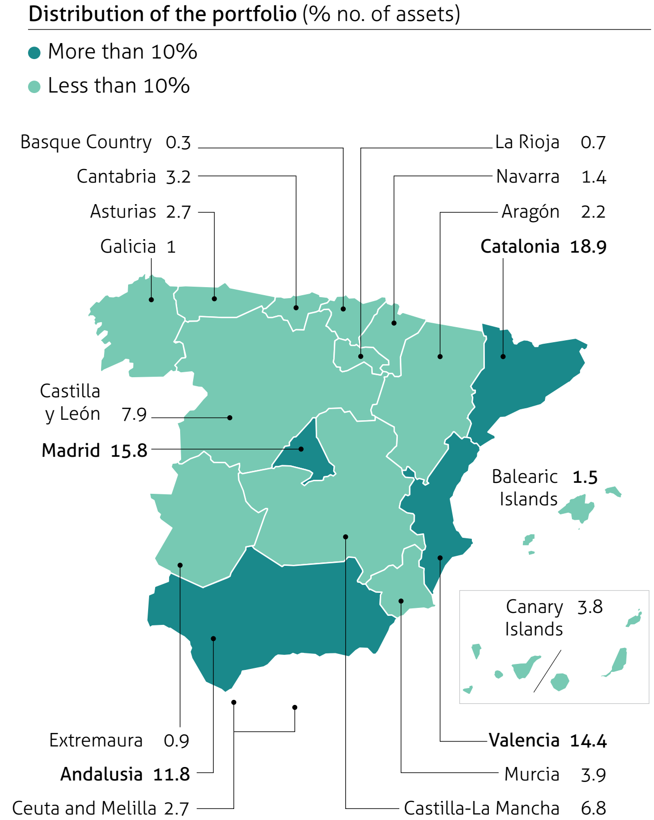
This geographical dispersion, combined with the various different types of product that, in some cases, require highly specialised management, further increases the difficulty of managing a portfolio that is already complicated as a result of its size.

Looking at the larger picture, more than 65% of the acquisition value of the portfolio is concentrated in the Autonomous Communities of Catalonia, Madrid, the Community of Valencia and Andalusia. 60% of all the company's assets are located in these regions.

Distribution of the portfolio (€ M)



Distribution of the portfolio (% no. of assets)



6.2
Lines of action

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

- Creating a team to manage the portfolio of assets transferred with specialist knowledge of each of the existing asset types.
- Completing a full inventory of the portfolio of assets acquired. The aim was to identify the assets transferred in the closest possible detail in order to design the best strategies for their management and marketing. In order to achieve this aim, among other objectives, in 2013 all of the assets were subjected to a due diligence process with a scope and complexity never before seen in Spain.
- Completing a precise multivariate segmentation of the portfolio received, based on criteria such as the nature of the asset, its use, type, condition, situation and its geographical location.
- Commencing active management of the portfolio in order to maintain and increase its value, based on property type, condition and potential. Particular attention has been paid to the portfolio of land under development and building work under construction, in an attempt not only to place a value on these assets but also to optimise both the investment and its maintenance. The company has also created policies for the management of these kinds of assets and designed and implemented a plan of action to minimise risk.
- Gradually but continuously setting prices for the entire portfolio, based on market conditions and the nature, use, type and condition of the assets and their geographical location.
- Defining and implementing the most suitable marketing strategies.
    - On the one hand, proactively developing a multi-channel disinvestment policy (retail, direct and wholesale), depending on the nature of the assets in question, the sale procedure and the clients that the assets are directed.
    - Boosting income flows from the outset, through the implementation of commercial retail sales plans, the launch of procedures for the sale of prime assets and the creation of portfolios aimed at the large investor market.
    - Managing rentals: in addition to the portfolio of rental properties transferred to Sareb by the contributing banks, the company intends to further strengthen this marketing channel as a way of generating recurring income which, as well as increasing its income flows, will also provide support for the development of a defensive strategy to offset the maintenance costs involved in a portfolio such as the one being managed. A great deal of work has been done over the course of the year in the area of improving recovery rates and default ratios, in the active management of the assets in preparation for the remarketing of vacant buildings, the identification of a new portfolio of assets that can potentially be rented out, etc.

6.2.1 Sales channels

Throughout 2013, the company worked on the creation of three separate channels for the marketing of the real estate assets being managed (retail, direct and wholesale). Tools have been created and a number of different initiatives have been introduced in order to consolidate each of these channels and to stimulate the marketing process for all the assets contained in the portfolio.

Retail channels

The retail channel used during 2013 involved the nine banks that originally transferred the assets to Sareb, which have acted as the main service providers or servicers for the management and marketing of the assets, following the price strategies and sales conditions established by Sareb.

This channel is mainly, though not exclusively, concentrated on the market segment involving purchasers of housing and ancillary residential properties. Given the need for a functioning commercial operation from the outset and the acknowledgement of the vital importance of the retail sales segment to Sareb's disinvestment strategy, specific lines of action were taken to drive this area:

- The delegation of powers to the servicers to speed up sales processes.
- The definition of the criteria to be used to set and review sale and rental prices, depending on the current state of the market.
- Support for and coordination of specific commercial actions and shock plans with each of Sareb's servicers, with a view to achieving the proper rotation of the portfolio and increasing sales: attendance at specialist trade fairs (SIMA Madrid, BMP Barcelona, Urbe Valencia) aimed at both the sector itself and the general public, specific promotions and campaigns, open days, etc.

In order to showcase the assets chosen for marketing via this channel, the banks used the following main sales resources:

- The different web platforms (both the servicers' own platforms and the leading independent real estate portals).
- The servicers' own commercial networks.
- Commercial networks of independent agents, usually Estate Agents or property marketing companies, managed directly by the servicers as specialists in each micromarket.

Sareb has also directly designed and introduced marketing tools to strengthen the range and results of the retail channel:

- The creation of a parallel channel to sell directly to the end customer, through marketing teams managed directly by Sareb, acting in competition with the teams used by the original servicers.
- The creation of different product portfolios, specialised by asset type (urban land, country estates, prime residential properties, etc.), the marketing of which is entrusted to real estate companies with specialist knowledge in the segments in question.
- The development of a real estate website that will gradually offer greater visibility for a significant portion of Sareb's real estate portfolio from the first quarter of 2014 onwards.
- The search for collaborative arrangements with sector associations to assist disinvestment. Noteble among these is the "Sareb Collaborator Channel", which will be introduced at the beginning of 2014 and allow the standardisation of direct contracting with Property Agents for the marketing of Sareb's products.

Direct channel

In addition to its retail channel, Sareb has also developed a direct sales channel. The starting point for this process centred around the marketing of assets which, because of their size, complexity and special characteristics, in terms of either their management and sale or some other feature, could be considered to be prime assets.

In contrast to the retail channel, which is mainly directed towards the end customer, the main target profile for these kinds of assets is, in the majority of cases, that of a medium-sized investor or one that specialises in a certain segment, a family office or developers. The operations engaged in via this channel can be completed either through a direct sale and purchase transaction or through the creation of investment vehicles such as FAB s (the structure of which is explained in Chapter 3).

Specific commercial initiatives were also launched and planned in the real estate assets segment during 2013 with the aim of stimulating direct disinvestment in various asset types:

- The creation of catalogues and the publication on the company's website of portfolios of country estates, hotels, tourist complexes, etc. in order to raise their visible profile and facilitate their marketing, initially through third parties but with the potential for direct marketing in the future.
- A direct sales channel for land and commercial sector assets via the Internet, which will come on line shortly.

Wholesale/Institutional channel

Finally, and particularly important both for Sareb itself and for the Spanish real estate market in general, the company developed and consolidated its wholesale channel for disinvestment of the transferred assets, a move that aroused the attention and interest of a majority of international real estate funds specialising in this particular sector during 2013.

Sareb created a number of specialist portfolios (residential properties, both finished and under construction, rental properties, offices, etc.) that would be attractive to specific buyers as a result of their product mix and the diversity of market segments (first and second homes, for example, size, potential for added value, etc.). An additional attraction for potential buyers involves the creation of a Banking Asset Fund (BAF), an innovative investment vehicle that is exclusive to Sareb.

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

A variety of operations were designed for the wholesale market over the course of the year. Some of the more important of these were:

Bull Portfolio

- First placement by Sareb of a package of real estate assets on the wholesale markets.
- More than 1,600 assets spread over 33 developments of new-build residential and retail units.
- Location: Mostly located in the autonomous communities of Andalusia, Valencia, Madrid and the Canary Islands (90% of the portfolio), with the remaining 10% in Catalonia, the Balearic Islands, Murcia and Cantabria.
- The transaction was structured using a Banking Asset Fund (FAB), which was registered with the Spanish Stock Market Commission ("CNMV") in December, thus becoming the first to be created in Spain. It will operate as a joint venture between Sareb and the purchaser.
- The FAB's properties will be managed by an independent operator.

Teide Portfolio

- Asset type: more than 2,400 assets, the majority of which are for residential use, comprising finished properties and, to a lesser extent, work under construction and land.
- Location: Mostly located in the autonomous communities of Andalusia, Valencia, Madrid and the Canary Islands (90% of the portfolio), with the remaining 10% in Catalonia, the Balearic Islands, Murcia and Cantabria.
- The transaction was structured via a Bank Asset Fund (FAB) and completed in December 2013.
- The transaction valued the portfolio at 147 million euros, thus giving Sareb a share of future capital gains through its maintenance of a 15% holding in the FAB.

Corona Portfolio

- Creation and registration with the CNMV of a FAB comprising four office buildings located in the city of Madrid.
- The FAB's properties will be managed by an independent operator that specialises in commercial properties.
- Sareb has retained 100% of the shares in this FAB.

Dorian Portfolio

- Creation and sale of a portfolio of 6 state subsidised buildings currently under rental.
- Location: Community of Madrid, Catalonia (Barcelona) and Castilla-La Mancha (Guadalajara). Balearic Islands, Murcia and Cantabria comprise the remaining 10%.
- Transaction carried out via direct sales purchase.

6.2.2 Financing agreements with financial institutions

In order to stimulate the marketing of the product portfolio, agreements have been made with some of Spain's leading financing institutions that have created specific financing facilities for the acquisition of Sareb's assets.

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

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

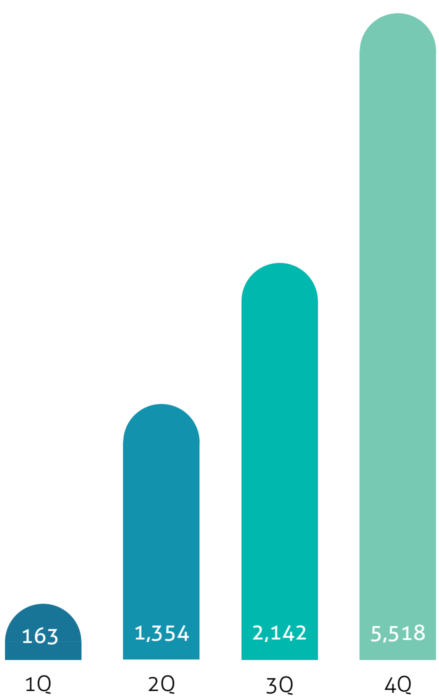
Agreements were signed during 2013 with Banco Santander, CaixaBank, Banco Sabadell, Bank Popular, Kutxabank, Caja Rural, Bankinter, ING, UCI and BBVA. As a result of these agreements, more than 6,000 million euros of financing is now available. More than 600 mortgages were granted in this way over the course of 2013.

6.3
Business performance

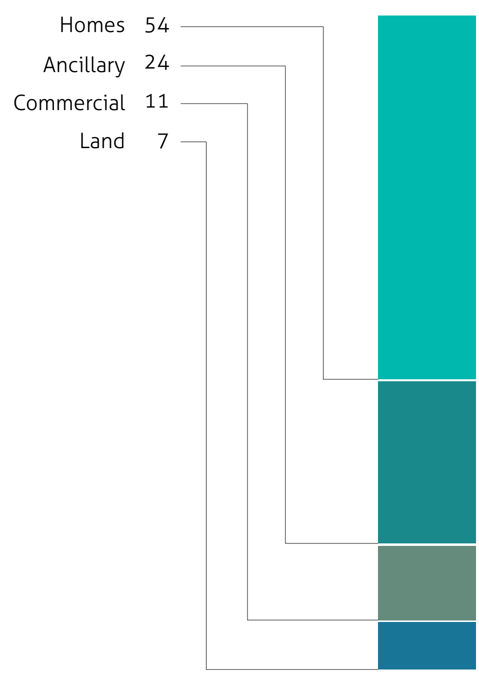
During its first year of operation, Sareb sold more than 9,000 properties through its wholesale, retail and direct channels.

The income obtained from managing and marketing real estate assets via retail and direct channels totalled 818 million euros, of which 68 million (85%) came from the management of rental property income.

Units sold



Distribution of accumulated cash flow at 31 December, by asset type (%)

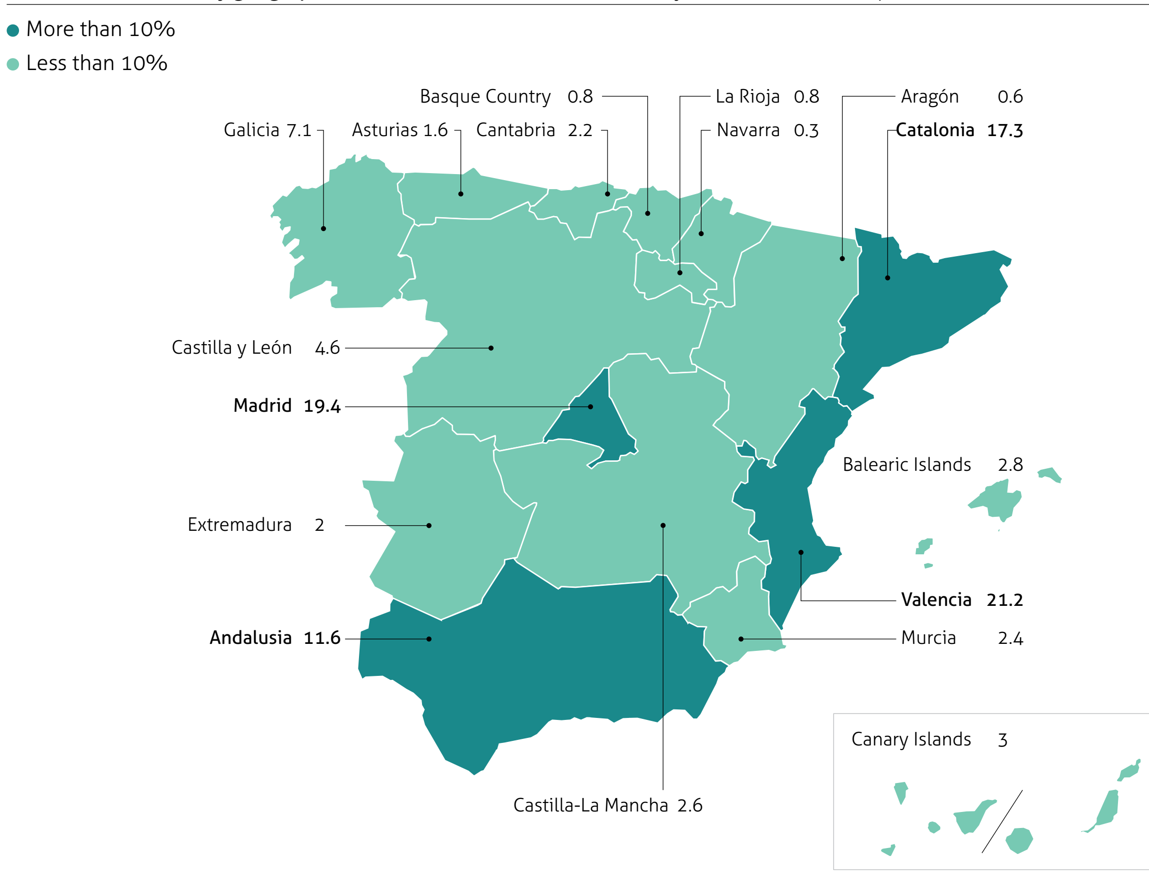


As one would expect, given the portfolio's wide geographical spread, real estate assets have been sold in every Spanish province except Teruel and the autonomous city of Ceuta. Almost 55% of the total sales made via retail and direct channels were concentrated in the provinces of Madrid, Barcelona, Valencia, Alicante and Malaga.

As regards residential assets, sales were made in practically all of Spain's provinces, with the same five provinces recording the highest volumes, though they came out in a different order (Barcelona, Madrid, Valencia, Malaga and Alicante) and accounted for a slightly smaller percentage of the total (50%).

If we look at the sale of both land and commercial properties, these were more densely concentrated in certain provinces when compared with residential and ancillary properties. Just three provinces (Madrid, Alicante and Barcelona) accounted for more than 60% of sales of land, while more than 50% of the total value of all sales was obtained in the Community of Madrid on its own.

Distribution of sales by geographical area (% of total sales volumes by recorded title deed price)

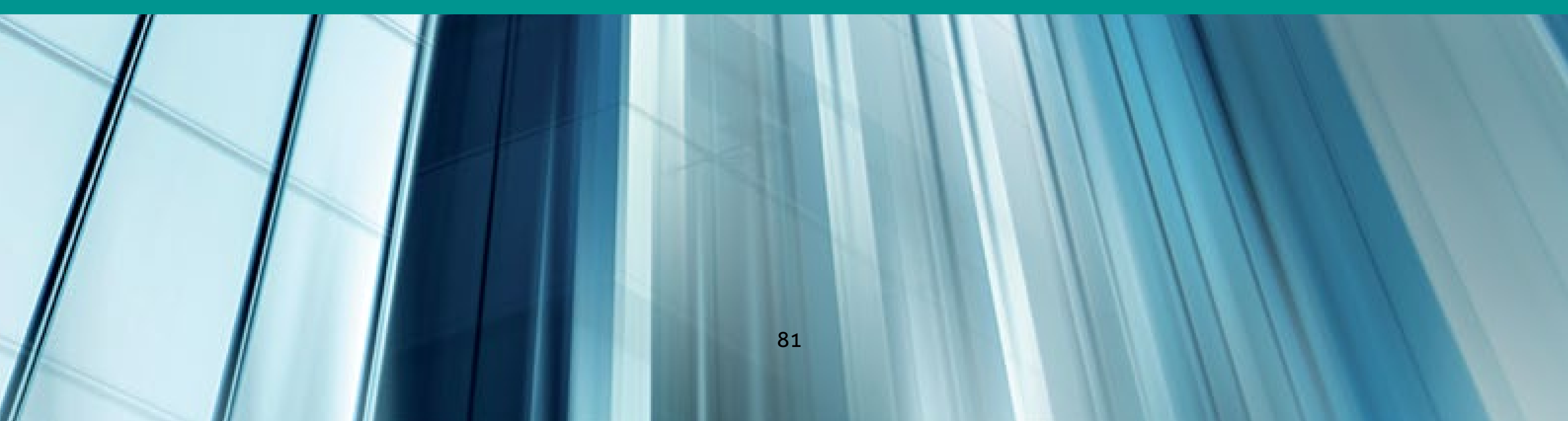


Commercial activity continued to grow throughout the year, interrupted only by the expected seasonal effects of August and September. 80% of turnover was obtained during the second half of the year, with Noteble levels of business activity in the months of July, November and December. 25% of all sales achieved via the retail and direct channels were recorded during this last month.

Of the total income obtained from the sale of real estate assets, 67% was achieved via the retail channel, 17% via the direct channel and the remaining 16% via the wholesale channel.

As regards the different types of assets sold, 79% of the sales completed via the retail and direct channels were for residential use, 16% related to land and 5% were assets devoted to commercial and industrial use.

7 Performance of the financial asset business



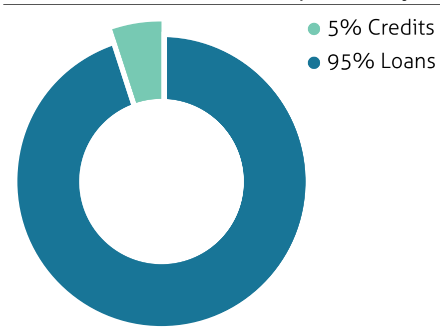
7.1
Description of the portfolio

The stock of financial assets transferred comprised 90,618 assets, with an acquisition value of 39,438 million euros (74,750 million euros gross value).

The initial transfer, made on 31 December 2012, involved a portfolio comprising 68,160 financial assets with an acquisition value of 28,299 million euros and a par value of 54,600 million euros. The remainder of the portfolio was subsequently transferred on 28 February 2013, and it comprised 22,458 assets with an acquisition value of 11,139 euros and a par value of 20,150 million euros.

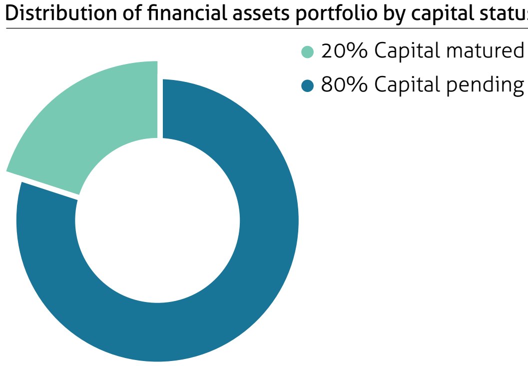
The initial portfolio comprised 95% loans and 5% credit lines.

Distribution of financial assets portfolio by asset type (%)



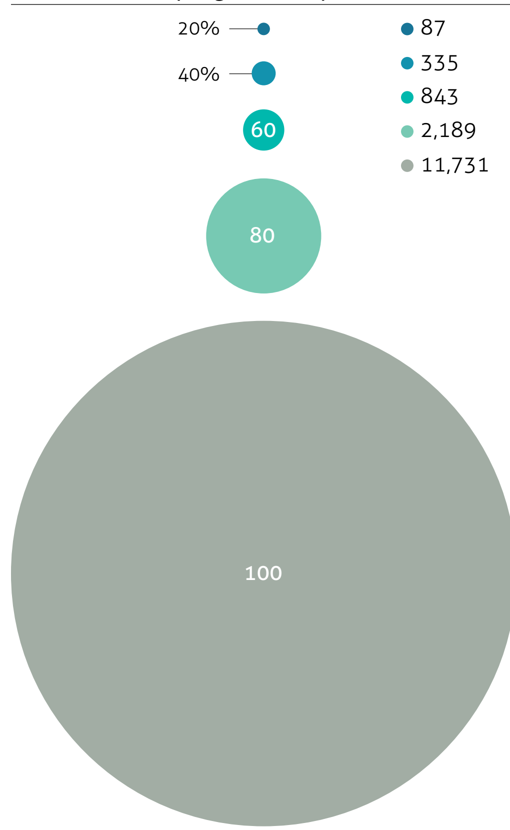
At the time of transfer, 20% of the par value of the loans and credit lines had matured, meaning that 80% of the capital remained pending.

Distribution of financial assets portfolio by capital status (%)

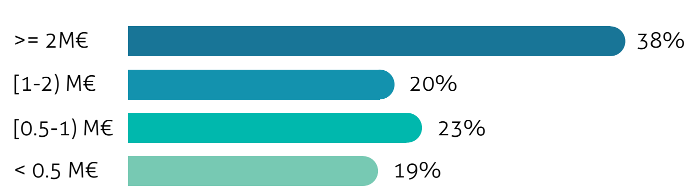


The 90,618 financial assets are distributed among 15,358 financial groups of borrowers or creditors, with an average debt amount of 825,000 euros per operation.

No. of borrowers per gross debt percentile (%)



Distribution of assets by debt scale



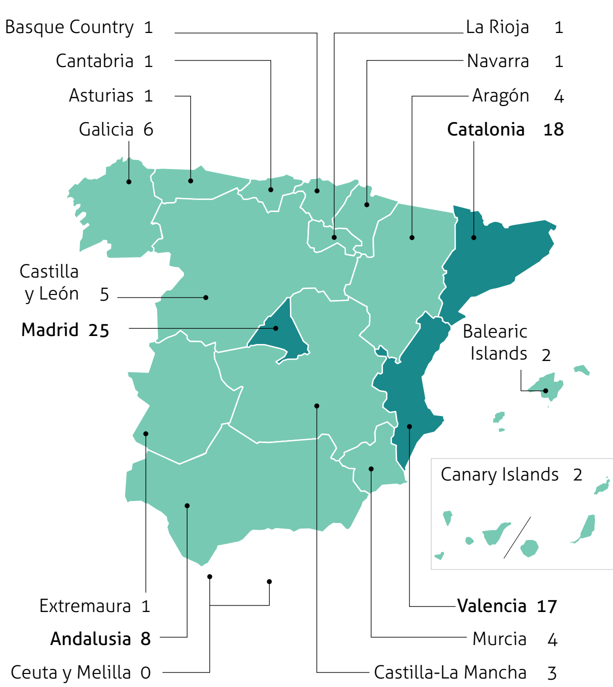
60% of borrowers are concentrated in three Autonomous Communities: Madrid, Catalonia and the Community of Valencia.

As regards distribution by security type, in terms of volume, 94% of the financial assets (by volume) are covered by mortgage guarantees, represented in 58% of cases by residential properties and land.

Geographical distribution of financial assets portfolio (%)

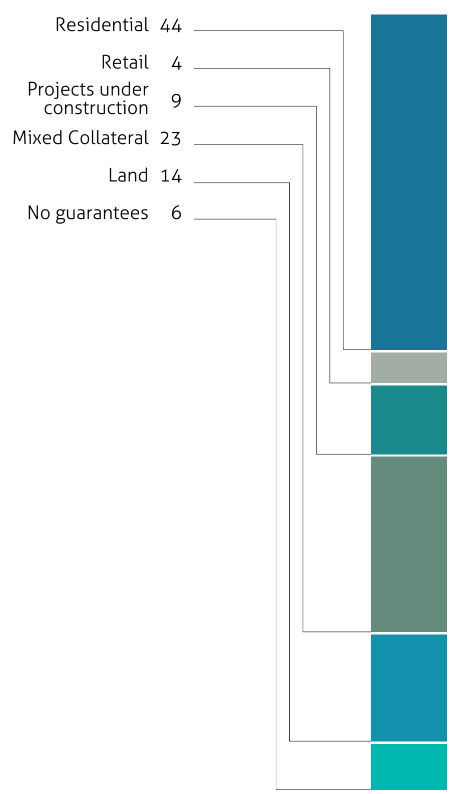
60% of borrowers are concentrated in three Autonomous Communities: Madrid, Catalonia and the Community of Valencia.

- More than 10%
- Less than 10%



Distribution of portfolio by type of security (%)

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



7.2
Lines of action

The main objectives sought from the management of the financial assets during the company's first year of operation were as follows:

- Cleaning up and optimising knowledge of the portfolio: the size of the financial assets portfolio and the broken-up and scattered nature of the loans it contained made it necessary to implement a clean-up process and obtain more information on the loans in question.

- Forming the team: as with the management of the real estate assets, a team was built over the course of the first year to take charge of managing and marketing the portfolio.

- Establishing and notifying servicers of the strategic lines for the management of the financial assets.

- Establishing mechanisms to cover decision-making processes: in conjunction with the Risk, Real Estate Assets, Legal Advice and Internal Monitoring Departments, procedures were established and committees were set up to take decisions on credit operations.

- Designing strategic lines for disinvestment in the financial assets portfolio, with particular emphasis on the prioritising of the options available in each case.

- Establishing and opening up the distribution and management channels through which disinvestment strategies were to be implemented.

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

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

7.2.1 Credit risk management

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

An important part of this credit risk management is the management of defaults, the model for which was progressively introduced during the first year of the company's operation as an essential element to ensure compliance with the requirements of both shareholders and regulators.

Supported by the resources and tools provided by the servicers, a regular monitoring and risk management process has been implemented, based on both the active management of defaults from the moment they occur and, in a second phase, on preventive management. As a result of this preventive management process, which is based on a system of early warnings that provide information on compliance by borrowers with their payment obligations, action has begun to be taken to remedy certain situations and avoid defaults.

Other important lines of action introduced during the first year were as follows:

- Credit policies and decision-making rules: Sareb set out the various credit policies and decision-making rules that would apply to the financial assets, based on their origin and type.
- Definition of the management process and levels of communication: as is the case with the real estate assets (explained in Chapter 6), communication with borrowers is mainly the responsibility of the servicers. As part of this process, and depending on the credit policies agreed, Sareb assumed responsibility for sanctioning credit requests received by the servicers. However, in the case of certain assets, given their volume or complexity, Sareb remained in direct contact with the borrowers in order to negotiate and finally complete the agreements required.
- Definition of management strategies: The following mechanisms were established for the reduction of amounts outstanding:
  - The ordinary or early collection or recovery of operations that have matured.
  - The sale of collateral by the debtor company, with support from Sareb, in order to allow the debt to be cancelled.
  - Donations in lieu and the enforcement of mortgages. This last line of action is taken as a final resort, and only to the extent it has not been possible to implement the preceding processes or such processes have been unsuccessful.

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

7.2.2 Sales channels and strategies

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

Retail channel

Channel managed by the contributing banks under instruction from Sareb. This channel was created for the management of loans and credit lines (collection and recovery) and for the retail sale, by the borrower itself, of the assets held in guarantee.

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

Direct channel

The channel managed directly by Sareb, allowing for disinvestment either through negotiations with the borrower for cancellation of the debt or through the individual sale of loans to interested investors.

This channel was further strengthened by the introduction of initiatives that allowed borrowers to propose the terms under which they would be willing to repay their debts.

In this connection, during its first year of operation, Sareb used this channel to sell its shares in three syndicated loans for a total of 480 million euros.

Particularly Noteble in this regard is the "Opportunity Plan - 2013"; more than 450 borrowers used this formula for the early cancellation of their loans with Sareb, in a par amount of 194 million euros.

Another Noteble tool used in this area were the Sales Stimulation Plans (PDVs), under which Sareb worked with the creditor institutions to market residential stock, bringing the debt into line with the current situation in the real estate markets. The creditor institutions sold more than 1,500 residential properties in 2013 just by using this tool.

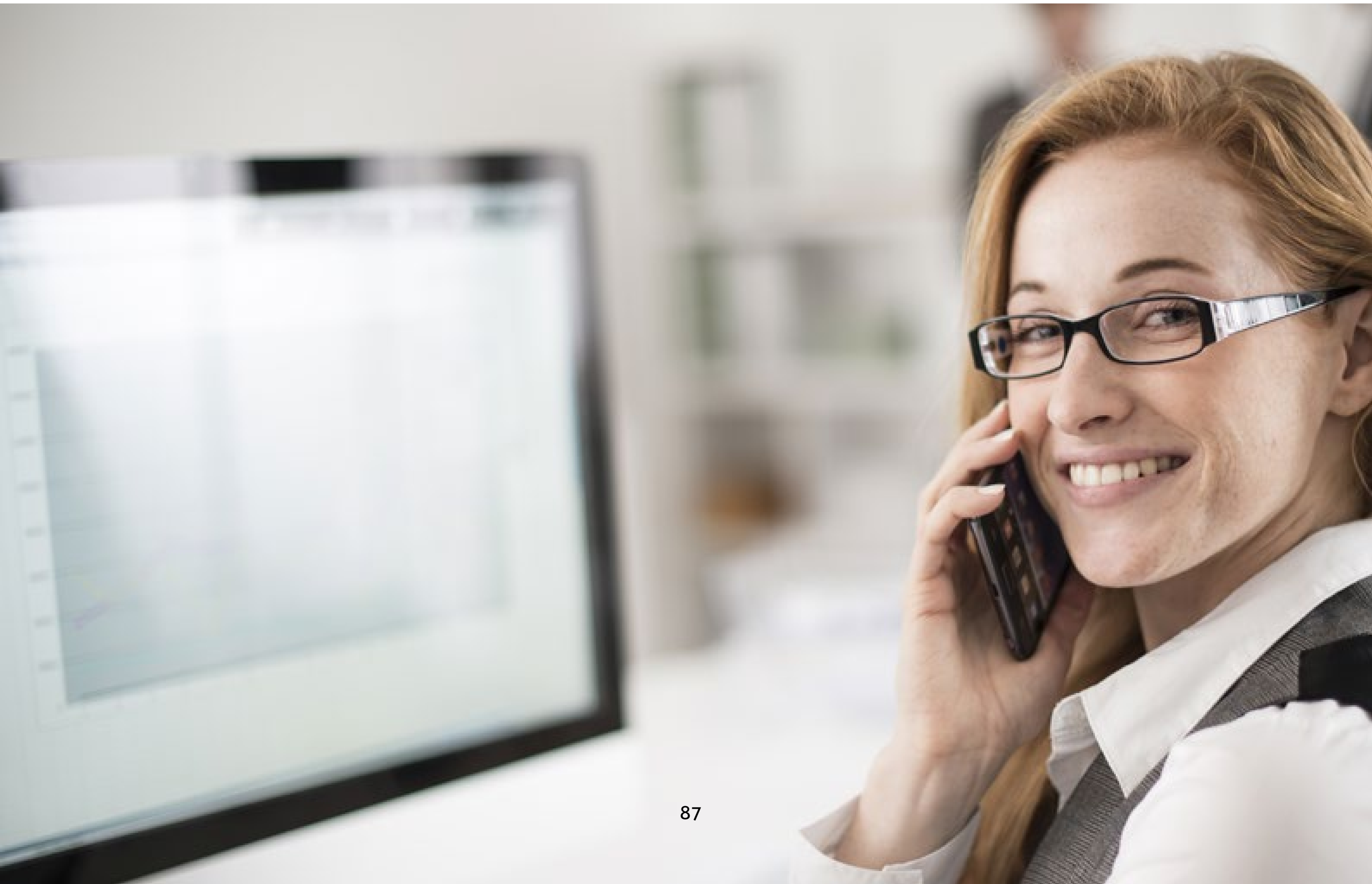
Wholesale/Institutional channel

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

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

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

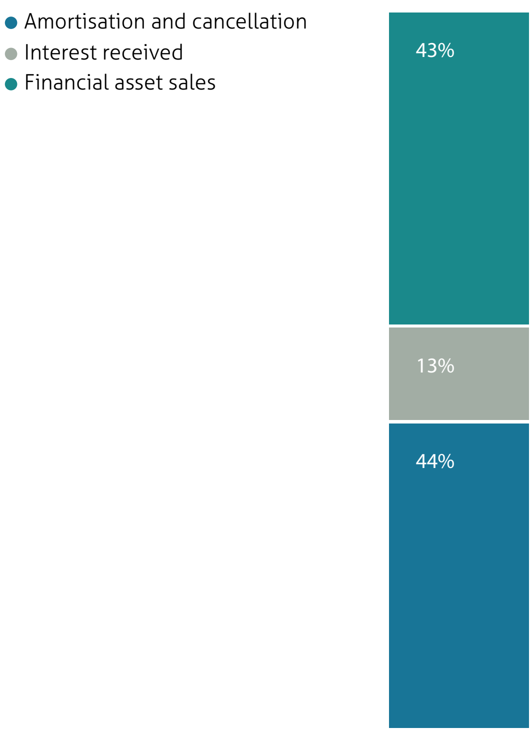
Seven loan portfolio transactions were carried out using this channel, generating total income of 757 million euros.
In addition, a total of 82 individual positions were sold at a total price of 409 million euros.



7.3
Business performance

Results obtained

Over 2013, payments received for the management of financial assets stood at 3,047 million euros.



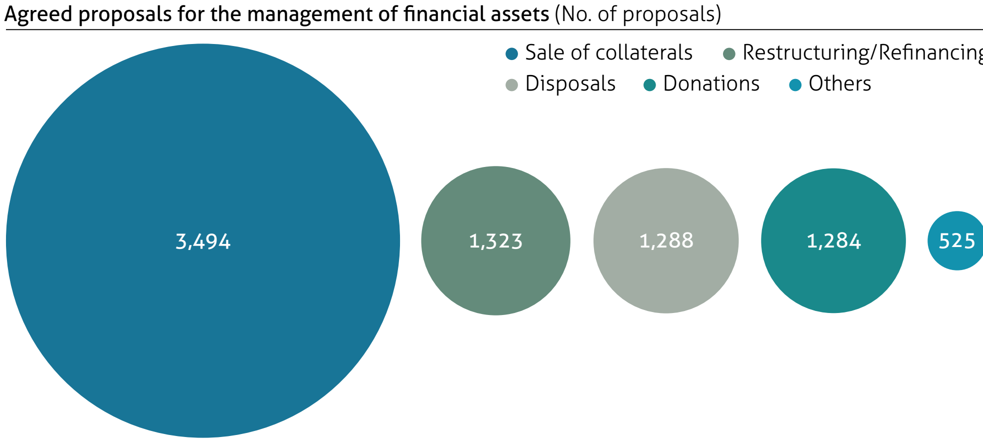
Management of financial assets

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

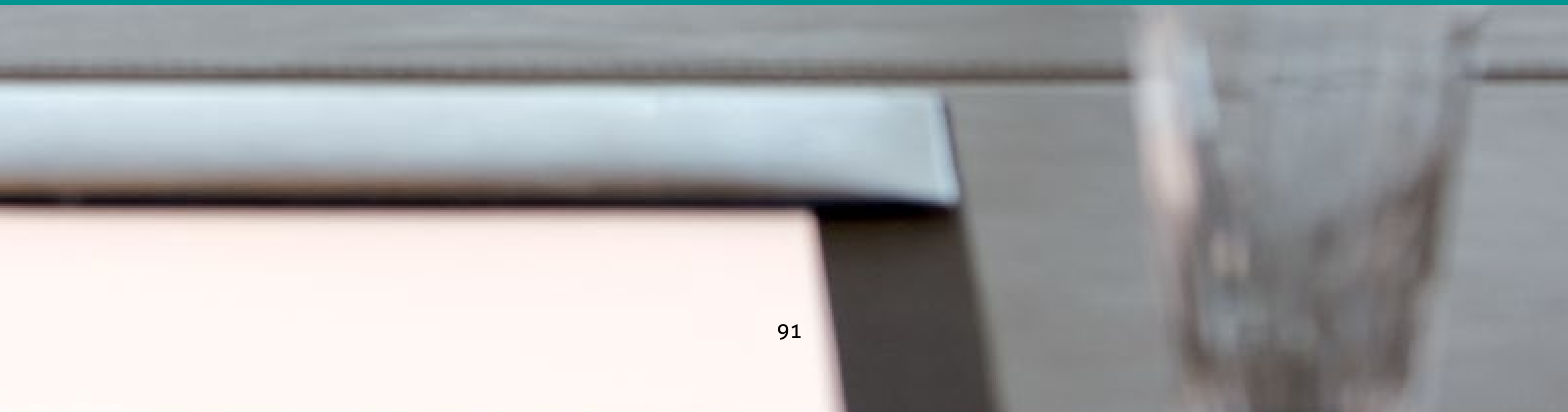
Thus, the initial management process focused on an analysis of the credit proposals received from both servicers and borrowers, as applicable, and the generation of cash flow using the measures described. Going beyond its ultimate aim of liquidating the assets, Sareb's loan portfolio provided the company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

As of 31 December, a total of 7,914 credit proposals had been agreed. Of these, 44% (3,494 proposals) related to the sale of collateral by the borrower and/or sale of the loan; 17% (1,323) related to restructuring/refinancing; 16% (1,288) related to disposals; 16% (1,284) related to donations in lieu and enforcements and 7% (525) related to other kinds of action. Sareb gradually reduced the time taken to respond to proposals received while at the same time passing on concise instructions regarding its objectives to the various servicers, which resulted in an improvement in levels of response relating to the direct recovery of outstanding payments and sales by developers.

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



8 Policies and procedures



More than 90,000 financial assets.

More than 400,000 collateral items held as guarantees.

More than 100,000 real estate assets.

8.1 Main projects started

Asset Due Diligence

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

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

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

The likes of this due diligence process had never before been carried out in Spain.

- More than 90,000 financial assets.
- Around 400,000 collateral items held as guarantees.
- More than 100,000 real estate assets.

Once completed, a review of this calibre allowed Sareb to correct, complete and improve its existing information on the majority of the financial assets and all the real estate assets transferred. It also provided it with access to the supporting documentation for the assets and/or loans acquired, giving an updated valuation of all the real estate assets and detailed information on all the items held as collateral.

A legal review has been carried out on 100% of the real estate assets and 82% of the loans. The due diligence process has focused on a review of the real estate and financial assets, taken one by one, along with their associated guarantees. This process consisted of the following:

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

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

As a result, from the outset this project involved 24 different companies and more than 1,000 specialist personnel.

The satisfactory completion of this process is allowing Sareb to undertake an appropriate segmentation of the assets, meaning that it can manage them more efficiently and proceed more quickly with the implementation of the disinvestment policies it deems most suitable.

Sareb Responde

In mid-2013, Sareb introduced its customer service known as the "Sareb Hotline", offering a telephone helpline to deal with enquiries, complaints and requests from individuals, businesses and other groups, 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. The Sareb Hotline received 5,314 calls from its introduction in June through to December.

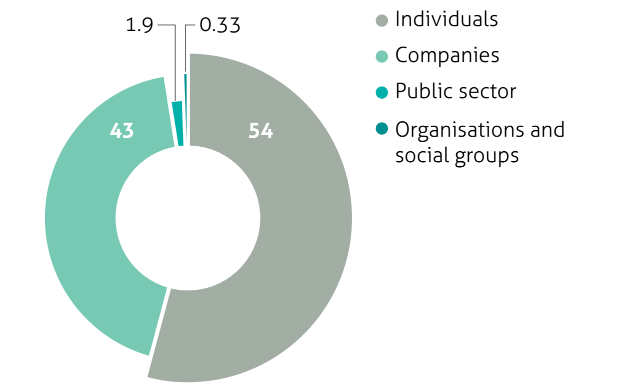
As regards the profile of the users or customers contacting the company via this helpline, individuals (54.2%) and businesses (43.2%) are the main users of the telephone service.

The types of enquiries, complaints and requests made and the reasons behind them are very broad, though users have mainly contacted Sareb for one of two reasons: acquisition of the company's assets (36%) and enquiries relating to the Opportunity Plan (27%).

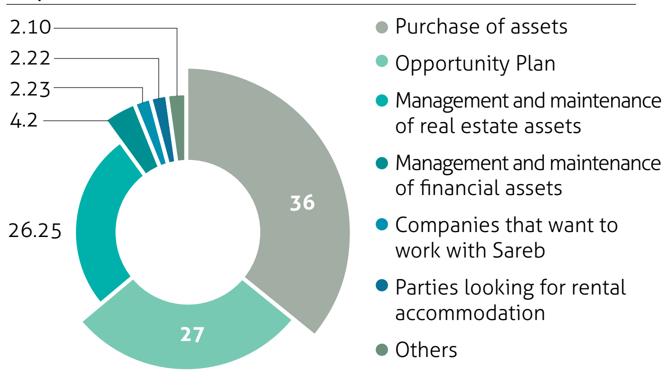
The majority of enquiries about acquiring assets come from individuals and businesses that want to buy residential properties (75%), though some users also enquired about other assets: 11% wanted information on one of the properties included in Project Harvest; 4.7% enquired about commercial properties; 3.2% asked about land; 3.1% enquired about purchasing exclusive residential properties (Project Paramount); 1.4% asked about acquiring offices belonging to the company; and 1.4% enquired about other kinds of assets.

Sareb plans to roll out the second phase of this call centre service during 2014, which will consist of follow-up calls to ascertain users' level of satisfaction with the service they have received.

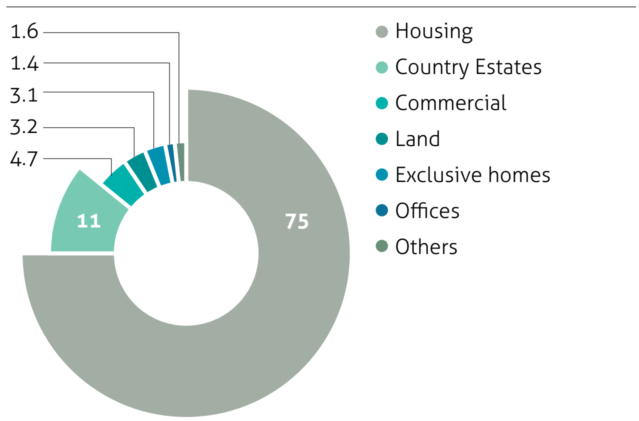
Users (%)



Enquiries via Sareb Hotline (%)



Users (%)



A new business oriented website

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

A new corporate web was launched during the second half of the year. This is quicker, more modern and more efficient, with a simpler menu structure and new functionalities. An English version of the corporate website is also planned for the early part of 2014.

The new website will help Sareb to meet its needs in the areas of communications, information and, in particular, business. In this connection, during 2013 specialist areas relating to land, rental assets and residential properties have been added to the site, each of them designed to meet the individual needs and characteristics of each product. These different areas will have specific operational capabilities and will allow the company to enhance its transparency and broaden the information on the products on offer. The launch of the new website was timed to coincide with the relaunch of Sareb's corporate brand.

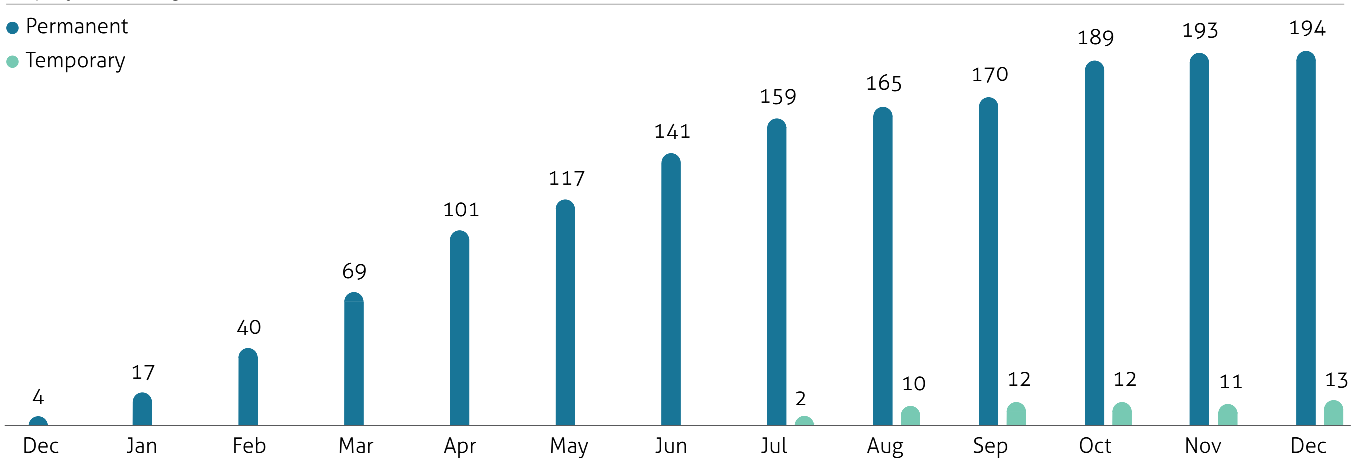
The new website also plays host to a video introducing Sareb in Spanish and English. Entitled "What is Sareb?", it became available on-line during the second half of the year and had gained around 10,000 views by the end of December, offering viewers an explanation of the company's mission and objectives.

8.2
Internal policies

Human Resources Policies and changes to the workforce

A 31 de diciembre de 2013 la plantilla de Sareb estaba formada por 207 personas (incluidos empleados fijos y temporales).

Employees joining Sareb 2013



By gender (%)

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

- Selection Policy: designed to assist Sareb in identifying the candidates that would be most suitable for the specific requirements of each position and the company's own general needs.
- Remuneration Policy: Sareb's remuneration policy was introduced as a key feature of its HR strategy, with an emphasis on equality in terms of both duties and personal treatment.
- Personnel Administration Policy; includes the proper management and monitoring of all the administrative tasks required to ensure the efficient operation of the personnel management process.

Supplier relationship models

In line with the general procurement policy approved by the Board of Directors on 16 January 2013, Sareb's General Procurement Procedure has been defined in detail and widely communicated. Observance of this procedure is compulsory, and it is centrally run from the Procurement Department, which is a sub-division of the Resources Department. Whenever there are purchasing or supply requirements, a prior budget or an exceptional funds allocation must be approved.

The procurement process was completely automated over the course of 2013, with the aim of maintaining effective control over all procurement and optimising efficiency.

Particularly Noteble among the department's lines of action is the definition of a process for the authorisation and grouping of suppliers by procurement type, aimed at ensuring true competition and the rotation of suppliers with regard to recurring goods and services. A series of supplier groupings was defined in 2013 for some important procurement categories.

The main principles governing procurement operations at Sareb are as follows:

- Identifying the expectations of internal customers as a basic condition for satisfying their needs and offering value.
- Strengthening transparency, competitive practices and non-discrimination, establishing a professional, honest and open relationship with suppliers.
- Reducing the overall cost of the products and services to be contracted in order to ensure compliance with the targets set. This must be done in a way that does not in any way harm the quality of the goods and services required by Sareb.
- Establishing the necessary information and the management and communications tools at the company to ensure that all departments participate in the planning and execution of the procurement process and the receipt of goods and services.
- Encouraging collaboration to achieve optimum contractual conditions.
- Promoting rotation and non-concentration, establishing pre-selected groups of suppliers for each category of goods or services to be procured by Sareb.
- Promoting stable relationships based on a desire for continual improvement and mutual benefit.

During 2013, the Procurement Department managed a total of 318 competitive tendering processes, at which 548 suppliers were invited to bid.

Governance and Internal Monitoring

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

- An internal control system designed on the basis of the type of risk affecting the development of the company's activities and business, as shown in the following figure.
- A programme for allocating responsibilities in the area of risk management and monitoring at all levels of the company's organisational chart and in all its decision-making bodies.
- Monitoring duties carried out by the Internal Auditing, Internal Monitoring and Compliance, and Risk Departments.

Internal monitoring system

Compliance with Norms and Standards	Risk Management	Financial information
SCISNE	**SCIR**	**SCIIF**
• Legal risk	• Financial risks • Operating risks (non-technological) • Implementation (strategic) risks • External risks	• Risk (operational) relating to financial information

Strategic processes and governance

- Strategic processes and governance
- Organisational (strategic) risks
- Technological risks
- Reputation risks

Internal Monitoring System

The General Internal Monitoring System, which had reached the implementation phase by the end of the year, is divided into the following areas:

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

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

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

- Internal system for monitoring strategic and governance processes, which forms part of the layer of structural controls that combine to create the general monitoring environment. Its purpose is to manage business, organisational, technological and reputational risk through the structuring of corporate guidelines in the relevant areas.

The implementation of an internal monitoring model at Sareb involves the establishment of a precise methodology to identify, evaluate, monitor and follow up any risk inherent in the operations that the company engages in.

It is implemented at corporate level and forms an integrated part of the management process, in order to ensure that the company's operations and decision-making are supported by documented and approved procedures that will ensure that:

- Responsibilities and duties are clearly defined.

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

- There are formal channels for the forwarding of information.

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

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

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

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

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

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

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

This review is currently under way on the date of this report. It is being carried out by Deloitte and will be dated 30/12/13 (one year after transfer of the assets).

Specific Internal Monitoring Model for the Prevention of Money Laundering

Article 24.2 of Royal Decree 1,559 of 15 November 2012, which establishes the legal rules governing asset management companies, establishes that, "Sareb shall be understood to be included among the parties subject to the terms of Article 2.1 of Act 10 of 28 April 2010, on the prevention of money laundering and the financing of terrorism". In this regard, Sareb is subject to supervision by the Executive Service of the Commission on the Prevention of Money-Laundering and Financial Offences (SEPBLAC). It is entered in the said organisation's Register of Supervised Parties, and has appointed a representative to liaise with the Executive Service of the Commission on the Prevention of Money Laundering and Financial Offences.

On 20 February 2013, Sareb's Board of Directors agreed to create an Internal Monitoring Body (OCI) under the supervision of the Audit Committee, which, among other duties, would assume the powers attributed to it under the Spanish regulations dealing with the prevention of money-laundering and the financing of terrorism. On 26 June 2013, Sareb's Board of Directors approved the Regulations of the Internal Monitoring Body, which, among other things, set out the said Body's specific roles and responsibilities with regard to the Procedure for the Prevention of Money-Laundering.

The Internal Monitoring and Compliance Department prepared Sareb's Regulations on the Prevention of Money-Laundering and the Financing of Terrorism (PML&FT) and submitted them for approval by the Board of Directors. The Regulations were approved on 30 October and were subsequently modified on 29 January 2014, in order to include the amendments that the Spanish Transparency Act has introduced into the Prevention of Money-Laundering Act (Act 10/2010).

These Regulations are directly applicable to all the company's managers and employees, as well as to anyone who establishes relationships with customers in Sareb's name or who provides other services that are subject to the PML&FT legislation (credit institutions, real estate business that are dependent on the banks, real estate agents and any other intermediaries, their managers and employees).

The Act establishes that the PML&FT system must be subject to an annual inspection, led by an external expert, to assess its definition and operational efficacy and, where appropriate, propose amendments or improvements. The conclusions of these inspections will be submitted to the Board of Directors (which, where applicable, will approve the Plan of Action required to implement the necessary amendments). **This inspection is currently under way on the date of this report. It is being carried out by Deloitte and will be dated 30/12/13 (one year after transfer of the assets).**

Specific Internal Monitoring Model for the Prevention of Criminal Risk

The entry into force on 23 December 2010 of Act 5 of 22 June 2010 led to the modification of Spanish Criminal Code Act 10 of 23 November 1995 and the establishment of a clear definition of liability for legal entities. In order for a legal entity to be considered liable, the offence in question must have been committed in its name, on its behalf and to its benefit, or it must have been committed by persons who were subject to the company's authority but were able to commit the offence due to the absence of the proper controls. In any case the Criminal Code establishes that the fact that the legal entity has put effective measures in place to prevent and uncover any offences that may have been committed using the company's resources or hiding behind its name will serve to mitigate a legal entity's liability.

In this connection, Sareb's Board of Directors, which is responsible for developing strategy and approving the policies to be implemented by Sareb, as well as for organising the Internal Monitoring System, used its powers to approve the company's Policy for the Detection and Prevention of Criminal Risk on 25/09/13. The Board charged the OCI with approving the Model for this policy and the Manual by which it is to be governed.

The Manual for the Prevention of Criminal Risk approved by the OCI sets out a model for the organisation, prevention, management and monitoring of criminal risk at Sareb, and it applies to all the members of the company's Board of Directors, its managers and employees, along with all the people working at any of its subsidiaries or at any other organisation created by Sareb in which the company is a majority shareholder or maintains control. It also applies to any third party that has been contractually bound to abide by it.

Once an analysis of criminal risk at the company had been completed, a criminal risk chart was prepared, taking account of the various business areas in which the company is active and the 23 different categories of offence that result in criminal liability, plus a further 8 that allow for application of the accessory measures contained in Article 129 of the Spanish Criminal Code or that affect the company's directors.

Sareb's Model for the Prevention of Criminal Risk provides a structure for the prevention of offences through the implementation of two kinds of controls:

- General controls, established as a basis for monitoring risk and effective in mitigating the general risk of offences being committed. These are not direct controls, and they are not exclusively aimed at preventing criminal risk.

- Specific controls, comprising detailed measures aimed at mitigating a specific criminal risk.

The Internal Monitoring and Compliance Department is entrusted with the day-to-day management of the Model for the Detection and Prevention of Criminal Risk, and it is responsible for centralising and ensuring the homogeneity of the prevention system and its management, as well as for giving notifications and proposing protocols for action, with cross-departmental responsibilities and powers, under supervision from the OCI.

Internal auditing

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

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

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

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

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

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

Internal Monitoring Body

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

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

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

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

Integrity Undertaking

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

Sareb's Integrity Undertaking takes a variety of forms, a large number of which are explained in the Code of Conduct (Available on the company's website at www.sareb.es) and in the Board of Directors' Policy on conflicts of interest and related-party transactions.

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

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

Conflict of interest and related-party transactions policy

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

Once Sareb has identified and agreed upon the existence of a conflict of interest, or it learns of the existence of a conflict of interest or related-party transaction, it will not provide the affected director with any further information on the operation or situation in question. This person will not participate in discussions or vote on the issue that has given rise to the conflict of interest or related-party transaction. In 2013, Sareb's Board of Directors applied this policy on 24 occasions.

Code of Conduct

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

- The undertakings deemed necessary in order to satisfy the expectations and demands that have been publicly awakened by such a singular corporate project, supported as it is by the efforts of millions of contributors and subject to the permanent scrutiny of both Spanish and European supervisory organisations and public opinion in general.

- The behavioural standards that must be observed by everyone who falls within the Code's applicable scope.

- The boundaries by which the contents of the policies and procedures established by the company are defined.

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

The ethical standards which inspire this code are based on the ten principles of human rights, employment, environment and anti-corruption regulations, as contained in the United Nations Global Compact.

Thus, Sareb commits itself to undertaking its work under the three core principles: integrity, transparency and civic duty.

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

9 Sareb's undertakings

9.1
Sareb's undertakings

Sareb was designed as a vehicle for the management and orderly disinvestment of assets transferred from financial institutions that were receiving public assistance.

It therefore forms part of the process for the cleaning up of the Spanish financial system. From its creation, Sareb assumed the responsibility of performing a duty that is both viable in business terms and effective in successfully tackling the challenges faced. Under Royal Decree 1,559/2012, which established the legal regulations governing asset management companies, Sareb's aims are as follows:

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

Mission, Approach and Values

Sareb's corporate culture is directly linked to its commitment to act as a key element in achieving healthy and sustainable recovery in the operation of the Spanish economy.

Its **Mission**, **Vision** and **Values** are designed to instil the guiding principles that will allow it to successfully complete the tasks with which it has been entrusted.

Mission

Sareb's Objective is to **divest its assets within a time frame of 15 years, whilst maximising their value.**

Sareb is a key element in the restructuring of the Spanish banking system. Its undertaking is to sell the loan and real estate assets received in the set timeframe, aiming to obtain the highest value for them, and comply with paying back its debt guaranteed by the Spanish State. Sareb must ensure its viability as a company in order to comply with its commitments made to its shareholders, investors and society as a whole.

Approach

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 dedicated to completing the mandate it has been entrusted with, thereby contributing to the clean-up of the banking sector and the Spanish economy. As part of this process it is key that its employees are professionally and ethically competent.

Values

Sareb's values comprise **Integrity, Transparency** and **Civic Duty.**

Integrity: Integrity suggests that all of Sareb's employees and their actions and behaviour will be in line with the regulations and the ethical standards of Sareb's business culture.

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

Sareb's undertakings

From the outset, Sareb has understood that it must perform its duties by managing its assets in a way that is sustainable for the company and responsible for its stakeholders.

Given the special nature of the company, Sareb does not look upon sustainable management as a way of ensuring its own survival, given that it will cease to exist by November 2017, viewing it instead as a way of benefiting its environment. Sustainable and responsible management by Sareb means that the company must implement the mandate with which it has been entrusted in a way that creates value for its shareholders, its employees and, in particular, the company as a whole.

For Sareb, therefore, social responsibility means translating its values into a series of undertakings with its stakeholders or interest groups, on the general principle that these undertakings will at all times be subordinated to compliance with the legal mandate entrusted to the company, which involves making a greater and better contribution that benefits all of Spanish society.

Sareb's Stakeholders

- The general public
- Team
- Suppliers and partner companies
- Investors
- Debtor companies

Undertaking 1:
Undertaking to be transparent and accountable

Sareb assesses its business performance and compliance with its legal mandate, remaining accountable to both the authorities and society at large in a number of ways. 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 undertaking to be transparent goes beyond mere compliance with the rules compelling it to report on certain aspects relating to its business activities and its financial information. For Sareb, transparency is a mechanism by which its ordinary activities can be subjected to critical assessment by the different agents in the sectors in which it operates, as well as by the general public. To this end:

- It publishes its main policies and procedures, that is to say the criteria with which it conducts its business and operations and the manner in which it manages and monitors such criteria;
- It offers important information on its performance by means of:
  - Half-Yearly Activity Reports
  - Annual Reports
  - Public information on its operations and its most important achievements
- It maintains regular contact with the communications media through the distribution of press releases, interviews with the media, participation in public meetings and the management of requests for information.

Undertaking 2:
Undertaking to society

- Wherever possible, Sareb supports the action taken by the public authorities to relieve the pressing social problem of housing in Spain.
- Sareb is open to communication and dialogue with the various groups affected by its activities, whenever constructive and respectful dialogue is proposed, with a view to achieving harmony between its business values and social expectations.
- Sareb is committed to the application of the contents of the Universal Declaration on Human Rights and the United Nations Global Compact, to which Sareb has formally signed up.

Undertaking 3:
Ethics and good governance

Sareb maintains a firm undertaking in the area of corporate governance, and it will implement the regulations it deems necessary in order to work ethically and with integrity. In this respect:

- Sareb imposes standards of behaviour on all of its employees, and these are set out in the company's Code of Conduct.

  The ethical standards that can be drawn from the contents of its Code of Conduct are based on the values that inform Sareb's corporate culture.

  Among others we would highlight:

  - respect for human rights and the dignity of the individual;
  - equal treatment and the eradication of any form of discrimination on grounds of ethnic origin, creed or political ideology, gender, age, disability, sexual orientation, nationality or citizenship, marital status or family background, or economic status;
  - strict compliance with the law and with obligations undertaken with third parties;
  - professional objectivity and impartiality in all the company's decisions and actions;
  - honesty in all the company's relations; and
  - zero tolerance of any kind of corruption.

- As a direct consequence of its special corporate purpose and the fact that its business activities are performed in the public interest, Sareb is governed by Corporate Governance regulations that are stricter than those that apply to an ordinary limited company and it must therefore appoint a specific number of independent directors to its Board of Directors, as well as establishing a number of committees that must report to the Board. 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.

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

- Given its particular importance, the Company has adopted a specific policy to manage any institutional conflicts of interest that arise in relation to its governing bodies. The contents of this policy will complement the contents of the Code of Conduct. Among other issues, it will establish that, in the event that a related-party transaction affects a director, the company will not provide that person with any further information on the transaction in question, and in the event that he or she is present at the meeting, they will not vote or award a proxy and they will leave the room while the transaction is being debated.

Undertaking 4:
Undertaking to stakeholders

The general public

- Sareb works with the aim of completing the mission with which it has been entrusted and thus minimising the impact on taxpayers of the assistance received by Spanish financial institutions.

Team

- Sareb develops and implements human resources policies based on diversity, non-discrimination, equal opportunities and the right to union representation for all employees.

- It promotes professional advancement through a series of training activities that are directed towards all employees, combining specific training for individual job positions with other more general activities that enhance workers' abilities and provide them with the necessary qualifications to undertake other duties.

- The company applies the measures necessary to achieve the highest levels of health and safety for all of its employees.

- It guarantees respect for basic human rights and rejects any practice that is contrary to individual or collective dignity. (Complaint communication and management procedure).

- It encourages communication and participation.

Suppliers and partner companies

- In its acquisition and contracting operations, Sareb seeks to combine its desire to minimise the cost of the items acquired with the value offered by maintaining stable relationships with suppliers aimed at ensuring continuous improvement and mutual benefit. To this end, Sareb structures its procurement and investment policies in accordance with principles of transparency, competition and non-discrimination.

- Sareb particularly values those who share its ethical standards, and there may be cases in which suppliers or collaborators are obliged to sign its Code of Conduct as a necessary prerequisite for providing the company with services.

- Wherever possible, Sareb will encourage the rotation of suppliers and will avoid concentrating on any single supplier.

- All the actions taken and decisions adopted in relation to the acquisition and contracting of goods and services must be documented in such a way that each of the stages in the procurement process, from the criteria used to select potential suppliers through to the award of contracts, can be checked and verified.

Undertaking with investors in Sareb's assets

- The company favours transparency and the rules of the free market, rejecting the practices of bribery, corruption or any other kind of contribution aimed at obtaining an advantage in the marketplace and respecting the principles of free competition.

- Sareb is committed to treating its potential investors equally, in such a way that when the circumstances are equal, investors enjoy the same communications procedure and access to information for all the Sareb assets being offered for sale.

- The company is committed to the use of competitive and transparent processes for all of its sales channels, with particular emphasis on sale processes in the wholesale market.

Borrower companies

- Sareb undertakes to maintain open lines of communication with all of its borrowers and to maintain their loans in accordance with value creation criteria.

- When performing its duties, Sareb will seek to maintain regular dialogue with the business organisations that represent its borrowers, and it undertakes to listen to their opinions and demands insofar as they may result in the enhanced achievement of the company's objectives.

Undertaking 5: Undertaking to the Environment

- Sareb undertakes to respect and protect the Environment, in accordance with the principles and approaches contained in its specific environmental management policy (approved in January 2014), which establishes, among other provisions:

  - Prioritising quality in the performance of services and construction work, which is understood to mean complying with the undertakings made to shareholders, investors and society as a whole, eliminating costs with no added value 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 personnel aware of their responsibility to preserve the Environment and providing the necessary training.

  - Supporting the continuous improvement of internal procedures for compliance with undertakings to respect the Environment and prevent pollution, encouraging the search for innovative and effective solutions and promoting the exchange of know-how with other social agents that will lead to the adoption of best practices in this area.

  - Encouraging suppliers to adhere to the principles approved and ensuring that companies acting in Sareb's name do so with complete respect for the environmental regulations.

    - When Sareb acts as a developer of residential properties, it will ensure that the subcontractors engaged to carry out construction work respect the Environment and concentrate on minimising environmental impact. When selecting its contractors, Sareb will assess their undertakings to save energy, make sensible use of water, improve habitability and create sustainable designs, evaluating the eco-sustainability of their projects from the design of their buildings through to maintenance and renovation.

    - As regards land management, the companies charged with maintaining land will take account of the level of environmental risk in respect of each of the different types of soil, establishing the appropriate protocols to prevent fire, toxic leaks or any other circumstance that could affect the land and create a risk for the Environment.

Actions taken during 2013

Since 2103, Sareb has been a participant in the United Nations Global Compact, making a commitment that it will regularly renew by taking different actions and initiatives.

The ten principles contained in the Global Compact will serve as a guide for Sareb's CSR Policy, which will be approved during the course of 2014.

Human Rights

- "Businesses should support and respect the protection of internationally proclaimed human rights, within their area of influence".
- "Businesses should make sure they are not complicit in human rights abuses".

Employment Regulations

- "Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining".
- "Businesses should uphold the elimination of all forms of forced and compulsory labour".
- "Businesses should uphold the effective abolition of child labour".
- "Businesses should uphold the elimination of discrimination in respect of employment and occupation".

Environment

- "Businesses should support a precautionary approach to environmental challenges".
- "Businesses should undertake initiatives to promote greater environmental responsibility".
- "Businesses should encourage the development and diffusion of environmentally friendly technologies".

Anti-Corruption

- "Businesses should work against corruption in all its forms, including extortion and bribery".

	Undertakings	Milestones 2013
To Transparency and Accountability	Transparency in its policies and procedures Accountability with the authorities and society in general.	- Weekly Activity Report, submission of report to the Spanish Parliament and publication on the company website. - Submission of monthly and quarterly accounts to the authorities that signed the MoU. - Meetings with the Monitoring Committee at least once a quarter. - Submission of quarterly accounts and activity report to the Monitoring Committee. - Distribution of 36 press releases and more than 500 contacts with the communications media. - Launch of a new corporate website.
To Society	Support for the authorities with regard to social housing problems. Open dialogue with related groups. Adherence to the United Nations Global Compact.	- Invitation to negotiate accessible rental agreements with the Autonomous Communities (7 sets of negotiations under way): Initiative approved in 2013 for the temporary assignment of 2,000 residential properties to these organisations for use as part of their social housing programmes.
To Ethics and Good Governance	Advanced Corporate Governance practices. Strict regulations on managing conflicts of interests. Strict regulations on ethics and conduct for employees.	Board of Directors (16 meetings in 2013): - Approval of the Conflicts of Interest and Related-Party Operations policy that prevents access to information and participation in discussions and voting, used on 24 occasions. - Obligation of the Remuneration and Appointments Committee (8 meetings) to provide information on general remuneration and incentives policy for Board Members and management staff. - Audit Committee (9 meetings). Employees: - Code of Conduct that prevents conflicts of interest and stops privileged information being used for personal benefit. System for the Internal Monitoring of compliance with ethical norms and standards. Preparation of risk chart.
To the General Public	Minimising the cost to the taxpayer of the assistance received.	Repayment of 2,000 million euros worth of the debt issued with the State's guarantee.

	Undertakings	Milestones 2013
To the Team	Policies based on diversity, non-discrimination and equal opportunities.	- Employee recruitment policy: Sareb employs 207 people, of whom 60% are men and 40% women. 88% of the workforce are graduates. - Training policy: 445 hours of training were given in 2013. - Health insurance has been taken out for employees to provide them with medical assistance. - Physical Safety Policy: a Safety Plan has been implemented to guarantee the physical safety of the company's employees and facilities.
To Suppliers and Partner Companies	Procurement and investment process are subject to principles of transparency, competition and non-discrimination.	Supplier policy and general procurement procedure: - 318 competitive tendering processes were held, at which 548 suppliers were invited to bid. - 120 companies have been authorised to provide specific services.
To Investors	Transparency, submission to a free market and non-discriminatory treatment in equal situations.	- Portfolio sales procedures. - Bilateral sales procedures.
To Borrower Companies	A flexible attitude, open to negotiation.	- Opportunity Plan: more than 450 borrowers repaid their loans early, to the value of 118 million euros. - Active management of financial assets: 7,900 proposals were approved, of which 44% involved the sale of collateral; 17% restructuring/refinancing; 16% disposals, 16% donations in lieu and foreclosures; and 7% other kinds of action. - Sales stimulation plans (PDVs): as part of this initiative, borrowers sold more than 1,500 residential properties.
To the Environment	Respect and protect the Environment.	- Environment management policy (approved in January 2014). - Energy efficiency measures in the offices. - Analysis of situations with potential environmental risks relating to real estate assets (in the case of land and building under construction: analysis and implementation of preventive measures to avoid damage to third parties; promotion of the rental of green belt properties and land authorised for development; specific conservation and fire-prevention studies; regular clearing and cleaning).

10 Annual Accounts

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

Annual Accounts for the year ended 31 December 2013
and Directors' Report

Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of annual accounts originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (Note 2). 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.

AUDITOR'S REPORT ON ANNUAL ACCOUNTS

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

We have audited the annual accounts of Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A., consisting of the balance sheet at 31 December 2013, the income statement, the statement of changes in equity, the cash flow statement and related notes for the year then ended. The Company's Directors are responsible for the preparation of these annual accounts in accordance with the financial reporting framework applicable to the entity (as identified in Note 2 to the accompanying annual accounts), and in particular, with the accounting principles and criteria included therein. Our responsibility is to express an opinion on the annual accounts taken as a whole, based on the work performed in accordance with legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying annual accounts for 2013 present fairly, in all material respects, the equity and financial position of Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A. at 31 December 2013 and the results of its operations and 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.

The accompanying directors' report for 2013 contains the explanations which the Directors consider appropriate regarding the Company's situation, the development of its 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 2013. 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
Julián González Gómez
Partner

27 March de 2014

SOCIEDAD DE GESTIÓN DE ACTIVOS PROCEDENTES DE LA REESTRUCTURACIÓN BANCARIA, S.A. (SAREB). BALANCE SHEET AT 31 DECEMBER 2013 AND 2012.

(Thousands of Euros)

ASSETS	Notes to the annual accounts	31/12/2013	31/12/2012
NON-CURRENT ASSETS		**46.786.297**	**22.775.732**
Intangible assets	**Note 4.1**	**258**	**-**
Industrial property		9	-
Computer software		249	-
Property, plant and equipment	**Note 4.2**	**1,190**	**-**
Furniture		102	-
Technical installations and other property, plant and equipment		924	-
Information technology equipment		164	-
Investment properties	**Note 5**	**11,003,633**	**6,166,188**
Land		4,523,217	2,812,430
Buildings		6,480,416	3,353,758
Long-term investments in associates companies		**71,496**	**-**
Equity instruments	Note 7.2.1	13,172	-
Loans to companies	Note 7.2.2	58,324	-
Long-term financial investments	**Note 7.1**	**35,451,026**	**16,607,192**
Loans to third parties and related parties		34,999,115	16,607,153
Other financial assets		451,911	39
Deferred tax assets	**Note 15.3**	**258,694**	**2,352**
CURRENT ASSETS		**7,463,744**	**17,739,968**
Inventory	**Note 8**	**50,534**	**2,230,218**
Goods in progress		50,420	470,124
Finished goods		-	1,760,094
Advances to suppliers		114	-
Trade and other receivables	**Note 9**	**88,714**	**2**
Trade receivables from sales and services		76,818	-
Other receivables		1,337	-
Current tax assets	Note 15.1	10,559	1
Public administrations, other	Note 15.1	-	1
Short-term financial investments	**Note 7.1**	**2,541,939**	**13,394,884**
Loans to companies		2,499,393	11,691,749
Other financial assets		42,546	1,703,135
Prepayments for current assets		**103**	**-**
Cash and cash equivalents	**Note 10**	**4,782,454**	**2,114,864**
Cash		2,307,474	2,114,864
Cash equivalents		2,474,980	-
TOTAL ASSETS		**54,250,041**	**40,515,700**

LIABILITIES	Notes to the annual accounts	31/12/2013	31/12/2012
EQUITY	**Note 11**	**668,080**	**950,322**
Shareholders´ Equity		**934,039**	**950,322**
Capital			
Share capital		300,060	238,998
Share premium		**900,000**	**716,812**
Prior periods' losses		(5,488)	-
Losses from prior periods		(260,533)	(5,488)
VALUATION ADJUSTMENTS	**Note 13.3**	**(265,959)**	-
Hedging transactions		**(265,959)**	**-**
NON-CURRENT LIABILITIES		**49,654,332**	**28,548,200**
Short-term provisions	**Note 12**	**53,322**	**-**
Short-term payables	**Note 13**	**49,601,010**	**28,548,200**
Liabilities and other marketable securities bonds		49,176,000	28,548,200
Derivatives		379,942	-
Other financial liabilities		45,068	-
CURRENT LIABILITIES		**3,927,629**	**11,017,178**
Current provisions			
Current payables	**Note 13**	**3,596,862**	**11,012,076**
Debt with financial institutions		130,268	-
Liabilities and other marketable securities bonds		3,457,298	11,010,888
Other financial liabilities		9,296	1,188
Trade and other payables	**Note 14**	**330,767**	**5,102**
Suppliers		238,733	4,943
Other payables		-	131
Personnel		1,912	-
Current tax liabilities	**Note 15.1**	-	27
Public administrations, other	**Note 15.1**	90,122	1
TOTAL EQUITY AND LIABILITIES		**54,250,041**	**40,515,700**

Notes 1 to 18 of the accompanying annual accounts are an integral part of the balance sheet as at 31 December 2013.

SOCIEDAD DE GESTIÓN DE ACTIVOS PROCEDENTES DE LA REESTRUCTURACIÓN BANCARIA, S.A. (SAREB). INCOME STATEMENT FOR THE PERIOD ENDED DECEMBER 2013 AND FOR THE PERIOD BETWEEN 28 NOVEMBER 2012 AND 31 DECEMBER 2012
(Thousands of Euros)

	Notes to the annual accounts	2013	2012
CONTINUED OPERATIONS			
Revenue	**Note 16.1**	**2,861,476**	**-**
Inventory sales		14,196	-
Income from Investment Property sales		804,081	-
Income from lease agreements		68,198	-
Income from loans and credits sales		764,955	-
Financial income from loans and credits		765,910	-
Capital gains recoveries from loans and credits		443,123	-
Income from FABs´ remuneration		1,013	-
Finished goods and work in progress inventory variation		**(10,007)**	
Cost of sales	**Note 16.2**	**(1,256,721)**	-
Cost of Investment Properties		(629,191)	-
Cost of sales of Financial Assets		(627,530)	-
Other operating income		**1,168**	**-**
Non-trading and other operating income		1,168	-
Personnel expenses	**Note 16.3**	**(14,883)**	**(75)**
Salaries and wages		(13,246)	(73)
Employee benefits expense		(1,637)	(2)
Other operating expenses		**(445,615)**	**(4,981)**
External services	Note 16.4	(298,371)	(4,981)
Taxes	Note 16.4	(87,359)	-
Losses, impairment and changes in trade provisions	Notes 9 y 12	(59,132)	-
Other operating expenses		(753)	-
Depreciation and amortisation	**Notes 4.1, 4.2 y 4.3**	**(56,778)**	**-**
Impairment of financial instruments	**Note 7**	**(259,378)**	**-**
RESULTS FROM OPERATING ACTIVITIES		**819,262**	**(5,056)**
Financial income	**Note 16.6**	**50,542**	**4**
Marketable securities and other financial instruments			
Other		50,542	4
Financial expenses	**Note 16.5**	**(1,272,460)**	**(2,788)**
Group companies and associates		-	
Other		(1,272,460)	(2,788)
Foreign exchange gains/(losses)	**Note 4.12**	**(236)**	
NET FINANCIAL INCOME/(EXPENSE)		**(1,222,154)**	**(2,784)**
PROFIT/(LOSS) BEFORE INCOME TAX		**(402,892)**	**(7,840)**
Income tax expense	**Note 15**	**142,359**	**2,352**
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		**(260,533)**	**(5,488)**
PROFIT/(LOSS) FOR THE YEAR		(260,533)	(5,488)

Notes 1 to 18 of the accompanying Annual Accounts are an integral part of the income statement for 2013.

SOCIEDAD DE GESTIÓN DE ACTIVOS PROCEDENTES DE LA REESTRUCTURACIÓN BANCARIA, S.A. (SAREB).
STATEMENT OF CHANGES IN EQUITY FOR 2013 AND 2012.
STATEMENT OF RECOGNISED INCOME AND EXPENSE.
(Thousands of Euros)

	2013	2012
PROFIT/(LOSS) FOR THE YEAR (I)	**(260,533)**	**(5,488)**
Income and expenses recognised directly in equity		
- Cash-flow hedges	(380,110)	
- Tax effect	114,033	-
TOTAL INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY (II)	**(266,077)**	-
Amounts transferred to the income statement		-
- Cash-flow hedges	168	
- Tax effect	(50)	-
TOTAL AMOUNTS TRANSFERRED TO THE INCOME STATEMENT (III)	**118**	**-**
TOTAL RECOGNISED INCOME AND EXPENSE (I+II+III)	(526,492)	(5,488)

Notes 1 to 18 of the accompanying annual accounts are an integral part of the statement of recognised income and expenses for 2013.

SOCIEDAD DE GESTIÓN DE ACTIVOS PROCEDENTES DE LA REESTRUCTURACIÓN BANCARIA, S.A. (SAREB).
STATEMENT OF CHANGES IN EQUITY FOR 2013 AND 2012.
STATEMENT OF TOTAL CHANGES IN EQUITY.
(Thousands of Euros)

	Capital	Share premium	Prior-year losses	Treasury shares	Profit/ (loss) for the year	Adjustments due to changes in value	TOTAL
INITIAL BALANCE	-	-	-	-	-	-	-
Total recognised income and expenses	-	-	-	-	(5,488)		(5,488)
Operations with shareholders							
- Capital increase	238,998	716,812	-	-	-	-	955,810
Other changes in equity	-		-	-	-	-	-
BALANCE, 2012 YEAR END	**238,998**	**716,812**	**-**	**-**	**(5,488)**	**-**	**950,322**
Total recognised income and expenses	-	-	-	-	(260,533)	(265,959)	(526,492)
Operations with shareholders							
- Capital increase (Note 11)	61,062	183,188	-	-	-	-	244,250
Other changes in equity	**-**	**-**	**(5,488)**	**-**	**5,488**	**-**	-
BALANCE, 2013 YEAR END	**300,060**	**900,000**	**(5,488)**	**-**	**(260,533)**	**(265,959)**	**668,080**

Notes 1 to 18 of the accompanying annual accounts are an integral part of the statement of total changes in equity as at 31 December 2013.

SOCIEDAD DE GESTIÓN DE ACTIVOS PROCEDENTES DE LA REESTRUCTURACIÓN BANCARIA, S.A. (SAREB). CASH FLOW STATEMENT FOR FY 2013 AND FOR THE PERIOD 28 NOVEMBER 2012 TO 31 DECEMBER 2012.
(Thousands of Euros)

		2013	2012
A)	**CASH FLOWS FROM OPERATING ACTIVITIES (1+2+3+4)**	**1,822,289**	**(11)**
1.	**Profit/(loss) before taxes**	**(402,892)**	**(7,840)**
2.	**Adjustments for:**	**1,094,314**	**-**
	(+/-) Amortización del inmovilizado	56,778	-
	(+/-) Financial expenses	1,272,460	-
	(+/-) Financial income	(50,542)	-
	(+/-) Financial income, interest on loans and credits	(765,910)	
	(+/-) Other adjustments for the period	263,018	
	(+/-) Losses, impairment and change in trade provisions	59,132	-
	(+/-) Impairment of financial instruments	259,378	-
	Tax payments (-)	-	-
3.	**Increase/(Decrease) in assets and liabilities**	**1,666,209**	**7,829**
	Increase/(Decrease) in inventory (+/-)	(8,125)	-
	Increase/(Decrease) in receivables (+/-)	(88,712)	-
	Increase/(Decrease) in other current financial assets (+/-)	(43,510)	-
	Increase/(Decrease) in payables (+/-)	62,648	-
	Increase/(Decrease) in other current financial liabilities (+/-)	8,108	7,829
	Increase/(Decrease) in Loans to third parties	1,149,046	-
	Increase/(Decrease) in Investment Properties	586,755	-
4.	**Other cash flows from operating activities:**	**(535,343)**	**-**
	(-) Interest paid	(1,236,362)	-
	(+) Dividends received	1,013	-
	(+) Interest received	46,939	-
	(+/-) Interest received on loans and credit	653,067	-
	(+/-) Other amounts (paid)/ received from operating activities		
B)	**CASH FLOWS FROM INVESTING ACTIVITIES (1+2)**	**(524,816)**	**-**
1.	**Payments on investments:**	**(524,816)**	**-**
	(-) Group companies, associates and business units		-
	(-) Property, plant and equipment, intangible assets and investment properties	(1,447)	-
	(-) Loans and shareholdings in associates companies	(71,496)	-
	(-) Other financial assets	(451,872)	-
2.	**Proceeds from sale of investments:**	**-**	**-**
	(+) Group companies, associates and business units	-	-
	(+) Property, plant and equipment, intangible assets and investment properties	-	-
	(+) Income from sales of loans and credits	-	-
	(+) Financial income from loan portfolio	-	-

		2013	2012
C)	**CASH FLOWS FROM FINANCING ACTIVITIES (1+2+3)**	**(332,782)**	**3,818,011**
1.	**Proceeds/(payments) from equity instruments:**	**244,250**	**955,810**
	(+) Issue	244,250	955,810
	(-) Redemption	-	-
	(-) Acquisition	-	-
	(+) Disposal of treasury shares	-	-
2.	**New financing with third parties**	**(577,032)**	**2,862,201**
	(+) Issues of long-term debentures and other marketable securities	737,700	2,862,201
	(+) Credit account draw downs	130,268	-
	(-) Repayment and redemption	(1,445,000)	-
3.	Net receipts on issuance of own securities		
D)	**EFFECTS FROM FOREING EXCHANGE RATE FLUCTUATIONS**	**(236)**	**-**
E)	**NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)**	**964,455**	**3,817,999**
F)	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD**	**3,817,999**	**-**
G)	**CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (E+F)**	**4,782,454**	**3,817,999**
	COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
	(+) Cash and cash equivalents	2,307,474	2,114,864
	(+) Other financial assets	2,474,980	1,703,135
	(-) Less: Reimbursable bank overdrafts		
	TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**4,782,454**	**3,817,999**

Notes 1 to 18 of the accompanying annual accounts are an integral part of the cash flow statement as at 31 December 2013.

SAREB
Notes to the annual accountsfor the year ended 31 December 2013

1. Activities of the Company

Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (hereinafter "the Company" or "Sareb") was incorporated on 28 November 2012 as a single shareholder company ("sociedad anónima unipersonal") in Madrid, under the name "Sociedad Promotora de la Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.", for an indefinite period, in accordance with Act 9/2012, dated 14th November, regarding the restructuring and regularisation of credit institutions, with the purpose of carrying out all the preparation activities required for the start-up of Sareb. The Company is registered in the Madrid Mercantile Registry in Volume 30,521, Sheet 1, Section 8, Page M-549.293, Entry 1.

At 12 December 2012, the duration of its activity was limited to 28 November 2027 and its official name was changed according to public deed of corporate resolutions, number 1624, executed on the date aforementioned before the Notary of Madrid Mr. José María García Collantes.

At 31 December 2013, the Company's registered domicile for tax and mercantile purposes is Paseo de la Castellana 89, Madrid.

The Company operates under its By-laws in accordance with the current applicable legislation, this being the Spanish Companies Act except for the provisions in Article 537 of the Act 9/2012, dated 14th November, regarding the restructuring and regularisation of credit institutions, with the required specifications to ensure consistency between the main accounting principles applicable to its general mandate and objectives described in the aforementioned Law and in any other applicable regulations (see Note 2.1).

The main business activity consists in the holding, direct and indirect management and administration, and acquisition and disposal, of the assets and liabilities, transferred to it by the credit institutions as referred to in the Ninth Supplementary Provision of the Act 9/2012 (or any other legislation that may replace, develop or supplement it), that are present in the balance sheet of these credit institutions or of any other institutions over which it exercises control in accordance to Article 42 of the Code of Commerce (as well as any other assets and liabilities it may acquire in future as a result of execution of aforementioned management activities).

Without taking into account the main business activity mentioned above, and in accordance with the legislation by which it is governed, the Company is required to contribute to the proper implementation of the restructuring and regulatory processes of credit institutions, from which purpose it was formed, encouraging the fulfilment of the objectives described in Article 3 of Royal Decree 1559/2012, in accordance with general transparency and professional management principles, which are:

a) To contribute to the recovery of the financial system by acquiring the relevant assets in a way that the risks associated with them can be effectively transferred.

b) To minimise financial aid from the Public Sector.

c) To settle debts and liabilities which it may incur during the course of its activities.

d) To minimise possible market distortions which could arise from its activities.

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

Events prior to the incorporation of the Company and transfer of assets

The events of 2013 and 2012 that are relevant for understanding these annual accounts are listed below. At the beginning of June 2012, the Spanish Government, upon request from EU authorities, carried out two independent and private aggregated valuations of the loan portfolios of the fourteen main Spanish banking groups in order to evaluate the resistance level of the Spanish financial sector in case of a significant deterioration of the Spanish economy.

On 25 June 2012, the Spanish Government presented a formal request for financial aid to the Eurogroup with a view to recapitalising Spanish credit institutions. On 29 June it was decided 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 be transferred to the ESM without it being granted any ranking priority.

This financial assistance arrangement led to the signing, on 23 July, of a "Memorandum of Understanding of Financial Sector Policy Conditions" (MoU), which describes the conditions related to the financial assistance granted by the EFSF or, as applicable, the ESM. Among other measures, the MoU requires the performance of a stress test to estimate each bank's capital deficit and initiate a restructuring or dissolution process of the financial institutions, which finally gave rise to the measures established in Act 9/2012.

On 31 August 2012, Royal Decree-Law 24/2012 regarding the restructuring and regularisation of credit institutions was enacted, and focused on the programme for providing assistance to Spain in order to recapitalise its financial sector, whereby it was established that, among other measures, a company might be set up to manage assets derived from the restructuring of the banks, which would be ultimately responsible for managing any problematic assets that would be transferred to it by the credit institutions.

On 28 September 2012 the capital requirements for each of the credit institutions under analysis were disclosed, comprising the five banks under control by the Ordered Bank Restructuring Fund (FROB), which required government aid for both scenarios presented in the aforementioned analysis (Group 1), and also listing the institutions that would require additional capital considering the adverse scenario (Group 2).

On 29 October 2012, the FROB finalised the organisational structure of Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria (Sareb), as stated in the MoU. The Company's purpose would ultimately comprise the acquisition of problematic real-estate assets from the aforementioned financial institutions, substantially reducing any uncertainty concerning the feasibility of those institutions that might require government aid and enabling them to focus management towards their main business.

Act 9/2012 was approved in November 2012 and enacted the provisions of Royal Decree Law 24/2012 and Royal Decree 1159/2012, dated 15 November ("RD 1559/2012"), the latter of which develops the contents of the seventh to the tenth additional dispositions of the former law regarding Sareb.

As established in Article 48 of RD 1559/2012, the institutions in Groups 1 and 2 are required to transfer to Sareb all the assets that meet the following requirements:

i) Properties foreclosed or acquired as payment of debt, whichever their origin, that are included in the individual or consolidated balance sheets as at 30 June 2012 and which carrying value before any valuation adjustments exceeds €100,000.

ii) Credit rights included in the financial institutions' balance sheets at 30 June 2012 or which arise from later refinancing and which carrying value after valuation adjustment, exceeds €250,000:

- Loans and receivables for financing land purchases with the objective of real-estate development, or financing construction and real-estate development in Spain, either in progress or completed whichever age or accounting classification, except those classified in suspense asset accounts.

- Share-based loans granted to companies in the real-estate sector or companies related to these, whichever age and accounting classification.

- Other loans or credit facilities granted to credit holders or loans included in sections i) and ii) above, when FROB considers a transfer to be acceptable so that Sareb may adequately manage the transferred assets.

iii) All properties and credit rights that meet the requirements described in the above paragraphs originating from companies operating in the real-estate sector or other related companies, over which the credit institution exercises control, as stated in Article 42 of the Code of Commerce.

In accordance with the Article 36 of Act 9/2012 and with the valuation procedures described in Article 5 of Act 9/2012 and Articles 13 and 14 and Transitory Provision Nº1 of RD 1559/2012, the price of the transfers described below was set by the Bank of Spain.

This asset transfer price may be adjusted within a 36 month deadline from the date of transfer, in accordance with the terms established in the mentioned asset transfer agreements (price adjustment mechanism). This mechanism mainly takes into account the following adjustment situations:

i) Inappropriate categorisation:

ii) Changes in scope; and

iii) Errors or fluctuations in the estimated price at the date of transfer.

Likewise, the price regarding financial agreements may be adjusted with available drawable funds if the Bank of Spain, by order of the FROB, concludes that it was not considered correctly during the transfer price calculation.

On 28 November 2012, the European Commission, at the proposal of the Bank of Spain and FROB, approved the restructuring/dissolution plans for the five institutions in which the FROB holds a majority interest: Banco Financiero y de Ahorros – Bankia, S.A., NCG Banco, S.A., Catalunya Banc, S.A., Banco de Valencia, S.A. and Banco Gallego, S.A. The capital requirements initially identified in the stress tests mentioned above were reduced by the effect of the transfer of real-estate assets to Sareb in December 2012 and by the other measures adopted under mentioned plan.

Period 2012: Acquisition Group 1 assets

On 21 December 2012, Sareb and the Group 1 institutions signed the relevant 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 transferring institutions as a whole and for a single price of €36,695,308 thousand, and were acquired by Sareb through the issuance of senior bonds totalling €36,694,100 thousand, which were subscribed by the transferring entities. The payment of the difference between the transfer price and the price of the bonds was deferred for 36 months, and could be offset by the Company against any amounts owed to it by the transferring institutions, in the terms established in the asset transfer agreements. At 31 December 2013, the mentioned amount has been settled and there are no balances relating to this item on the accompanying balance sheet at the mentioned date.

The assets transferred by Group 1 institutions, according to their classification, are as follows:

	Thousands of Euros
Financial assets (Note 7.1.1)	28,298,902
Real-estate assets (Notes 5 and 8)	8,396,406
TOTAL	36,695,308

Financial assets acquired from Group 1 institutions are as follows, according to guarantee type:

Amounts in thousands of Euros	Assets (items)	Total transfer price
Loans	62,435	26,493,181
Normal	28,047	8,368,902
Substandard	11,877	6,646,904
Doubtful	22,511	11,477,375
Credits	5,714	1,805,721
Normal	1,810	537,427
Substandard	870	495,392
Doubtful	3,029	557,025
Other	5	215,877
TOTAL (NOTE 7)	68,149	28,298,902

Real-estate assets acquired from Group 1 institutions are presented according to the following categories:

Amount in thousands of Euros	Assets (items)	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 Properties (Note 5)	46,302	6,166,188
Work in progress	3,050	470,124
Finished properties	27,682	1,760,094
Total Inventory (Note 8)	30,732	2,230,218
TOTAL	77,034	8,396,406

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

ISIN Code	Description	Issue date	Maturity date	Current interest rate	Nominal (thousands of Euros) (*)
ES0352506002	SAREB/VAR BO 20131231 2012-1	31/12/2012	31/12/2013	2.374%	11,008,100
ES0352506010	SAREB/VAR BO 20141231 2012-2	31/12/2012	31/12/2014	2.747%	16,512,500
ES0352506028	SAREB/VAR BO 20151231 2012-3	31/12/2012	31/12/2015	3.149%	9,173,500
					36,694,100

(*) These bonds are irrevocably guaranteed by the Kingdom of Spain (see Note 13.2).

The bonds were subscribed by the transferring institutions in accordance with the following distribution:

	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

Period 2013: Acquisition of Group 2 assets

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

On 28 February 2013, Sareb and the Group 2 institutions concluded the relevant asset transfer agreements. The assets were transferred free of encumbrances by the Group 2 transferring entities as a whole and for a single price of €14,087,157 thousand, and were acquired by Sareb through the issuance of senior bonds with a nominal value of €100 thousand, totalling €14,086,700 thousand, which were subscribed by the transferring entities. The payment of the difference between the transfer price and the price of the bonds was deferred for 36 months, and could be offset by the Company against any amounts owed to it by the transferring entities; in the terms established in the asset transfer agreements. At 31 December 2013, the mentioned amount has been settled and there are no balances relating to this item on the accompanying balance sheet at the mentioned date.

The assets transferred by Group 2 institutions, according to their classification, are as follows:

	Thousands of Euros
Financial assets (Note 7)	11,139,891
Real-estate assets (Notes 5 and 8)	2,947,266
TOTAL	14,087,157

Financial assets acquired from Group 2 institutions are as follows, according to guarantee type:

Amounts in thousands of Euros	Assets (items)	Total transfer price
Loans	21,889	10,855,331
Normal	9,337	4,642,163
Substandard	1,800	1,872,775
Doubtful	10,752	4,340,393
Credits	727	284,560
Normal	270	125,758
Substandard	137	44,161
Doubtful	230	110,643
Other	90	3,998
TOTAL	22,616	11,139,891

Real-estate assets acquired from Group 2 institutions are presented according to the following categories:

Amounts in thousands of Euros	Assets (items)	Total transfer price
Land	4,630	1,062,531
Paralysed works	1,445	163,505
Completed properties for sale	23,404	1,619,800
Leased properties	906	98,140
Total Investment Properties (Note 5)	30,385	2,943,976
Work in progress	27	3,290
Total Inventory (Note 8)	27	3,290
TOTAL	30,412	2,947,266

The main characteristics of the senior bonds subscribed on 28 February 2013 as payment for the aforementioned assets are as follows:

ISIN Code	Description	Issue date	Maturity date	Current interest rate	Balance issued (thousands of Euros)
ES0352506036	SAREB/VAR BO 20140228 2013-1	28/02/2013	28/02/2014	1.45%	4,225,900
ES0352506044	SAREB/VAR BO 20150228 2013-2	28/02/2013	28/02/2015	2.23%	6,339,200
ES0352506051	SAREB/VAR BO 20160228 2013-3	28/02/2013	28/02/2016	2.67%	3,521,600
					14,086,700

The bonds were subscribed by the transferring institutions in accordance with the following distribution:

	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

Amendments to the assets acquisition agreement during 2013

During 2013, and in compliance with Royal Decree 1559/2012 and the asset transfer agreements, the loan portfolios and the real-estate assets portfolios acquired from Group 1 and 2 institutions were revised in order to identify any misclassifications of assets, changes in scope and errors or changes in the estimated values at the transfer date.

As a result of this analysis, amendments totalling €340 million were made, resulting in the return of assets to the transferring institutions in the amount of €204 million and adjustment of the transfer price by €136 million, as well as the reduction in the value of real-estate assets and loan portfolios by €53 million and by €287 million, respectively.

As compensation, the transferring institutions gave Sareb part of the bonds issued as payment for the assets already transferred in an amount equivalent to the returned assets, as well as the interest collected by the institutions on the mentioned bonds. In addition, under the transfer agreement, the institutions have incurred a compensatory interest rate of 1% per annum of the total interest paid by the returned bonds of the Company, amounting to €4,191 thousand.

The amendments made by each institution with respect to the value of the transferred assets subject to amendment, are as follows:

Amounts in thousands of Euros	Adjusted real estate assets (Notes 5 and 8)	Adjusted financial assets (Note 7)	Total adjustment	Returned bonds (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 de 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)**

(*) Corresponds to the difference between the total amount of the adjustment and the returned bonds, paid in cash.

Management contracts

Simultaneously to the aforementioned transfers, the Company signed the management and administration contracts for the transferred assets with each of the Group 1 and Group 2 institutions. The purpose of these contracts was to ensure continuity in the management of the assets over a transitional period, avoiding any deterioration to the assets that could be due to a lack of attention. These contracts set up the general activities, functions, attributes and delegations entrusted to the transferring institutions for the ordinary management of the assets. The main characteristics of these contracts are as follows:

- Purpose: Management of transferred assets, both credit rights and properties.
- Term: One year, renewable.
- Price: Fixed and variable management fee based on several parameters.

The above management contracts contain "Operating Management Instructions" which detail, among other matters, certain obligations regarding information, applicable procedures by the institution with respect to the assets and the fees and penalty arrangements, based on the different types of business and assets managed by the transferring institutions on behalf of the Company. The main aspects of the fee arrangement are as follows:

- Overall management (relating to ordinary and administrative-accounting management, maintenance, management of collections and payments, etc.), which has a minimum guaranteed fee plus a target-based variable.
- Real-estate sales: variable fee based on results, the type of the asset sold (residential, commercial real estate or offices, land) and whether the sale includes financing by the transferring entity.
- Lease of real estate: leasing properties fee will only be accrued when on a new lease agreements on the assets owned by the Company are made.
- Loans and receivables: in this case fees are variable based on both the ordinary loan repayments and their recovery or negotiations aimed at their regularisation (when they are in an irregular situation), refinancing or enforcement.

During year ended 2013, Sareb has accrued management fees and sales fees in the amount of €104,680 thousand and €91,586 thousand, respectively (see Note 16.4). During year ended 2012, no management or sales fees were accrued as the Group 1 assets were transferred on 31 December 2012.

At 31 December 2013, all these management and administration contracts have been renewed until 31 December 2014.

Other disclosures

At 31 December 2013, the Company's annual accounts have not been included in the consolidated accounts of any shareholder using the full consolidation method as no shareholder owns over 50% of the Company's capital and because none of them controls the Company or has the authority to direct its financial and operating policies in order to make profits from its activities, or owns a majority of voting shares, or is authorised to appoint or dismiss the majority of the member of its Board of Directors (see Note 11).

At 31 December 2013, the Company does not hold any majority interest in the capital of subsidiaries. In addition, the equity investment in Banking Asset Funds ("Fondos de Activos Bancarios" or "FABs") (see Note 4.6.1) which have not entailed the derecognition of those assets and liabilities covered by the mentioned funds are not of significant interest in regard to the true and fair view of the Company's financial situation and results. Therefore, pursuant to Article 9 of Royal Decree 1159/2010 dated 17 September, which approved the regulations governing the preparation of consolidated annual accounts and amended the Spanish General Accounting Plan approved under Royal Decree 1514/2007dated 16 November, and the Spanish General Accounting Plan for small and medium sized entities approved by Royal Decree 1515/2007 dated 16 November and Article 43 of the Code of Commerce, the Company has no obligation to prepare and present consolidated annual accounts.

2. Bases for the presentation of the annual accounts

2.1 Applicable financial reporting framework

These annual accounts have been prepared by the directors within the financial reporting framework applicable to the Company, which is contained in:

a) The Code of Commerce and other mercantile legislation, with the specific provisions contained in Additional Provision 7.10 of the Act 9/2012 which, in their turn, may be the subject of further development under a memorandum letter issued by the Bank of Spain. Until mentioned memorandum is available, the Bank of Spain will resolve any queries that arise concerning these issues.

b) Spanish General Accounting Plan approved by Royal Decree 1514/2007, which approved the mentioned General Accounting Plan and its subsequent amendments, except for the specific provisions included by the Act 9/2012 described in Note 4 below regarding "Accounting and measurement standards" and which will be developed during 2014 under a Bank of Spain memorandum following a report from the Institute of Accountants and Auditors. This memorandum is expected to be issued by 31 March 2014 at the latest, in accordance with the Act 26/2013 dated 27 December.

   Additionally, due to the Company's activity, the preparation of these annual accounts has taken into account the Order from the Finance Ministry, dated 28th December 1994, which approved the adaptation of the 1990 Spanish General Accounting Plan to real-estate companies, which has been applied in all cases where it does not conflict with the provisions of the Code of Commerce, Companies Act 2010, Act 9/2012 and the Spanish General Accounting Plan approved by Royal Decree 1514/2007.

   The Company also has to comply with the general transparency and financial reporting obligations described in RD 1559/2012.

c) The set of mandatory rules approved by the Spanish Institute of Auditors and Accountants as a development of the Spanish General Accounting Plan and any complementary norms.

d) All the remaining applicable Spanish accounting regulations.

2.2 Fair presentation

The accompanying annual accounts have been prepared on the Company's accounting records and are presented in compliance with the applicable financial reporting framework and in particular, with the accounting principles and criteria included within, in order to fairly present the Company's equity, financial situation and results at 31 December 2013, and cash flows arising during the year then ended.

Sareb's 2012 annual accounts were approved by the shareholders in the general meeting on 29 May 2013. The 2013 annual accounts, which were formally drawn-up and signed by Sareb's Board of Directors on 26 March 2014, will be submitted for the approval of the shareholders in the general meeting and are expected to be approved without any change.

2.3 Non-mandatory accounting principles applied

No non-mandatory accounting principles were applied in the preparation of these annual accounts. The Company's Directors have prepared these annual accounts taking into account all applicable mandatory accounting principles and standards that have a significant effect on them (see Note 4). All mandatory accounting principles that have a significant effect on these annual accounts have been applied.

2.4 Critical valuation issues and uncertainty estimates

In the preparation of these annual accounts, estimates established by the Company's directors have been used to measure some of the assets, liabilities, income, expenses and commitments. These estimates basically refer to:

- Company's real-estate assets market value (see Notes 5 and 8).
- Evaluation of the possible impairment losses on assets (see Notes 5, 7, 8).
- Intangible assets, property, plant and equipment and investment property useful live (see Notes 4.1, 4.2 and 4.3).
- Financial instruments market value (see Note 7).
- Deferred income tax assets and tax credits recoverability (see Note 15.3).
- Provisions Calculation (see Note 12).
- Debentures and marketable securities with short-term maturities evaluation (see Note 13.2).

During February 2013, a due diligence process was initiated on the transferred assets in order to determine that the estimates and pricing mechanism (correct application of transfer prices, confirmation of characteristics of the acquired assets and the quality of the information supplied by the transferring entities) are reasonable.

During 2013, the Company received the due diligence results review on a large sample of the real-estate and transferred financial assets. Based on the results obtained during 2013, the Company calculated the amendments specified in Note 1. Except for mentioned amendment, the possible estimated differences that could arise with respect to transfer prices are not relevant for the purpose of the presented annual accounts.

Although these estimates have been prepared based on the best information available at the 2013 year-end and at the date of preparation of these annual accounts, in accordance with applicable legislation, it is possible that events could occur in the future that may result in the adjustment (upward or downward) during the following year, and would be recorded prospectively with the relevant balancing entry being made in the income statement of the following periods. It should be noted that in the near future, the Bank of Spain will draw up a memorandum letter which will establish the criteria that will form the basis of the methodology to be employed by Sareb in estimating the value of the assets in the future. The definitive specification of these criteria could have a significant impact on the final estimate of the future value of Sareb's assets.

Going concern principle

At 31 December 2013, the Company presented a positive working capital amounting to €3,536 million as a result of long-term senior debt classification. Although €30,457 million of senior debt matures during 2014, the Company holds the option to unilaterally renew the maturities of these bonds, as a result of which a considerable portion of mentioned debt has been classified as long-term on the basis of the Company's current estimates (see Note 13.2).

Furthermore, after one year managing the assets contributed by Group 1 and Group 2 institutions, the Company considers that the financial assets classified as doubtful will be recovered, in general, in a time period exceeding 12 months, and that assets for which payments are up to date will be recovered in line with the original contractual payment schedules (see Note 7).Therefore, and taking into consideration the Company's financial projections which establish sufficient cash flow generation to realise its assets and settle its liabilities, the Company's directors have prepared the present annual accounts on a going concern basis.

It should finally be noted that, as mentioned in Note 1, the Company has renewed all the asset management and administration contracts until 31 December 2014.

2.5 Comparability

The information contained in these 2012 annual accounts note is presented only for purposes of comparison with the information for 2013.

For these purposes, it should be taken into account that the 2012 annual accounts relate to the period from 28 November 2012 to 31 December 2012, as the Company was incorporated on 28 November 2012.

In addition, during 2013 transactions involving the real-estate assets and loans pertaining to the Group 2 institutions have taken place. Note 1 describes the impact of mentioned transactions on assets and liabilities at the date of transfer.

2.6 Grouping of items

Certain balance sheet items, income statement, statement of changes in equity and cash flow statement are presented grouped together to facilitate their comprehension although, insofar as it is significant, the relevant breakdown has been included in the pertinent notes to the annual accounts.

2.7 Error correction and changes in estimates

In the accompanying annual accounts preparation, no significant errors have been detected which could have led to the restatement of the 2012 annual accounts.

However, the Company has reconsidered the classification and nature of inventory at 31 December 2012 and, as a result, the mentioned assets classification has been re-estimated with effect 1 January 2013. These re-estimations have not had any effect on the Company's results for 2013 (see Notes 2, 4, 5 and 8).

These reconsiderations have been based on asset management throughout 2013, using, among other measures, an assets acquired thorough revision (see Notes 5 and 7) and a financial estimates update for the coming years.

2.8 Environmental impact

Given the activities in which the Company is involved, it has no environmental liabilities, expenses, assets, provisions or contingencies that could be significant with respect to its equity, financial situation and results.

As a result, the Company's 2013 annual accounts do not contain any environmental disclosures.

2.9 Annual accounts presentation

Unless expressly stated otherwise, the annual accounts are expressed in thousands of Euros.

3. Profit/(loss) Distribution

The 2013 proposed results distribution prepared by the Board of Directors for submission to the shareholders in general meeting for their approval, and the distribution for 2012 which was approved by the shareholders on 29 May 2013, are as follows:

Amounts in thousands of Euros	2013	2012
Balance in the income statement	**(260,533)**	**(5,488)**
Distribution		
To Prior-year losses	(260,533)	(5,488)

4. Accounting and measurement standards

The main accounting and measurement standards used by the Company in the preparation of its annual accounts for 2013, in accordance with the applicable reporting framework are as follows:

4.1 Intangible assets

Intangible assets are initially carried at acquisition price or production cost. They are subsequently measured at cost less accumulated amortisation and if appropriate, any impairment losses. These assets are depreciated over their useful lives.

Industrial property

Industrial property relates to capitalised expenses for the acquisitions of patents or similar items including the cost of registration and other formalities, without considering any amounts that might also be recognised by reason of the acquisition of the relevant rights from third parties.
The amounts capitalised are depreciated on a straight line basis over four years in the line "Industrial Property".

Computer software

Computer software acquired or made by the Company are recorded at acquisition price or productions cost, as the case may be, and are depreciated on a straight line basis over four years. Computer software maintenance costs are recognised in the income statement for the year in which they are incurred.

The amortisation charge for intangible assets during 2013 amounts to €10 thousand and has been recorded within "Depreciation" expenses in the income statement.

At 31 December 2013 there are no intangible assets with an indefinite useful life.

Impairment of Intangible fixed asset

Whenever there are indications of impairment of intangible assets with defined useful lives in accordance with all the Company's intangible assets, the Company evaluates the impairment in order to determine whether there is a loss in value that reduces the recoverable value of such assets to an amount less than their carrying value also known as "impairment test".

When an impairment loss subsequently reverses, the asset carrying is increased by the estimated recoverable amount. The increased carrying value in no case exceeds the value that would have arisen had no impairment loss been recognised in previous years. The reversal of impairment losses is recognised as income.

During 2013 the Company has not recognised any impairment related to intangible assets.

4.2 Property, plant and equipment

Initial measurement

Property, plant and equipment is initially carried at acquisition or production cost, including any additional or supplementary investments cost, less accumulated depreciation and impairment losses, if any, as described in the present Note.

Extension, upgrade or improvement costs that represent an increase in productivity, capacity or efficiency or an extension in the useful life of assets are capitalised as an increase in the corresponding assets cost.

Maintenance and upkeep expenses incurred during the year are recorded as "External services" on the income statement. During 2013 and 2012 the Company has not capitalised any interest as a tangible assets value increase.

Work carried out by the company for its own property, plant and equipment is stated at the accumulated cost resulting from adding internal costs calculated based on the consumption of materials and the manufacturing costs incurred to external costs, applied in accordance with the same criteria as those used to measure inventories.

Possible property, plant and equipment impairment is calculated as explained in Note 4.1. During 2013, the Company has not capitalised interest or financial charges as a tangible assets cost increase.

Depreciation

Property, plant and equipment depreciation is calculated on a straight-line basis over the assets estimated useful lives. The annual depreciation rates applied to the restated cost values, where appropriate, and the estimated useful lives, are as follows:

Heading	Annual rate	Estimated useful lives (years)
Straight-line depreciation:		
Other fixtures and fittings	25	4
Furniture	10	10
Data-processing equipment	20	5
Other property, plant and equipment	12.5	8

On 31 December 2013 the depreciation charge in the amount of €96 thousand has been recorded within the heading "Depreciation and amortization" in the income statement.

Construction in progress is not depreciated until it's finished and transferred to the appropriate account under property, plant and equipment.

During 2013, the Company has not recognised any impairment related to fixed assets.

Tangible asset impairment

Whenever there are indications of property, plant and equipment impairment, the Company executes the impairment test to identify whether the recoverable value of the assets due to loss incurred is less than its carrying value.

When an impairment loss subsequently reverses, the carrying value of the asset is increased up to the estimated recoverable amount. The increased carrying value in no event exceeds the value that would have arisen had no impairment loss been recognised in previous years. The reversal of impairment losses is recognised as income of the period.

During 2013, the Company has not recognised any impairment related to fixed assets.

4.3 Investment properties

Investment properties recorded on the balance sheet consists of the land, buildings and other constructions values held for rent or to obtain a capital gain on their sale as a result of future increases in market prices.

Initial measurement

Investment properties are initially carried at acquisition or production cost, including any additional or supplementary investments cost, less accumulated depreciation and impairment losses, if any, applying the criteria described in the present Note. In accordance with Additional Provision 7.10.a) of the Act 9/2012, the acquisition cost of assets received from the transferring institutions in Group 1 and Group 2 has been determined applying the transfer prices for each type of asset which were set under a resolution of the Bank of Spain in conformity with the criteria described in RD 1559/2012.

Extension, upgrade or improvement costs that represent an increase in productivity, capacity or efficiency or an extension in the useful life of assets are capitalised as an increase in the cost of the corresponding assets.

Maintenance and upkeep expenses incurred during the year are recorded as "External services" on the income statement.

Work carried out by the Company for its own property, plant and equipment is stated at the accumulated cost resulting from adding internal costs calculated based on the consumption of materials and the manufacturing costs incurred to external costs, applied in accordance with the same criteria as those used to measure inventories.

During 2013, the Company has not capitalised any interest or financial charges as an increase in the cost of Investment properties, however, it has capitalised €5,149 thousand relating to the costs required to acquire control over the assets (see Note 5).

Depreciation

Investment properties depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The annual depreciation rate applied to the respective cost values, where appropriate, and the estimated useful lives, are as follows:

	Annual rate	Estimated useful lives (years)
Straight-line depreciation:		
Buildings	2	50
Other fixtures and fittings	10	10
Furniture	10	10
Data-processing equipment	20	5
Other property, plant and equipment	12.5	8

The depreciation charge for investment properties for 2013 amounts to €56,672 thousand (see Note 5) and has been recorded within the heading "Depreciation and amortization" in the income statement.

Construction in progress is not depreciated until it's finished and transferred to the appropriate account under property, plant and equipment.

Investment properties impairment

The Company considers that its investment properties are impaired when the carrying value of the assets classified under this heading on the balance sheet, these being understood as each category of assets individually described in Article 48.1 of Royal Decree 1559/2012 and described in Note 1 above, exceeds the recoverable amount, which is considered to be the higher of fair value less cost to sell or value in use.

Impairment value adjustments and, if appropriate, their reversal are recognised as an expense or income, respectively, in the income statement. The recognised impairment reversal is limited to the investment carrying value that would be recognised at the reversal date as if no impairment has been recorded.

Additional Provision 7.10.b) of the Act 9/2012 stipulates that, to determine restated values of Sareb's assets, the Bank of Spain will formulate the criteria that will serve as a basis for the methodology to be used by SAREB to estimate the value of assets, which will be in line with the method used to determine the prices at which the assets are transferred to Sareb. Subsequent valuations are calculated taking into account Sareb's specific circumstances, considering the market price fluctuations and complying with the deadlines described in the Business Plan.

Value adjustments that prove necessary as a result of applying the provisions as stated in the previous paragraph will be calculated by asset units. For these purposes, each asset is considered as a unit of any of the categories described in the Article 48.1 of RD 1559/2012.
This methodology will be developed by the Bank of Spain through a memorandum letter. At the date of signing of these annual accounts, the above mentioned memorandum letter has still not been issued and therefore Sareb has filed a request with the Bank of Spain, which has responded that, taking into account the methodology used in the process for transferring the assets and the evolution of the economic situation, which is close to the forecasts contained in the stress test to which the Spanish financial system was a subject, it may reasonably be deduced that there are no signs of impairment in Sareb's real estate asset portfolio as a whole.

The Company's directors, utilising the criteria established in Additional Provision 7.10 of the Act 9/2012 consistently with the criteria used to determine the price at which the assets were transferred and taking into account that the economic situation development is a relevant factor, among others, have concluded that there are no signs of impairment in the real estate asset portfolio as a whole and therefore the Company has not recognised any impairment in relation to its investment properties, as it is stated in the above mentioned request.

However, it is expected in the nearest future that the Bank of Spain will sign the memorandum letter which will establish the criteria that will form the methodological basis for the estimation the value of the assets in the future for Sareb. The specification of these criteria could have a significant impact on the final estimate of impairment to Sareb's assets.

4.4 Asset swaps and adjudications

An asset swap is an acquisition of tangible or intangible assets in exchange for other non-monetary assets or a combination of monetary and non-monetary assets.

As a rule, in commercial swap operations the assets received are measured at the fair value of the asset given plus any monetary items paid in exchange. The measurement differences that arise when derecognising the assets given in exchange are recorded in the income statement.

In case of any other type of swap, the assets received are measured at the carrying value of the asset given plus any monetary items paid in exchange, subject to the limit of the fair value of the asset received, if lower.

Assets received as debt settlements are classified as investment properties or inventories depending on their nature and purpose, as described in Notes 4.3. and 4.11., respectively.

4.5 Leases

The Company considers operating leases to be those originating from an agreement under which the lessor agrees with the lessee to assign the right to use an asset over a specific time-period in exchange for a lump-sum or a series or payments or instalments, without this involving a finance lease arrangement as defined in current legislation.

Income and expenses derived from the operating lease agreements in which the Company is the lessor are accrued to the income statement in the year in which they incur. Similarly, the leased asset acquisition cost, increased by the amount of directly attributable contract costs, which, in their turn, are recognised as an expense over the contract term, using the same criterion as that used to recognise lease revenues, is recorded on the balance sheet in appropriate class of asset. Any collection or payment that may be made on an operating lease arrangement is treated as an advance collection or payment and is taken to the income statement over the lease period, as the profits on the leased asset are assigned or received.

During 2013 and 2012 the Company has not been a part in any finance lease contact.

4.6 Investments in associates and financial assets – financial asset categories

4.6.1 Investments in associates

Associates are those companies in which a significant influence may be exercised. Significant influence is understood to exist when the Company holds an interest in another company and is able to take part in its financial and operational policy decisions without having control or joint control over it. Usually significant influence in an investee (direct or indirect) exists when a company holds an interest equal to or more than 20% of the voting rights.

Holdings in associates are presented in these annual accounts under Long-term investments in Group companies and associates - equity instruments on the balance sheet and are measured at cost, net of any impairment which they may have suffered (see Note 4.7.1).

Any rewards accrued on these investments, which are not generated from profits before the acquisition date, are recorded as "Revenue" in the income statement (see Note 16.1).

Banking Asset Funds (FABs):

Article 20 of Royal Decree 1559/2012 dated 15th November allows the Company to establish separate asset compartments in the so-called "Banking Asset Funds" (FABs.).

The FABs' corporate purpose, which by nature are funds that do not have a legal personality, will be the assets and liabilities portfolio liquidation contributed by Sareb over the term for which they were set up.

The following accounting methods are applied by Sareb depending on the type of the investment in FABs made:

- FABs where the risks and rewards related to the assets and liabilities have not been transferred substantially. As a general rule, these funds are those in which the Company retains control and over 50% of the Fund's liabilities and equity. In these cases, the Company does not derecognise the assets and liabilities and measures them using the same criteria applicable before the transfer, although the Company records a liability for an amount equal to the consideration received which is measured at depreciated cost, netting (if necessary) and recognising both income from the assets transferred not derecognised and the new financial liability costs.

- FABs where the risks and rewards related to the assets and liabilities have been transferred substantially. 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 these cases, and given that generally control over the transferred assets has been transferred to the investor, the Company recognises under "Long Term Investments in Group companies and associates - Equity instruments" the cost of the securities equivalent to share capital subscribed by the Company. These equity instruments are measured using the procedure described in Note 4.6.1. Additionally, if any funding is provided by the Company, it is recognised under "Loans to Group companies and associates".

At 31 December 2013, the Company had set up the following FABs:

FAB 2013 Bull:

On 13 December 2013 the Company established FAB 2013 Bull through investment properties contribution with a €97,986 thousand net cost for an €100 million aggregate price. €9,771 thousand was discounted from this selling price as a result of all the income and expenses generated by the property portfolio transferred since 30 June, the transfer date. The Company has subscribed securities issued by the FAB amounting to €24,678 thousand (i.e. 49% of the fund) and a private investor has subscribed the remaining securities issued by the FAB for €25,685 thousand which has been recorded by the Company under "Other financial liabilities" on the accompanying balance sheet.

At 31 December 2013, the Company considers that the risks and rewards pertaining to the assets transferred to FAB 2013 Bull have not been substantially transferred, and therefore it has not derecognised the assets in mentioned fund and has recorded the liability mentioned above.

Corona Banking Asset Fund:

On 19 December 2013 the Company set up the Corona Asset Fund. This Fund was set up through the contribution of four office buildings in Madrid with a net cost of €47,521 thousand, for a price of €80,000 thousand. The price was paid through the subscription by the Company of 100% of the Fund's securities amounting to €48,000 thousand. The remaining €32,000 thousand were deferred.

At 31 December 2013 the Company had not derecognised this Fund's assets and liabilities on the grounds that the risks and rewards inherent to the assets and liabilities and control over them had not been substantially transferred. The impact on these annual accounts of the formation of the Corona Banking Asset Fund is not significant.

FAB 2013 Teide:

On 20 December 2013 the Company set up FAB 2013 Teide, through the contribution of several real-estate assets which were classified under Investment properties (see Note 5) at a net cost of €132,464 thousand, for a price of €146,358 thousand. The price was paid through the Company's subscription of 100% of the securities issued by the Fund, amounting to €87,815 thousand. The remaining €58,543 thousand was deferred by the Fund. The deferral is divided into four parts, which mature in 2015, 2016, 2017 and 2018. However, FAB 2013 Teide may amortise that debt in advance using the revenues obtained from the sale of real-estate assets.

Subsequently, during 2013 the Company has sold 85% of the Fund's securities to an investment group. The price of the sale at the nominal value of the securities amounted to €74,643 thousand, which had been collected completely at 31 December 2013. The interest retained in the Fund following the above sale of securities stands at 15%. However, the Company has continued to classify balances and transactions with the Fund as being carried out with an associate, since it has presence in the Fund's administrative body.

The Company has therefore derecognised the real-estate assets transferred to the Fund and has recorded income on sales of property investments amounting to €146,358 thousand under "Revenue" on the accompanying income statement. It has also recorded the carrying value of the properties transferred, totalling €132,464 thousand, under "Cost of investment properties" (see Note 5).

At 31 December 2013, the Company had recorded the cost of 15% of the Fund securities under "Investments in Group companies and associates - equity instruments". In addition, the loan granted to the Fund is recognised under" Investments in Group companies and associates - loans and receivables" (see Note 7.2.2).

4.6.2 Loans and receivables

This financial instruments category includes debt instruments arising from the services provided by the Company and those which are not generated by such activities and represent debt-claims for a specific or determinable amount which are not traded on an active market.

Loans and receivables are recorded on the balance sheet at 31 December 2013 under the headings "Loans to third parties and related parties", short and long-term financial instruments corresponding to "Loans to third parties" and "Other financial assets", and under "Trade and other receivables" and "Cash and cash equivalents" on the assets side of the balance sheet at those dates.

The Company's policy is to transfer any loans with interest payments and/or capital repayments overdue for more than 90 days to Doubtful assets.

Initial measurement.

In general loans and receivables are initially recorded at fair value, which is the transfer/acquisition price, which is equal to the fair value of the consideration delivered plus directly attributable transaction costs. During 2013 the Company capitalised the costs incurred that were necessary to take control of the assets as an increase in value, amounting to €17,561 thousand (see Note 7.1.1).

In accordance with Additional Provision 7.10.a) of the Act 9/2012, the acquisition cost of assets received from transferring institutions in Group 1 and Group 2 has been determined applying the transfer prices for each type of asset which were set under a resolution of the Bank of Spain in conformity with the criteria described in RD 1559/2012.

Subsequent measurement

The assets included in this category are measured at depreciated cost, net of any impairment. Accrued interest on these assets is recognised in the income statement using the effective interest rate method. According to the response to the query settled by the Bank of Spain and the previous statements from the Spain's Accounting and Audit Institute (ICAC), the future cash flows estimation to determine the effective interest rates takes into account any real-estate guarantees value involved in the operations.

Notwithstanding the former statement, certain items identified in the applicable legislation falling due in less than one year without are initially and subsequently carried at their face value provided that the effect of not discounting cash flows is not significant.

Any impairment losses arising with respect to these assets are recorded as described in Note 4.7.2.

Sareb did not hold any of the financial assets established in applicable legalisation other than those explained in this Note at 31 December 2013 or 31 December 2012.

4.7 Financial asset impairment

Financial assets are regarded as impaired and therefore their carrying value is adjusted to reflect the effect of such impairment when there is objective evidence of events that lead to:

1. Debt instruments (loans and debt securities), a negative impact on future cash flows estimated when the transaction was formalised.

2. Equity instruments, their carrying amount not being fully recovered.

As a general rule, adjustments to the financial instruments' carrying value due to impairment are made against the income statement for the period in which such impairment arises and the recovery of any previously recorded impairment losses is recognised in the income statement for the period in which such impairment is eliminated or reduced.

If the recovery of any recorded amount for impairment is considered remote it is eliminated from the balance sheet, although the Company may take the necessary action to attempt to achieve collection until its rights are definitively extinguished due to lapsing, debt remission or any other reason.

The criteria applied by the Company to determine impairment losses in each financial instrument category and the method applied to calculate and record the provisions made for such impairment, are as follows.

4.7.1 Investments in associates

Impairment losses of investments in associates are estimated and recognised by the Company whenever there is objective evidence, in accordance with the relevant legislation, that the carrying value of an investment in such companies might not be recoverable.

When estimating the impairment of such investments, among other factors, the following are considered: decreases in equity value adjusted for unrecognised latent capital gains in the companies concerned, trends in their share prices if they are listed, inactivity of the associate, its financial situation, etc.

The impairment loss to be recorded is calculated as the difference between the investments carrying value and their recoverable amount, which is considered to be the higher of fair value less cost to sell or the present value of future cash flows from the investment.

When it is not possible to estimate the recoverable amount of an investment in accordance with the preceding paragraph or when the investment is not significant, the investee company's equity is taken into account adjusted for latent capital gains existing at the date of valuation to estimate their impairment. Following the response to ruling request 2 Spain's Accounting and Audit Institute (ICAC) and published in its official bulletin

(BOICAC 79), impairment adjustments and, if appropriate, the reversal thereof are recorded as an expense or income, respectively, under Impairment and profit/(loss) on financial instruments disposal – impairments and losses under operating results on the income statement. A recognised impairment reversal is limited to the investment carrying value that would be recognised at the reversal date had impairment not been reflected.

At 31 December 2013, the Company has not recorded any impairment with regard to its investments in associates.

4.7.2 Debt instruments classified as loans and receivables

Impairment losses on assets units classified as loans and receivables, understood as each category of assets individually described in Article 48.1 of Royal Decree 1559/2012 as described in Note 1, are estimated and recorded by the Company whenever there is objective evidence, in accordance with applicable legislation, that events have arisen that give rise, after a financial asset has been recognised, to a reduction or delay in the collection of cash flows associated with the asset concerned, which may be caused by the debtor's insolvency. The impairment loss amount on these assets is calculated as the positive difference between the asset's carrying amount and the present value of estimated future cash flows.

Regarding receivables transferred to Sareb, it cannot be estimated if the outstanding debts initially incurred with financial institutions, to which Sareb has been subrogated, and subsequently transferred to Sareb, will be recovered. It needs to be considered that these assets were transferred to Sareb with a large discount on the outstanding principal (on average, 47%). This discount, set by the Bank of Spain, was based on the valuation estimates carried out by Oliver Wyman within the stress tests performed on the Spanish banking system in 2012.

In this respect, over 55% of the financial assets transferred to Sareb were classed as doubtful by the transferring entities. With respect to operations formally regarded as "standard", the estimates used in the transfer established an average likelihood of non-payment of 87.5% in an adverse scenario. In this context, the transfer price was essentially based on the possibilities of recovery in the light of the value of the real estate guarantees involved.

Additional Provision 7.10.b) of the Act 9/2012 stipulates that to determine the Sareb's assets restated values, the Bank of Spain will formulate the criteria that will serve as a basis for the methodology to be used by Sareb to estimate the value of assets, which will be in line with the method used to determine the prices at which the assets are transferred to Sareb. Subsequent valuations must be calculated taking into account Sareb's specific circumstances, bearing in mind fluctuations in market prices and complying with the deadlines described in the Business Plan.

Valuation adjustments that prove necessary as a result of the application of the provisions in the previous paragraph will be calculated by asset units. For these purposes, an asset unit is considered to be each category of asset individually described in Article 48.1 of RD 1559/2012. This methodology will be developed by the Bank of Spain through a memorandum letter. At the date of signing the presented annual accounts, the mentioned memorandum letter has still not been issued and therefore Sareb has filed a request with the Bank of Spain which has responded that, taking into account the methodology used in the process for transferring the assets and the evolution of the economic situation, which is close to the forecasts contained in the stress test to which the Spanish financial system was subject, it may reasonably be deduced that there is no evidence of impairment in Sareb's financial asset portfolio, in overall terms.

Notwithstanding the above, the response to the ruling request referred to above calls on directors to carry out a more intense scrutiny of the types of exposures where, according to available information, the creditor position could be regarded as particularly weak.

In line with the content of mentioned ruling request, the Company's directors, using the criteria established in Additional Provision 7.10 of the Act 9/2012 consistently with the criteria used to determine the price at which the assets were transferred and taking into account that the development of the economic situation is a relevant factor, among others, have concluded that there is no evidence of overall impairment in the real estate asset portfolio. In this respect, the method used by the Company to estimate the present value of cash flows is in line with the method used to determine the prices at which the assets were transferred to Sareb and taking into account, among other factors, the collateral market prices development involved, in accordance with the deadlines described in Sareb's Business Plan.

Regarding financial assets identified as participating loans, a category referred to in Article 48.1.2.b) of Royal Decree 1559/2012, and following a more detailed analysis, the Company's directors have concluded that generally the carrying amount recovery is unlikely, considering their subordinate position with respect to the remaining unsecured creditors. This means that such exposures are similar to the equity investments in debtor companies which, in general, are in a highly unstable financial position. The Company's directors have therefore recognised the relevant impairment.

However, it is expected in the near future that the Bank of Spain will sign the memorandum letter which will establish the criteria that will form methodological basis for the estimation the value of the assets in future for Sareb. The specification of these criteria could have a significant impact on the final estimate of impairment to Sareb's assets.

Value adjustments for impairment and, if appropriate, their reversal are recognised as an expense or income, respectively, in the income statement. A recognised impairment reversal is limited to the investment carrying value that would be recognised at the reversal date had impairment not been reflected.

At 31 December 2013, the Company recorded €259,379 thousand for debt instruments impairment classified as loans and receivables, which results from the exposures impairment included under participating loans.

4.8 Financial liability categories

This category includes trade payables arising on the purchase of goods and services in the course of the Company's business, financing received (see Note 1) and non-trade payables which are not derivative instruments and are not commercial in origin.

Creditors and payables are initially carried at the fair value of the consideration received, as adjusted for the directly attributable transaction costs. Subsequently, these liabilities are stated at depreciated cost.

This notwithstanding, certain items identified in the applicable legislation falling due in less than one year without are initially and subsequently carried at their face value provided that the effect of not discounting cash flows is not significant.

Financial derivatives under liabilities are carried at fair value following the same criteria as those used for financial assets held for trading describe in Note 4.9.

The interest accrued on these liabilities, calculated using the effective interest method, is recognised under financial expenses on the income statement.

4.9 Hedging derivatives

The Company uses financial derivatives in hedging operations as part of its strategy to decrease exposure to interest rate risk.

Operations are regarded as hedges from the operation or of the instruments inception included in the hedge, and are appropriately documented. In the documentation relating to hedge operations, the hedged and hedging instrument(s) are identified along with the risk nature to be covered and the criteria or methods followed by the Sareb to appraise their efficiency over the operation term, on risk covered basis.

Sareb classifies as hedges only those operations which are regarded as highly efficient throughout their term. A hedge is considered to be highly efficient if, during its life, the fluctuations arising in fair value or in cash flows attributable to the hedged risk are almost entirely offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument(s).

To assess whether a hedge is effective the Company analyses whether, from inception to the finalisation of the term defined for the hedging operation, it may be expected prospectively that any change in the fair value of the hedged item or cash flows that are attributable to the hedged risk are almost entirely offset by changes in the fair value or cash flows of the hedging instrument(s) and that, retrospectively, the gains or losses on the hedge operation are within a range of 80% to 125% of the gains or losses on the hedged item.

To determine fair value, the Company takes into account the credit risk for the Company if the valuation is negative or the counterparty risk if the valuation is positive.

Hedging instruments cease to qualify for hedge accounting when they fall due or are sold, terminate or are exercised or cease to meet the relevant criteria. Any accumulated gain or loss on the hedging instrument which has been reflected in equity continues to be reflected in equity until the forecast transaction takes place. When the transaction hedged is not expected to take place, any accumulated net gains or losses recognised in equity are transferred to the income statement.

Cash flow hedges

At 31 December 2013, Sareb had carried out hedging operations that met the definition "Cash flow hedges", i.e. hedges covering exposure to cash flow fluctuations associated with interest rate risk in a transaction which is regarded as highly likely and the financing received at a variable interest rate, respectively, which impact the Company's income statement.

The part of the gain or loss on the hedging instrument determined as an effective hedge is temporarily recognised in equity under "Valuation adjustments - hedging operations" and charged to the income statement in the period(s) in which the hedged operation will affect results.

Note 13.3 provide information on the cash-flow hedges entered into by the Company.

4.10 Financial instruments derecognition

Financial assets are derecognised when one of the following occurs:

1. The contractual rights to the cash flows generated expire; or

2. The contractual rights to the financial asset's cash flows are assigned and substantially all the risks and rewards inherent to ownership are transferred, or, when there is no substantial transfer or retention of mentioned risks or rewards, control over the financial asset is transferred.

Financial liabilities are derecognised when the obligations generated by the liabilities have expired or are re-acquired by the Company with a view either to reutilising or settling them.

4.11 Inventories

Inventories basically consist of real estate developments in progress and the land associated value with them which will be sold in the course of the Company's activity. Sareb records all assets with respect to which any construction and/or development work is to be performed for subsequent sale under Inventories.

Costs incurred in real-estate developments yet to be completed are treated as work in progress. These costs include those relating to the land, development and construction, and the capitalisation of the financial expense incurred during the construction period and other attributed direct and indirect costs. The Company's policy is not to capitalise selling costs, which are taken directly to expenses.

The cost of any real-estate developments in which construction has been completed during the period and which have yet to be sold is transferred from Work in progress to Constructed buildings.

The criteria applicable to impairment analysis of inventories are similar to those applicable to investment properties (see Note 4.3).

Inventories basically consist of real estate developments in progress and the value of land associated.

4.12 Foreign currency transactions

The Company's functional currency is the Euro. As a result, transactions in currencies other than the Euro are considered to be denominated in foreign currency and are recorded at the exchange rates prevailing on the transaction dates.

At the year end, the Company does not record any balances and has not carried out any transactions in foreign currencies involving significant amounts. The expense for foreign exchange differences recognised in 2013 profit and loss by financial instrument class amounts to €236 thousand. In 2012 no foreign exchange differences were reflected in the income statement.

4.13 Income and expense

Income and expense are recorded on an accruals basis, i.e. in the period in which the income or expense incurred from the goods or services rather than the period in which the cash is actually received or disbursed. Income is stated at the fair value of the consideration received less discounts and taxes.

Presentation on the income statement

The Company, pursuant to Additional Provision 7.10 of the Act 9/2012 dated 14 December as amended by Additional Provision 9 of the Act 26/2013 dated 27 December, has recorded the income generated by the management and orderly liquidation process of all the assets transferred in the Company's income statement as part of Revenue (see Notes 2.1 and 16.1).

Interest income

Notwithstanding the criteria established in accounting standard 9 of the Spanish General Accounting Plan whereby the financial assets subsequent measurement should follow the depreciated cost approach and "interest accrued shall be recorded in the income statement by applying the effective interest rate method", the accruals principle overall application and the depreciated cost approach can have specific practical applications based on the types of assets to which they are applied, the conditions of acquisition thereof or even the sector that applied the mentioned policy, insofar as they respond to the fair presentation of the annual accounts.

Considering the characteristics of the received assets and the high uncertainty as to their recovery through ordinary channels, as already described in Note 4.6.2, the model applied by Sareb establishes that interest only accrues in operations in which the assets are expected to be recovered due to recoverability of the relevant collateral.

This recoverable amount is estimated using the collateral updated valuations less estimated operating income and expenses and the time required for sale. For other operations, given the high uncertainty about the true likelihood of collecting interest, they are only recorded when payment is actually made by the debtor.

As part of the effective interest rate, the Company recognises the difference between the recovered value and loans acquisition cost that have been repaid partially or in full under "Revenue - recovered loans".

Income from loans and credit facilities sales

Income from loans sales is recorded under "Revenue - loan sales". Such sales take place when all risks and rewards related to the financial assets concerned have been transferred to the buyer, which usually occurs when the operation is formally documented before a notary and payment is made.

Income on property sales (investment properties and inventories)

Revenue from properties sales (both investment properties and inventories) arises at the time the significant risks and rewards inherent in ownership of the asset sold are transferred to the buyer and the Company does not maintain the asset current management or retain effective control over it. That time is usually when the sale is executed in a public deed. Properties sales are recorded under "Revenue" on the income statement.

The Company records, under "Raw materials and consumables" on the accompanying income statement, the expenses allocation yet to be incurred to terminate development projects as a completion's construction work provision.

The amount advanced in cash or in bills receivable relating to the reserves and sale for developments contracts when they have not been delivered to customers and therefore the relevant sale has not been recognised are recorded under "Customer advances" on the balance sheet liabilities side and are classified as current irrespective of the date on which the sale is expected to be recognised.

The Company's policy is to recognise sales of land when the related risks and rewards are transferred, which usually occurs when the sale is formally documented before a notary.

Lease income

Lease income is recorded on an accruals basis. Profits are allocated on a straight-line basis as incentives, as are the lease contract inception costs.

4.14 Corporate income tax

Corporate income tax expense or income includes the part relating to the current tax expense or income and the part relating to the deferred tax expense or income. Corporate income tax is calculated on the accounting profit basis determined by generally accepted accounting principles application, which does not necessarily coincide with taxable profit.

Current tax is the amount that the Company pays as tax returns filed for corporate income tax purposes. Deductions and other tax benefits applied to tax payable, without taking into consideration withholdings and interim payments, as well as tax-loss carry forwards from prior years applied this year, reduce current taxes.

The deferred tax expense or income relates to the recognition and deferred tax assets and liabilities elimination. These include the temporary differences that are identified as those amounts that are expected to be payable or recoverable deriving from the differences between the assets and liabilities carrying value and their tax value and available tax loss carry forwards and credits for deductions not applied for tax purposes. Such amounts are reflected by applying to the relevant temporary difference or credit the tax rate at which they are expected to be recovered or settled.

Deferred tax assets and liabilities are recognised in respect of all taxable temporary differences, except for those arising on the initial goodwill recognition or other assets and liabilities deriving from an operation that has no effect on the tax or accounting result and is not a business combination and those associated with investments in subsidiaries, associates and joint ventures where the Company is able to control the time of reversal and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred tax assets and liabilities, resulting from operations by direct charge or credit to equity accounts are also accounted for through a balancing entry in equity.

At each year end recognised deferred tax assets will be reconsidered and all appropriate adjustments will be made to the extent that there are any doubts regarding future recovery. Deferred tax assets not recorded in the balance sheet are also reviewed at each year end in order to recognise the extent to which it is likely that they may be offset against future taxable profits.

4.15 Provisions and contingencies

When drawing up the annual accounts, the Company's directors distinguish between:

a) Provisions: creditor balances that cover present obligations deriving from past events, the settlement of which is likely to trigger an outflow of funds, the amount or timing of which cannot be determined.

b) Contingent liabilities: possible obligations as a result of past events whose future materialisation depends on the occurrence or not of one or more separate future events not within the Company's control.

The annual accounts reflect all provisions where the probability of the obligation having to be met is greater than the probability of its not having to be met. Contingent liabilities are not recognised in the annual accounts. Instead, they are reported in the notes to the accounts provided that they considered remote.

Provisions are stated at the present value of the best possible estimate of the necessary amount to cancel or transfer the obligation, taking into account the information available regarding the event and its consequences, and recognising those adjustments that arise from the restatement of those provisions as a financial expense as they accrued.

Compensation to be received from a third party at the time the obligation is settled, provided that there are no doubts as to receiving the amount, is recorded as an asset, unless there is a legal vehicle through which part of the risk has been externalised and through which the Company is not obligated to respond. In such cases the compensation will be taken into account to estimate any amount that will be allocated to the relevant provision.

At 31 December 2013 the Company had recorded the aforementioned provisions in Note 12 although at the end of 2012 no provisions figured under liabilities on the balance sheet at that date.

4.16 Transactions with related parties

A related party is regarded as any legal or natural person who has control or a significant influence over an entity, or is a key member of its management. According to management, no other entity singly or jointly controls the Company and there are no relations with key management personnel other than their employment relations.

In addition, significant influence is understood as the capacity to intervene in the Company's financial and operating policy decisions, without actually having control other such policies Such influence is assumed to exist when the interest in capital is higher than 20%; accordingly, FROB fulfils this condition.

Transactions with related parties other than those involving the business transfer are generally recorded in accordance with the accounting standards contained in Spanish accounting legislation, i.e. the items involved are initially recorded at fair value and subsequently in accordance with the corresponding rules described in the Spanish General Accounting Plan.

Note 17 includes information on transactions with related parties carried out in 2013 and 2012, and on the balances held at 31 December 2013 and 2012 with related parties.

4.17 Severance payments

In accordance with current labour legislation, the Company is required to pay compensations to the employees whose employment relation is terminated under certain conditions. Therefore redundancy indemnities which can be reasonably quantified are expensed in the year in which the related decision is taken. During 2013, the Company recorded redundancy payments amounting to €87 thousand which are recorded under "Personnel expenses - wages, salaries and similar remuneration" on the accompanying income statement (Note 16.3).

5. Investment Properties

La composición de este epígrafe al 31 de diciembre de 2013 y 2012, es la siguiente:

Thousands of Euros	31/12/2013	31/12/2012
Land	4,523,217	2,812,430
Buildings		
Residential properties	4,554,761	2,197,883
Offices, premises and multi-use warehouses	1,288,714	876,675
Other properties	399,637	279,200
Residential properties that are not habitual dwellings	237,304	-
Total buildings	6,480,416	3,353,758
Of which: Leased buildings (Note 6)	905,998	927,620
Of which: Land	3,700,729	1,858,045
TOTAL INVESTMENT PROPERTIES (*) (**)	11,003,633	6,166,188

(*) Note 1 contains information on the effect of the transfer of real-estate assets relating to Group 2 institutions on this balance sheet heading.

(**) The balances at 31 December 2012 are basically equivalent to the transfer price of the real-estate asset portfolio transferred by Group 1 institutions (Note 1).

Movements in the heading of Investment Properties during the periods 2013 and 2012 are as follows:

Period 2013 Thousands of Euros	Buildings	Land and plots	Total
Cost			
Balance at 1 January 2013	3,353,758	2,812,430	**6,166,188**
Additions due to Group 2 transfer (Note 1)	1,717,940	1,226,036	**2,943,976**
Additions due to repossessions	228,039	170,672	**398,711**
Other additions	21,787	4,039	**25,827**
Sales and disposals	(534,974)	(77,616)	**(612,591)**
Inventory transfers (Note 8)	1,754,543	395,949	**2,150,492**
Removed due to amendments (Note 1)	(7,198)	(8,293)	**(15,491)**
Balance at 31 December 2013	**6,533,895**	**4,523,217**	**11,057,112**
Depreciation			
Balance at 1 January 2013	-	-	-
Provisions charged to income statement:	(56,672)	-	(56,672)
Sales, disposals and other movements	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**

Period 2012 Thousands of Euros	Buildings	Land and plots	Total
Cost			
Balance at 28 November 2012	-	-	-
Additions due to Group 1 transfer (Note 1)	3,353,758	2,812,430	**6,166,188**
Balance at 31 December 2012	**3,353,758**	**2,812,430**	**6,166,188**
Depreciation			
Balance at 28 November 2012	-	-	-
Provisions charged to income statement:	-	-	-
Balance at 31 December 2012	-	-	-
Impairment adjustment			
Balance at 28 November 2012	-	-	-
Provisions charged to income statement:	-	-	-
Balance at 31 December 2012	-	-	-
Net balances at 31 December 2012	**3,353,758**	**2,812,430**	**6,166,188**

The details of significant movements occurred in the period 2013 are the following:

Acquisition Group 2 institution assets

On 28 February 2013, Sareb formalised the real estate assets acquisition from Group 2 institutions (Note 1) amounting to €2,947,266 thousand, of which €2,943,976 thousand pertained to buildings and land which were classified under this heading. Payment for this transaction was made by Sareb in debt securities categories (see Note 13.2).

Other additions:

During 2013, the Company capitalised, as investment properties additional cost, €20,675 thousand relating to improvements and developments made to its investment properties. These improvements relate mainly to the development works carried out on land and plots.

Additionally, as a result of the incurred expenses by the Company in the process of revising the transferred assets, €5,149 thousand has been capitalised as an increase in the value of investment properties.

Transfers between items

During 2013 and as a result of management's analysis and review of the Company's real-estate assets acquired during 2012, certain land and buildings recorded under inventories have been reclassified, for an amount of €2,150,492 thousand (see Notes 2.4, 2.7 and 8).

The reclassification was carried out with effect from 1 January 2013 as the Company considered, following a due diligence process in 2013 and the review of its estimates, that these assets meet the conditions described in Note 4.3 and therefore they are assets with respect to which the Company is not going to take any action, make any improvements or perform any kind of development initiative, and therefore they will be earmarked for the capital gains obtaining in the future as fluctuations in market values result.

Foreclosures and repossessions

During 2013 the Company has acquired properties worth €398,711 thousand as mortgage foreclosures and repossessions result in order to settle several loans and credit facilities owned by the Company (see Note 7).

These foreclosures and repossessions have not had a significant effect on the income statement for 2013.

Sales and disposals

The main 2013 disposals are the real estate portfolio sale to FAB 2013 Teide for €146,358 thousand, of which 40% (€58,543 thousand) was deferred (see Note 7.2.2).

As mentioned in Note 4.6.1., the Company has derecognised real estate assets and has recognised the relevant revenue, as it understands that substantially all the related risks and rewards have been transferred.

In addition to the above operation, during 2013 individual sales have taken place of real-estate assets classified as investment properties, for a net cost of €366,091 thousand. The overall price of these sales has led to income recognition from investment property sales of €527,087 thousand, recorded under "Revenue" on the income statement.

Sales commitments:

At 31 December 2013, the Company had the following sale commitments on investment properties:

- FAB Bull: As mentioned in Note 4.6.1, during 2013 the Company transferred, for a price of €100,000 thousand, a block of investment properties with a net cost at 31 December 2013 of €97,896 thousand. The relevant sale has not been recognised as the Company considers that the risks and rewards inherent to the assets concerned have not been transferred. At 31 December 2013, the price received in cash amounted to €25,685 thousand and has been recorded under "Other financial liabilities" on the balance sheet.
- Dorian portfolio: At 31 December 2013 the Company has signed an agreement to sell a residential properties portfolio located in Madrid for the purpose of being leased. The buildings net cost to be sold in the future amounts to €26,870 thousand, this being the stipulated price at which, foreseeably, the future sale of €39,500 thousand will take place. At 31 December 2013 the Company received €6,000 thousand to guarantee the operation, since the contract provides that such amounts provided as collateral will not be deducted from the future sales price and must be returned by the Company at the sale completion time. The Company has recorded this amount under "Other financial liabilities" on the accompanying balance sheet (see Note 18).

At 31 December 2013 there were no sales commitments for relevant amounts other than those mentioned above.

Other information

At year-end 2013 and 2012, all of the Company's investment properties are encumbrance and guarantee free.

At 31 December 2013 and 2012, the Company has no fully depreciated investment properties on the balance sheet.

At 31 December 2013 and 2012, there were no significant dismantling and removal costs capitalised as an increase in the investment properties cost.

At 31 December 2013, the Company had no impairment provisions for its investment property portfolio.

The Directors of the Company consider that balances recorded carrying value under this heading approximates to fair value.

It is Company policy to arrange insurance where deemed necessary to cover possible risks to investment properties. The insurance coverage arranged by the Company in connection with its investment properties exceeds their carrying amount and is updated annually.

6. Operating leases

At the 2013 and 2012 year end the Company is the lessor in certain operating lease contracts. The minimum lease instalments of which, in accordance with the contracts currently in effect and not taking into account the charging of common expenses, inflation or future rental reviews, are as follows:

	Thousands of Euros	
Minimum instalments	2013	2012
Less than one year	55,229	51,300
Between one and five years	111,267	122,651
More than five years	167,432	137,218
TOTAL	333,928	311,169

Likewise, the operating lease and sublease instalments for the periods 2013 and 2012 have been recorded under the heading "Revenue" as follows:

	Thousands of Euros	
	2013	2012
Minimum lease payments (Note 16.1)	68,198	-
Charging of general expenses	5,442	-
TOTAL	73,640	-

The details of significant lease agreements are listed below:

Location	Date of lease	Type of property	Gross annual amount (thousands of Euros)	Maturity date
Las Palmas de Gran Canaria	20/06/2000	Cinemas	1,243	10/04/2023
Torrejón de Ardoz (Madrid)	18/07/2007	Business premises	933	21/05/2023
Torrejón de Ardoz (Madrid)	20/03/2002	Cinemas	894	19/03/2017
C/Cronos (Madrid)	25/06/2011	Office Building	700	24/06/2014

The gross cost of the Company's leased properties at 31 December 2013 and 2012 amounted to €905,998 thousand and €927,620 thousand, respectively (see Note 5).

Contingent instalments as variable rentals relating to such leases recorded in 2013 under "Revenue" are not significant.

Finally, the lease contracts in which the Company acts as lessee refer mainly to leases on the offices where the registered office is located and the leasing of a variety of computer equipment. Lease instalments payable by the Company for these items are not significant at year-end 2013.

7. Long and short-term financial assets

The carrying value of each of the financial asset categories held by the Company at 31 December 2013 and 2012 is as follows:

7.1 Long and short-term financial investments

At 31 December 2013 and 2012 Sareb owned the following financial assets, classified in accordance with the applicable regulations:

Period 2013					Thousands of Euros
	Long-term financial instruments		Short-term financial instruments		
Category / Class	Equity instruments	Loans, derivatives and other	Debt securities	Loans, derivatives and other	Total
Other financial assets	-	451,911	-	42,546	494,457
Loans and receivables – loans to third parties	-	34,999,115	-	2,499,393	37,498,508
Available for sale assets	-	-	-	-	-
TOTAL	-	35,451,026	-	2,541,939	37,992,965

Period 2012					Thousands of Euros
	Long-term financial instruments		Short-term financial instruments		
Category / Class	Equity instruments	Loans, derivatives and other	Debt securities	Loans, derivatives and other	Total
Held-to-maturity investments and others	-	39	-	1,703,135	1,703,174
Loans and receivables	-	16,607,153	-	11,691,749	28,298,902
Available for sale assets	-	-	-	-	-
TOTAL	-	16,607,192		13,394,884	30,002,076

7.1.1 Long and short-term loans to third parties

The breakdown of Financial instruments – Long and short-term by counterparty and instrument type at 31 December 2013 and 2012 is as follows:

		Thousands of Euros
	31/12/2013 (*)	**31/12/2012 (**)**
Public authorities	13,458	1,907
Other resident sectors	8,206,794	15,730,495
Trade credit	-	79
Secured loans	7,210,878	14,174,561
With mortgage guarantee	7,157,055	14,094,981
Other secured loans	53,823	79,580
Other term receivables	444,035	811,099
Demand loans and other	551,881	744,755
Non-resident private sector	2,321	2,700
Doubtful loans	29,305,043	12,034,400
Valuation adjustments	(29,108)	529,400
Impairment adjustments	(259,379)	-
Other value adjustments - interest accrued pending collection	212,710	529,400
Other – Capitalised expenses – (Note 4.6.2)	17,561	-
TOTAL	37,498,508	28,298,902

(*) Note 1 contains information on the effect of the transfer of loans relating to Group 2 institutions on this balance sheet heading.

(**) The balances at 31 December 2012 are basically equivalent to the loan portfolio transfer price assigned by Group 1 institutions (Note 1).

During 2013 and 2012 the Company has not granted any new loans or credit facilities to third parties except for draw-downs made by borrowers of the funds available to them.

Amendments performed in 2013

As mentioned in Note 1, during 2013 the Company recorded amendments to financial assets amounting to €286,947 thousand as a result of the loan portfolio review transferred by Group 1 and 2 institutions.

Financial income

At 31 December 2013, 90.9% of the loan portfolio is linked to the Euribor plus a market spread, while 9.1% is at fixed interest rates (Note 7.3.3).

During 2013, the Company recorded interest from its loan portfolio amounting to €765,910 thousand under "Revenue" on the accompanying income statement (see Notes 4.13 and 16.1).

Sales of loans and credits

During 2013 the Company has sold loans amounting to €764,955 thousand, recognising a €137,426 thousand profit.

The details of significant operations in 2013 are as follows:

Operation "Elora": During 2013 the Company sold its interest in two syndicated loans arranged with a Spanish real-estate group. The sale price amounted to €245,086 thousand and is recorded under Revenue. At 31 December 2013, the entire price of the above transaction had been received.

Operation "Abacus": On 13 November 2013 the Company sold a portfolio of mortgage loans on several properties located in Spain to a foreign investor. The price of the sale amounted to €157,114 thousand and is recorded under Revenue on the accompanying income statement. At 31 December 2013, the entire price of the above transaction had been received.

On 9 August, within the sale process known as "Bermudas", the first portfolio of assets included in mentioned process consisting of several mortgage loans was sold. The sale price amounted to €99,063 thousand and is recorded under "Revenue" on the accompanying income statement. The full portfolio price has been received by the Company.

Loans and credits recoveries

During 2013 the Company recorded income amounting to €443,123 thousand as a result of the difference between the values recovered on loans that had been partly or fully repaid, and their acquisition cost (see Note 4.13).

Adjustments for impairment due to credit risk

During 2013, the Company recorded €259,379 thousand due to impairment adjustments derived from credit risk, specifically the participating loan portfolio. The necessary information on the credit risk nature and level in the loans and receivables portfolio at 31 December 2013 (see Note 4.7.2) is included in Note 7.3.1.

Other information

At 31 December 2013 and 2012, the available amounts nominal value associated with the operations described above is €3,146,001 thousand and €3,472,549 thousand, respectively.

At 31 December 2013 there are no significant commitments to sell any financial assets figuring under "Loans to third parties".

At 31 December 2013 and 2012 there were no lawsuits or liens significantly affecting Current and Non-current financial investments.

The Directors of the Company consider that the carrying value of the balances recorded under this heading approximates fair value.

During 2013, after further analysis and updating of the Company's estimates, financial assets classified by the institutions as doubtful have been classified under non-current financial assets as it has been estimated that their recovery will take place over periods in excess of twelve months (see Note 2.4).

7.1.2 Short and Long-term investments - Other financial assets

The breakdown of the heading "Other long and short-term financial assets" in the balance sheet at 31 December 2013 and 2012 is as follows:

	31/12/2013		31/12/2012	
Thousands of Euros	Long-term	Short-term	Long-term	Short-term
Debt securities - MEDE issue	-	-	-	1,703,135
Cash guarantees on derivatives subscribed (Note 13.3)	445,900	-	-	-
Lease guarantee deposits (Note 6)	6,011	-	-	-
Time-apportioned interest pending collection	-	3,603	-	-
Other financial assets	-	38,853	39	-
TOTAL	451,911	42,546	39	1,703,135

Debt securities - MEDE issue

As at 31 December 2012, the Company recorded debt securities amounting to €1,703,135 thousand. These debt securities were received from Bank Restructuring Fund (FROB) as consideration for the capital increase carried out by the Company in 2012 and the subscription of subordinated debt instruments issued in that year (see Note 11). On 11 February 2013, the aforementioned instruments fell due and were settled in full in cash.

During 2013 the Company recorded interest income on mentioned bonds amounting to €13 thousand which is recorded under "Financial income - from marketable securities and other financial instruments - from third parties" on the income statement (see Note 16.6).

Lease guarantee deposits

Non-current guarantees and deposits mainly relate to lessors' guarantee deposits which the Company deposits with the appropriate authority in each Autonomous Region.

Cash guarantees given in derivative operations

The Company has given guarantees totalling €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 linked to the 3-month Euribor plus a market spread. Financial income accrued at 31 December 2013 amounts to €1,094 thousand which has been recorded under Financial income on the accompanying income statement (see Note 16.6).

The Directors of the Company consider that balances carrying value recorded under this heading approximate fair value.

7.2 Investments in associates

At the 2013 and 2012 year-end, the balance under the heading "Investments in Group companies, associates and jointly controlled entities" is as follows:

	Thousands of Euros	
	31/12/2013	31/12/2012
Investments in associates	13,172	-
Loans to associates	58,324	-
TOTAL	71,496	-

7.2.1 Investments in associates

The amount figuring under "Investments in associates" on the accompanying balance sheet consists entirely of the cost of 15% of the securities pertaining to FAB 2013 Teide (see Note 4.6.1) amounting to €13,172 thousand.

At 31 December 2013 the Company's directors have not recognised any impairment to the 15% holding in the share capital of FAB 2013 Teide as they consider that, in view of the transferred properties' market value to mentioned fund, the recoverable value of its ownership in the fund is higher than the recognised cost.

The significant details of this fund are the following:

							Thousands of Euros
Company	Shareholding	Registered office	Main activity	Securities (*)	Reserves and other equity items	Operating results	Profit/(Loss) after tax
1. Unlisted.-							
FAB 2013 Teide	15%	Pza. Pablo Ruiz Picasso 1, Madrid	Real estate sale and management	87,815	(3,572)	(7,442)	(3,572)

(*) Figures taken from the latest available annual accounts at 31 December 2013 drawn under the regulations applicable to each entity. At the date of these annual accounts preparation, the fund's annual accounts had yet to be audited.

In addition, as mentioned in Note 4.6.1, in 2013 the Company set up FAB 2013 Bull and FAB Corona. However, in accordance with the policies applied by the Company to account for its investments in the FABs, the assets and liabilities have not been derecognised and no balances have been disclosed under Investments in associates on the accompanying balance sheet. The most significant details of these funds are the following:

							Thousands of Euros
Company	Shareholding	Registered office	Main activity	Securities (*)	Reserves and equity	Operating results	Profit/(Loss) after tax
1. Unlisted.-							
FAB 2013 Bull	49%	Pza. Pablo Ruiz Picasso 1, Madrid	Real estate sale and management	87,815	(1,336)	(101)	(1,336)
Corona Banking Asset Fund	100%	Pº Castellana 143	Sale and management of rented assets	48,000	(39)	97	(39)

(*) Figures taken from the latest available annual accounts at 31 December 2013 drawn under the regulations applicable to each entity. At the date of these annual accounts preparation, the fund's annual accounts had yet to be audited.

7.2.2 Loans to associates

The breakdown of this heading in the balance sheet is as follows:

	31/12/2013	31/12/2012
FAB 2013 Teide		
Senior debt	**50,155**	**-**
Tranche A	-	-
Tranche B	9,175	-
Tranche C	17,563	-
Tranche D	23,417	-
Credit line	**8,169**	**-**
TOTAL	58,324	-

As mentioned in Note 4.6.1, during 2013 the Company set up FAB 2013 Teide. At the same time, the Company transferred a real estate portfolio containing properties classified as investment properties for a total price of €146,358 thousand (see Note 5). As a payment, the Company initially deferred the sum of €58,543 thousand through a senior loan with four tranches (A, B, C and D) with initial maturities set for 20 December 2015, 2016, 2017 and 2018, respectively.
On 21 December FAB 2013 Teide depreciated in full Tranche A of the loan, in the amount of €5,854 thousand, as well as €2,533 thousand pertaining to Tranche B. The total senior loan amount at 31 December 2013 after the above depreciation stands at €50,155 thousand.

The above loan accrues interest at a fixed annual rate of 3.5%. Interest accrued during 2013 is not significant.

As well as the senior loan, the Company granted FAB 2013 Teide a credit line with a ceiling of €14,636 thousand maturing on 20 December 2018. At 31 December 2013 FAB 2013 Teide had drawn down €8,169 thousand to meet payment of several expenses relating to the formation and start-up of the fund.

This credit line does not generate any interest for the Company.

7.3 Information concerning the nature and level of risk of the financial assets

Risk management is one of the basic principle in achieving the objectives set for the Company, which consist of contributing to the financial system rationalisation, minimising public financial support, settling the debts and liabilities incurred in the course of its operations, minimising impact of potential market fluctuations that could arise from its operations and disposing of the assets received, optimising their value within the term from which is has been incorporated and ensuring the Company's financial fortitude at all times.

The Board of Directors is responsible for determining and approving general internal control procedures and the policies for the assumption, management, control and reduction of the risks to which the Company is exposed.
In accordance with the powers delegated by the Board of Directors, the Operations Analysis Group is also involved in risk management.

The Audit Committee, with the support of the Internal Audit and Internal Control and Compliance area, is responsible for monitoring the operating processes and internal control systems efficiency, as well as verify compliance with applicable regulations.

The Company manages risks based on the principles of independence, senior management commitment, delegating functions and proactive management of loans and real estate investments to minimise bad debts and investment impairment by monitoring positions and through technical expertise, establishing appropriate risk management and measurement tools and methodologies and ensuring the consistent application of the same.

As a result of the balance sheet structure with which the Company was set up, the major risks to which it is subject are:

- Credit risk and concentration, related to the units of financial assets acquired by the Company, and certain investments made in the ordinary course of its business.

- Financial instruments liquidity risk, arising from the lack of availability at reasonable prices of the funds needed to meet promptly the commitments entered into by the Company and to maintain its lending activity.

- Interest rate risk, linked to the probability that losses will be incurred in the event of adverse trends in market interest rates.

- Operational risk due to losses resulting from the adaptation absence or weaknesses in processes, personnel or internal systems or deriving from external events.

Given the assets and liabilities types held by the Company, exchange rate risk, which relates to potential losses arising from adverse trends in the prices of assets and liabilities denominated in foreign currency, is not significant.

7.3.1 Credit risk

Credit risk is defined as the risk that arises from the possibility of losses being incurred due to the total or partial nonfulfillment of contractual payment obligations by customers or counterparties, or due to deterioration in their credit rating. This risk is managed by the Operations Analysis Group, following the policies, methods and procedures approved by the Company's Board of Directors.

The Company's policy, in accordance with its corporate purpose, focuses on the portfolios acquired management to maximize their recoverability through recovery or sale. With respect to credit risk management, therefore, specific procedures are implemented based on the different characteristics of financial assets units, according to the definition included in Note 1 above, and on the operations in each of these categories, on the basis of:

- Specific risks identification, analysis and monitoring over the life of the operation until completion.

- Measurement and evaluation of these specific risks based on established methodologies, which are consistent with those used for calculating the price of the financial asset units transfers.

- Recovery management or risk operations.

Regarding leased properties and sales of real estate, customer risk concentration is not relevant and there are no significant delays in payment for credit risk purposes.

The Company's exposure to credit risk at 31 December 2013 mainly concerns the transactions recorded in the financial assets category involving "loans and receivables" (see Note 7.1): their carrying value, including contingent amounts available for loans and credit facilities held to date, is the maximum exposure to credit risk at that date. In this respect, at 31 December 2013, the headings "Non-current investments - loans to third parties and Short-term investments - loans to third parties" represent 98.52% of the Company's total financial assets. Set out below is relevant information concerning the credit risk profile for investments included under these headings.

Loans to third parties by borrower's business segment

At 31 December 2013, "Current and Non-current investments - loans to third parties" were presented by the following categories of borrower by business type:

Thousands of Euros	Total	Of which: secured on real estate	Of which: other security
Public Authorities	14,088	1,902	858
Financial institutions	44,086	41,611	-
Non-financial companies and individual entrepreneurs	37,682,152	34,806,057	407,497
Real estate construction and development	36,392,791	33,980,928	397,139
Civil engineering construction	253,941	239,534	-
Other uses	1,035,420	585,595	10,358
Large companies	227,682	68,178	323
SMEs and individual entrepreneurs	807,739	517,417	10,035
Capitalised expenses (Note 4.6.2)	17,561	-	-
Asset impairment adjustments	(259,379)	-	-
TOTAL	37,498,508	34,849,570	408,355

Recovery steps - refinancing and debt restructuring.

During 2013, as part of the management recovery carried out by the Company, a number of steps have been taken to provide borrowers with the conditions required to meet their contractual obligations, on the basis that their activities continuity is the main guarantee for compliance.

These actions include the real-estate adjudication guarantees or the property surrender as payment (see Note 5), guarantees settlements and refinancing and debt restructuring operations.

The recovery activities, particularly in case of refinancing and debt restructuring, have been carried out based on objective criteria that take into account both circumstances that are common to certain loan portfolios and the specific circumstances of the borrowers concerned, such as their financial situation and the their business activities feasibility. The essential criterion governing the analysis and performance of these recovery activities is finding a solution to the existing payment issues and avoiding the payment deferral.

The refinancing and debt restructuring mechanisms that have been instigated include changes in the conditions originally agreed with debtors in respect to terms of maturity, interest rates, and guarantees and, in certain cases, the full or partial remission of the amounts owed. Refinancing or restructuring operations require that relevant debts payments to be fully or partially up to date.

None of the refinancing operations has had a negative impact on the Company's equity as regards the status of the refinancing or restructuring operation concerned or deferral in the possible impairment losses recognition resulting from these operations due to their circumstances. Therefore, all the operations carried out in accordance with the regulatory framework applicable to the Company which have to be classified as impaired have been treated as such for the present annual accounts purposes.

The number of refinanced operations carried out in 2013 and the amounts concerned are as follows:

	Operations (items)	Amount in thousands of Euros
Refinanced/restructured operations	376	783,802
Renegotiated/renewed operations	26	5,480
TOTAL	402	789,282

During 2012, the Company did not refinance or restructure any of the loans and credit facilities acquired.

Geographical distribution of loans and credits

The geographical distribution of "Current and Non-current investments - loans to third parties" at 31 December 2013 and 2012 is as follows:

Thousands of Euros	31/12/2013	31/12/2012
Andalusia	3,370,173	2,389,318
Aragon	1,651,867	530,513
Asturias	597,469	115,906
Balearic Isles	743,259	315,173
Canary Islands	791,635	818,371
Cantabria	472,502	155,959
Castilla - La Mancha	1,202,894	751,965
Castilla y León	2,075,273	988,579
Catalonia	7,072,418	5,642,162
Extremadura	361,897	109,106
Galicia	2,334,896	2,306,933
Madrid	12,280,316	8,109,721
Murcia	1,570,996	663,897
Navarre	111,507	91,104
Autonomous region of Valencia	6,832,060	6,624,255
Basque Country	476,742	322,648
La Rioja	546,533	452,373
Ceuta and Melilla	28,020	23,083
Other non-resident sectors	2,323	2,700
- Other – Capitalised expenses (Note 4.6.2)	17,561	-
- Asset impairment adjustments	(259,379)	
TOTAL	42,280,962	30,413,766
Of which: Cash and cash equivalents.	4,782,454	2,114,864
Of which: Current and Non-current loans to third parties	37,498,508	28,298,902

7.3.2 Liquidity risk

Liquidity risk is defined as the risk of Sareb not having the resources necessary to settle its debts when these fall due.

The Company determines cash requirements periodically and in particular through the preparation of a 12-month cash budget which is updated regularly with the aim of identifying short-term cash requirements or cash surpluses. Additionally, for liquidity risk management overall medium term and long term funding requirements, and how to address these in ways consistent with business projections, are identified.

In any event, liquidity risk is also mitigated by the Company having the option to reschedule the bonds issued as consideration for the received assets from the transferring companies at maturity (see Note 13.2).

During the first months of operation emphasis was placed on prudent liquidity management, aiming to provide it with greater versatility. For this purpose, a system of liquidity tenders has been implemented among entities to which counterparty risk limits have been assigned. The tenders are carried out applying Sareb's principles of transparency, competition and the profitability maximisation.

Investments by maturity date

As mentioned in Note 2.4, the Company considers that its financial assets will be recovered in accordance with the contractual payment schedule except for those with difficulties and which were originally doubtful (see Note 1), which will be recorded over more than 12 months according to the Company's current estimates.

In accordance with the unilateral renewal option for senior debt (see Notes 2.4 and 13.2) the Company classifies the probable maturities of mentioned debt in line with current forecasts.

						Thousands of Euros
	Up to 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years	Total
Assets:							
Cash and cash equivalents	**4,782,454**	**-**	**-**	**-**	**-**	**-**	**4,782,454**
Investments	**2,541,939**	**2,747,000**	**2,437,000**	**2,293,000**	**2,751,000**	**25,223,026**	**37,992,965**
- Loans and credits to third parties	2,499,393	2,747,000	2,437,000	2,293,000	2,751,000	24,771,115	37,498,508
- Other financial assets	42,546	-	-	-	-	451,911	494,457
Investments in associates	**-**	**9,175**	**17,563**	**23,417**	**8,169**	**13,172**	**71,496**
- Equity instruments	-	-	-	-	-	13,172	13,172
- Loans to companies	-	9,175	17,563	23,417	8,169	-	58,324
TOTAL AT 31 DECEMBER 2013	7,324,393	2,756,175	2,454,563	2,316,417	2,759,169	25,236,198	42,846,915
Liabilities:							-
Non-current and current payables	**3,596,862**	**3,741,068**	**4,345,000**	**5,287,000**	**5,848,000**	**30,379,942**	**53,197,871**
- Debentures and other marketable securities	3,457,298	3,696,000	4,345,000	5,287,000	5,848,000	30,000,000	52,633,298
- Debt with financial institutions	130,268	-	-	-	-	-	130,268
- Other financial liabilities	9,296	45,068	-	-	-	-	54,363
- Derivative	-	-	-	-	-	379,942	379,942
TOTAL AT 31 DECEMBER 2013	3,596,862	3,741,068	4,345,000	5,287,000	5,848,000	30,379,942	53,197,871

Available cash at 31 December 2013 totals € 4,778,448 thousand. In view of this liquidity, together with cash generated from the amortisation, cancellation and sale of loans, sales of real-estate assets and the leasing of the Company's assets, the Company's directors are confident that sufficient resource will be available to cover cash needs, mainly resulting from the maturity of senior bonds and the accrual of financial expenses. In this respect, if certain conditions are met, Sareb has a unilateral option to lengthen the terms of certain marketable securities issues.

7.3.3 Interest rate risk

The structural interest rate risk is defined as the Company's exposure to changes in market interest rates, derived from varying maturities schedules and asset and liabilities re-appreciations. The management objective of the interest rate risk related to balance sheet exposure is to maintain exposure with the levels prescribed by the Company´s risk strategy and risk profile due to changes in market interest rates.

Regarding assets, tools have been developed internally that allow flows of loan principal and interest to be simulated in accordance with contractual conditions based on the information provided by the transferring companies. These tools enable interest rate fluctuations scenarios to be incorporated and the impact on future interest flows to be evaluated, taking into account the borrowers' likely solvency level.

The liabilities modelling likewise enables simulation of debt cash flows considering market conditions or other simulated scenarios, as well as a valuation of such debt. To mitigate exposure to interest rate fluctuations, around 85% of the senior debt issued for a period of 9 years has been hedged using derivatives with the aim of reducing the risk that increases in interest rates could adversely affect the income statement in the future.

Reference interest rates

Regarding the contractual interest rates to which the acquired loan portfolio is linked, 90.1% of mentioned loans are linked to variable interest rates and 9.9% are at fixed interest rates.

The variable interest rates applied to the above balances are linked to the Euribor over different terms, with the corresponding spread. Notwithstanding the above, the Company records interest income based on the comments in Note 4.13.

Interest rate hedging derivatives

As indicated in Note 13.3, during 2013 the Company arranged interest rate derivatives with several financial institutions which enable the interest rate of approximately 85% of the senior bonds estimated for the coming 9 years to be fixed, thus eliminating uncertainty in the coming years with regard to the income statement and future cash flows resulting from fluctuations in reference interest rates.

The Company's directors consider that, given the likely trend in reference interest rates, the interest rate risk on its financial assets and the interest rate risk management of financial liabilities at 31 December 2013 are not significant for the Company's financial purposes position.

8. Inventory

The breakdown of this heading at 31 December 2013 and 2012 is as follows:

		Thousands of Euros
	31/12/2013 (*)	31/12/2012 (**)
Buildings	**-**	**1,760,094**
Residential properties	-	1,713,090
Offices, business premises and multi-use industrial premises	-	-
Other properties	-	47,004
Residential property not the borrower's usual residence	-	-
Buildings under construction	**50,420**	**470,124**
Residential properties	12,930	232,772
Offices, business premises and multi-use industrial premises	279	19,337
Other properties	34,641	218,015
Residential property not the borrower's usual residence	2,570	-
Advance payments to suppliers	**114**	**-**
TOTAL	50,534	2,230,218

(*) Note 1 contains information on the effect of real-estate assets transfer relating to Group 2 institutions on this balance sheet heading.

(**) The balances at 31 December 2012 are basically equivalent to the price of the real-estate asset portfolio assigned by Group 1 institutions (Note 1)

Movements during the periods 2013 and 2012 in the heading "Inventory" are as follows:

				Thousands of Euros
	Buildings	Buildings under construction	Advance payments to suppliers	Total
Balance at 28 November 2012	-	-	-	-
Additions due to Group 1 transfer (Note 1)	1,760,094	470,124	-	2,230,218
Disposals	-	-	-	-
Transfers	-	-	-	-
Impairment adjustment	-	-	-	-
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)
Amendments (Note 1)	(37,317)	-	-	(37,317)
Transfers to investment properties	(1,723,575)	(426,917)	-	(2,150,492)
Impairment adjustment	-	-	-	-
Balance at 31 December 2013	**-**	**50,420**	**114**	**50,534**

The details of significant movements in 2013 are presented below:

Acquisition Group 2 assets

On 28 February 2013, Sareb formalised the real estate assets acquisition from the Group 2 institutions (see Note 1) amounting to €14,087,157 thousand, of which €3,290 thousand pertained to work in progress which was classified under this heading.

Transfers between items

During 2013 and as a result of a Company's analysis about the real-estate assets acquired during 2012, certain buildings recorded under inventories have been reclassified to Investment properties for an amount of €2,150,492 thousand (see Note 5). The reclassification was carried out as the Company considered, following a "Due diligence" process and the updating of its forecasts in 2013 (see Note 2.4, 2.7 and 5), that mentioned assets meet the conditions described in Note 4.3 and therefore they are assets which the Company maintains on the balance sheet with the aim of obtaining capital gains in the future as fluctuations result in market values. This transfer did not have any effect on the 2013 income statement.

Amendments

On 4 June 2013, the Company formalised an amendment with Banco Financiero y de Ahorros, S.A./Bankia, S.A. whereby a commercial property located in Santa Pola (Alicante) worth €37,317 thousand was returned. The property was returned because it did not come under the scope of assets to be transferred to the Company (see Note 1).

At year-end 2013 and 2012 all of the Company's inventories are encumbrances and guarantees free.

Furthermore, during 2013 and 2012 no financial expenses were capitalised as an increase in the cost of inventories.

As a regular procedure, almost all presales are subject to compensation for any delay in delivery under contacts with similar terms. The relevant clauses concerning compensation for delays mostly stipulate the interest payment at the legal rate on the amounts paid between the delivery date stated in the relevant contract and the actual delivery date.

The Company does not expect any impact in this connection mainly because when delivery dates are set in contracts a safety margin of several months is taken into account with regard to the expected delivery date. For this reason and due to the low number of operations of this kind in 2013, the Company has not reflected any impact due to this item on the 2013 annual accounts. In general, presales include indemnities in the Company's favour in the event of annulment by the customer, although no amounts are recognised in this respect until the contract rescission for reasons not attributable to the Company is formally documented.

The Company's procedure with regard to guarantees covering advance payments received from customers provides that all advances received from customers are guaranteed.

There are no commitments to purchase or sell inventories involving significant amounts at 31 December 2013 and 2012.

The Directors of the Company consider that the carrying value of the balances recorded under this heading approximates fair value.

9. Trade and other receivables

The breakdown of this heading in the balance sheet at 31 December 2013 and 2012 is as follows:

	31/12/2013	31/12/2012
Trade receivables for sales	76,818	-
Debtors	1,337	-
Doubtful trade receivables	5,850	-
Loan loss provision	(5,850)	-
Current tax assets (Note 15.1)	-	1
Public Administrations - other receivables (Note 15.1)	10,559	1
TOTAL	88,714	2

As at 31 December 2013, "Trade receivables for sales" presents the amount pending collection mainly from real estate assets sales and rental income received by the Company during 2013.

The Directors of the Company consider that the carrying value of trade and other receivables is close to fair value.

10. Cash and cash equivalents

The heading "Cash and cash equivalents" includes Cash and short-term bank deposits maturing in three months or less.

As at 31 December 2013 and 2012, they were as follows:

	31/12/2013	31/12/2012
Other cash equivalents	2,474,980	-
Banks	2,307,474	2,144,864
TOTAL	4,782,454	2,144,864

"Other cash equivalents" reflect several fixed term deposits made by the Company in credit institutions totalling €2,474,980 thousand. Although these deposits mature in over three months, the Company has decided to classify them in cash and cash equivalents because the deposits may be cancelled without any early termination penalty.

During 2013 the Company recorded €49,145 thousand as interest from mentioned investments and from money deposited in current accounts (see Note 16.6).

At 31 December 2013 there are no restrictions on the cash and equivalents availability.

11. Equity

11.1 Share capital

At 31 December 2013 the Company's share capital consists of 300,060,000 bearer shares with a par value of €1 each, fully subscribed and paid in. These shares carry equal voting and dividend rights.

On 13 February 2013, at an Extraordinary General Meeting, the shareholders approved a share capital increase of €61,062.5 thousand from the existing figure of €238,997.5 thousand through the issuance of 61,062,500 ordinary shares with a par value of €1 each, (numbered 238,997,501 through 300,060 thousand Euros). These shares carry the same rights and obligations as the existing shares. The new shares were issued with a premium of €3 per share. The premium therefore totalled €183,187.5 thousand. The Company's shareholders at that time waived their preferential subscription rights so that the new shares could be subscribed by any of them or by third parties in any proportion.

The capital increase was entered in the Madrid Mercantile Register on 19 February 2013.

On 31 December 2013 the Company's shareholders with an interest in excess of 2.5% of share capital were as follows:

Period 2013	% 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

Period 2012	% Interest	Share capital	Share premium
Fondo de Reestructuración Ordenada Bancaria (FROB)	45.16%	107,935	323,625
Banco Santander, S.A.	17.15%	41,000	123,000
Caixabank, S.A.	12.34%	29,500	88,500
Banco de Sabadell, S.A.	6.90%	16,500	49,500
Banco Popular Español, S.A.	5.96%	14,250	42,750
Kutxabank, S.A.	2.62%	6,250	18,750
Other shareholders	9.87%	23,563	70,687
TOTAL	100%	238,998	716,812

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

The Legal Reserve is restricted by the law. Under Article 274 of the Spanish Companies Act, companies with benefits are required to transfer 10% of each year's profits to the legal reserve until the balance in the reserve equals at least one fifth of share capital. The legal reserve may only be used to offset losses or to increase share capital to the extent that it exceeds 10% of the increased capital amount, or to be distributed to the shareholders upon dissolution.

11.3 Other reserves

At 31 December 2013 and 2012 the other reserves were presented by:

Thousands of Euros	31/12/2013	31/12/2012
Prior-period losses	(5,488)	-
TOTAL	(5,488)	-

11.4 Valuation adjustments to equity

This heading includes the net amount of valuation adjustments to equity of the cash flow hedges financial derivatives (see Note 13.3).

The movements in the 2013 are as follows:

	Thousands of Euros		
	Opening balance	Additions/ Decreases	Closing balance
Valuation of derivatives	-	(265,959)	(265,959)
Balance	-	(265,959)	(265,959)

Valuation adjustments to equity are as follows:

	Thousands of Euros	
	31/12/2013	31/12/2012
Interest rate derivatives (Note 13.3)	(379,942)	-
Tax effect	113,983	-
Reserves net of taxes	(265,959)	-

12. Provisions and contingencies

At 31 December 2013 and 2012 provisions and contingencies include Non-current provisions created by Sareb to cover certain contingent liabilities and other liabilities incurred in its ordinary course of business, which are reasonably covered. Movements in 2013 and 2012 are as follows:

	Thousands of Euros	
	2013	2012
Balance at start of the year	-	-
Plus: provision/(recoveries) charged to the income statement for the year	53,322	-
Transfers and other movements	-	-
BALANCE AT 31 DECEMBER	53,322	-

The Company is involved as defendant in certain lawsuits relating to responsibilities which are inherent to its activities. Litigation provided by the Company in 2013 involves amounts which on an individual basis are not relevant. There is no other litigation of particular relevance. Sareb provides for probable risks due to litigation in accordance with the assessment of its legal advisors.

13. Financial liabilities

Financial liabilities recorded by Sareb at 31 December 2013 and 2012, analysed in accordance with the applicable regulations, are as follows:

Period 2013							Thousands of Euros
	Long-term financial instruments			Short-term financial instruments			
Category/ Class	Debt with financial institutions	Debentures and other marketable securities bonds	Derivatives and Other	Debt with financial institutions	Debentures and other marketable securities bonds	Derivatives and Other	Total
Creditors and payables	-	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

Period 2012							Thousands of Euros
	Long-term financial instruments			Short-term financial instruments			
Category/ Class	Debt with financial institutions	Liabilities and other marketable securities bonds	Derivatives and Other	Debt with financial institutions	Liabilities and other marketable securities bonds	Derivatives and Other	Total
Creditors and payables	-	28,548,200	-	-	11,010,888	1,188	39,560,276
Hedging derivatives	-	-	-	-	-	-	-
TOTAL	-	28,548,200	-	-	11,010,888	1,188	39,560,276

13.1 Debt with financial institutions

At 31 December 2013 the Company had been granted credit lines by several Group 1 and Group 2 financial institutions. The drawn down balance stood at €130,268. These credit lines are used by the Company to meet payment of drawn downs on the loans and credit facilities described in Note 7.1.1 and mature in the short term.

The resulting interest rate for the amounts drawn on mentioned credit facilities is determined at the Euribor plus a market spread. Interest accrued in 2013 amounts to €1,209 thousand and is recorded under Financial expenses on payables to third parties and similar on the accompanying income statement (see Note 16.5).

13.2 Long and short-term liabilities and other marketable securities

The breakdown of the heading "Long and short-term liabilities and marketable securities bonds" at 31 December 2013 and 2012 is as follows:

Thousands of Euros		31/12/2013		31/12/2012
	Long-term	Short-term	Long-term	Short-term
Marketable securities - senior debt	45,576,000	3,421,200	25,686,000	11,008,100
Marketable securities - subordinated debt	3,600,000	-	2,862,200	-
Accrued interest payable	-	36,098	-	-
TOTAL	49,176,000	3,457,298	28,548,200	11,008,100

Marketable securities - senior debt

The breakdown of the balances included in the heading "Marketable securities - senior debt" of the previous table at 31 December 2013 and 2012 is as follows:

31 December 2013	Issue date	Contract maturity date	Current applicable rate	Thousands of Euros
SAREB/VAR BO 20131231 2012-1	31/12/2012	31/12/2013	2.37%	-
SAREB/VAR BO 20140228 2013-1	28/02/2013	28/02/2014	1.45%	4,217,600
SAREB/VAR BO 20141231 2012-2	31/12/2012	31/12/2014	2.75%	15,722,300
SAREB/VAR BO 20141231 2013-4	31/12/2013	31/12/2014	0.949%	10,481,300
Total short-term contract maturities				**30,421,200**
SAREB/VAR BO 20151231 2012-3	31/12/2012	31/12/2015	3.15%	8,734,600
SAREB/VAR BO 20150228 2013-2	28/02/2013	28/02/2015	2.23%	6,326,700
SAREB/VAR BO 20160228 2013-3	28/02/2013	28/02/2016	2.67%	3,514,700
Total long-term contract maturities				**18,576,000**
TOTAL				**48,997,200**

31 December 2013	Issue date	Contract maturity date	Current applicable rate	Thousands of Euros
SAREB/VAR BO 20131231 2012-1	31/12/2012	31/12/2013	2.374%	11,008,100
Total short-term contract maturities				**11,008,100**
Senior marketable securities				
SAREB/VAR BO 20141231 2012-2	31/12/2012	31/12/2014	2.747%	16,512,300
SAREB/VAR BO 20151231 2012-3	31/12/2012	31/12/2015	3.149%	9,173,600
Total long-term contract maturities				**25,685,900**
TOTAL				**36,694,000**

Sareb has the right to renew unilaterally the maturity dates of the above senior debt issues, although at the time of the transaction this does not entail significant differences between fair value and nominal value.

This unilateral option has enabled the Company, based also on its business forecasts and the experience acquired during the first year since its incorporation, to consider that the above-mentioned short-term contract maturities will mature in the long term, for an amount of approximately €27,000,000 thousand.

At 31 December 2012, in the absence of a revised Business Plan, at the date of preparation of the annual accounts it was decided that liabilities should be classified in accordance with maturities established in the relevant contracts. This re-estimate did not have any impact on the Company's financial information.

The bonds bear interest at the 3-month Euribor plus a spread. The spread remains the same over the issuance life.

Period 2013:

The main variations in senior debt during 2013 are described below:

Bond issue to acquire Group 2 assets

On 28 February 2013 the issue of 140,868 senior bonds with a face value of €100,000 each was executed in a public deed. The bond issue amount was €14,086,800 thousand.

The bonds have been fully subscribed by Group 2 institutions as consideration for the assets transferred by them on the same date (see Note 1).

The bonds were issued at par and are represented by accounting entries. They are unconditionally and irrevocably guaranteed by the Spanish central government, waiving the discussion benefit.

Bond issue and redemption:

Senior debt redeemed in 2013 is as follows:

31 December 2013	In cash	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 the Company exercised its right to renew the term of the bonds issued and therefore executed a public deed recording the issuance of 104,813 senior bonds named SAREB/VAR BO 20141231 2013-4 and a face value of €100,000 each. The issue amount was €10,481,300 thousand which was fully subscribed by Group 1 institutions which held bonds in the SAREB/VAR BO 20131231 2012-1 series maturing on 31 December 2013. Following mentioned issue and the cash redemption referred to above, the SAREB/VAR BO 20131231 2012-1 series bonds are fully redeemed.

Subsanación escritura de adquisición de activos

During 2013, the Company redeemed the following bonds as a result of the amendments made during 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

Period 2012:

The significant movements in senior debt during 2012 are described below:

Bond issue to acquire Group 1 assets

On 27 December 2012, the issue of 366,943 senior bonds with a face value of €100,000 each was executed in a public deed. The issue totalled €36,694,300 thousand and the bonds were delivered to Group 1 institutions as consideration for the assets transferred (see Note 1).

The bonds were issued at par and were represented by accounting entries. They are unconditionally and irrevocably guaranteed by the Spanish central government, waiving the benefit of discussion.

Other information

The interest relating to mentioned marketable securities accrued during 2013 amounted to €1,271,080 thousand and is recorded under "Financial expenses - amounts owed to third parties" on the accompanying income statement (see Note 16.5). At 31 December 2013 interest accrued due to payment was €36,098,000 and is recorded under "Current payables - liabilities and other marketable securities bonds" on the accompanying balance sheet. At the time of preparation of these annual accounts, mentioned interest had been paid in full.

At 31 December 2013 the senior marketable securities issued by the Company have been accepted for quotation.

The directors consider that the carrying amount of the marketable securities approximates fair value.

Marketable securities - subordinated debt

The balances recorded under "Marketable securities - subordinated debt" at 31 December 2013 and 2012 are as follows:

31 December 2013	Issue date	Maturity date	Current applicable rate	Thousands of Euros
SAREB/8,00 OBSUBDCONV 20271127 2013	26/02/2013	27/11/2027	8.00%	737,800
SAREB/8,00 OBSUBDCONV 20271127	27/12/2012	27/11/2027	8.00%	2,862,200
TOTAL				3,600,000

31 December 2012	Issue date	Maturity date	Current applicable rate	Thousands of Euros
SAREB/8,00 OBSUBDCONV 20271127	27/12/2012	27/11/2027	8.00%	2,862,200
TOTAL				2,862,200

As part of the Company's financing strategy, on 26 February 2013 Sareb carried out an issuance of subordinated marketable securities for an amount of €737,800 thousand with a residual term to maturity equivalent to that of the subordinated debt issued in 2012. This issue was fully subscribed in cash.

On 27 December 2012 the Company issued subordinated marketable securities amounting to 2,862,200 thousand Euros maturing in 15 years. These securities were fully subscribed. The issue was carried out at par and represented by accounting entries.

The main conditions of the contingently convertible unsecured subordinated bonds are the following:

- All the bonds belong to two series and involve the same terms and conditions, and therefore provide holders with the same rights. They are freely transferrable and are represented by accounting entries, and are entered in the accounting records kept by Iberclear and its authorised participating entities.

- The bonds bear fixed interest which will accrue annually provided that profits are made and there is a sufficient balance in unrestricted reserves. For this reason, in 2013 the Company did not accrue or pay any interest due to the difficulty of estimating future distributable flows.

- Full redemption: mandatory on 27 November 2027.

- Partial redemption: This is possible at the Company's discretion after the fifth year as from the date of issuance depending on existing solvency and leverage ratios.

- Conversion: Subordinate debt may be converted into shares in the event of a shortfall in capital due to: i) accumulated losses that are equal to or greater than share capital plus reserves; or ii) the Company coming under the grounds for dissolution owing to losses that cause equity to fall below half of share capital. If conversion take place the shares will have the same par value, class and series and rights as ordinary shares currently in issue, for an amount such that the Company's capital figure will represent 2% of assets following conversion.

- Seniority: Convertible subordinate bonds are as follows in debt seniority terms:

    - Behind the Company's senior creditors;

    - "Pari passu" with any ordinary or subordinated debt issued or to be issued in future, or incurred at present or in future in relation to any kind of security.

    - Ahead of the Company' ordinary or preference shares.

Nature: At 31 December 2013, on the Business Plan basis, the Company's directors have considered that the conversion likelihood is remote and therefore the bond issue should be treated as a financial liability.

13.3 Derivatives

At 31 December 2013, Sareb's main funding source consists on the debentures and marketable securities issued in 2012 and 2013 due to the acquisition of real estate assets and loans described in Note 1 at a variable interest rate (see Note 13.2). Due to the high volume of the operation and in anticipation of possible increases in interest rates, on 2 August 2013 the Company entered into an interest rate swap that enabled it to cover this risk for an initial notional amount of €42,221 million, which will progressively decrease depending on the maturity of the senior bonds covered in future periods, and setting the debt at fixed interest rates in a range between 0.491% and 3.145% per annum.

The balance in "Non-current liabilities – derivatives" under liabilities on the balance sheet at 31 December 2013 relates entirely to the fair value of the above interest rate hedge arranged with several financial institutions. The fair value of this derivative, obtained by applying generally accepted valuation techniques based on the use of observable market inputs, amounted to €379,942 thousand at 31 December 2013 (see Note 11.4).

The notional value and fair value of these operations, in line with the time when the cash flows are expected to occur and the financial years in which they are expected to affect the income statement, is as follows (thousands of Euros):

The effect estimated by the Company on the derivatives market value if the reference interest rates are increased by 1 basis point would be an impact of €20,400 thousand on the Company's equity. The estimated effect of a decrease in the reference rates of one basis point would be a similar, negative impact.

The total fair value of this interest rate hedging derivative net of the tax effect is recorded under "Value adjustments - hedging operations" at €265,959 thousand. In addition, the amount charged to the income statement from equity is €168 thousand at 31 December 2013, recognised under "Financial expenses - payables to third parties" (see Note 16.5). The total expense allocated to the income statement for 2013 has yet to be paid.

Credit risk associated with derivative transactions is minimised through contractual agreements for the collateral exchange and other guarantees that depend on the nature and type of the counterparty in accordance with "International Swaps and Derivatives Association" (ISDA) rules.

At 31 December 2013, in order to ensure compliance with the derivative contracts terms mentioned above, Sareb had arranged cash guarantees in favour of the counterparties to the derivative contracts which at that date had a negative value for the Company of €228,400 thousand, which is recorded under "Short-term Investments - other financial assets" on the balance sheet and deposits with the counterparties for a total balance of €217,500 thousand (see Note 7.1.2).

INTEREST RATE SWAPS	Range fixed rates	Maturity	2014	2015	2016	2017	2018	Over 5 years	Total
Nocionales	0.49%-3.15%	2014-2023	42,221,000	36,467,000	30,571,000	25,453,000	22,181,000	61,841,000	218,734,000
Fair value			**(101,095)**	**(148.704)**	**(99.216)**	**(51.261)**	**(19.692)**	**40.026**	**(379.942)**

14. Trade and other payables

The breakdown of the balance of this heading in the balance sheet at 31 December 2013 and 2012 is as follows:

	Thousands of Euros	
	31/12/2013	31/12/2012
Suppliers	16,715	-
Suppliers, invoices pending receipt	222,018	4,943
Other payables	-	131
Personnel	1,912	-
Current tax liabilities (Note 15.1)	-	27
Public entities, other (Note 15.1)	90,122	1
TOTAL	330,767	5,102

"Trade and other payables" mainly include amounts due to payment on commercial purchases and related costs, and advance payments received from customers before buildings or land sales are recognised.

The heading "Suppliers, invoices pending receipt" includes €95,207 thousand and €73,865 thousand in relation to expenses accrued for management and sales commissions, respectively, and €52,946 of general expenses and maintenance expenses for the assets managed by the Company, for which the Company has not received the corresponding invoices (see Notes 1 and 16.4). No managements and sales commissions accrued in 2012.

The directors consider that trade receivables carrying amount approximates fair value.

Information regarding deferred payments to suppliers. Third Additional Provision of the Act 15/2010 dated 5 July "Disclosure requirement".

The disclosure required by the Third Additional Provision of the Act 15/2010 dated 5 July is presented below (thousands of Euros):

	Payments made and outstanding at the balance sheet date			
	2013		2012	
Thousands of Euros	Amount	%	Amount	%
Within the maximum legal limit	314,047	95%	-	-%
Others	15,162	5%	-	-%
Total payments during the year	**329,209**	**100%**	**-**	**-%**
Weighted Average Payment Period Exceeded (days)	30		-	
Deferrals that at the year-end date exceed the maximum legal period	1,421		-	-

The maximum payment period applicable to the Company in accordance with the Act 3/2004 dated 29 December, which establishes measures against delinquency on commercial transactions and the transitional provisions established in the Act 15/2010 dated 5 July stands at 60 days as from 1 January 2013 (75 days in 2012).

The information in the table above in respect of payments to suppliers represents the trade payables to suppliers for goods and services received and included in "Suppliers" and "Other payables" under current liabilities on the balance" sheet.

The weighted average term exceeded for payments (PMPE) has been calculated as the coefficient formed in the numerator by the sum of the products of each supplier for which the payment has been made during the year with the higher number of delay's day in excess of the respective legal deadline and the number of days by which the deferral exceeds the respective term, and in the denominator for the payments total amount performed in the year with a deferral in the legal deadline excess.

The Company considers that it complies scrupulously with the legal deadline although as a result of the computer valuation process for certain payments, the above information includes payments made in excess of the stipulated period. In addition, the €1,421 thousand treated as deferred at 31 December 2013 has been paid at the date of preparation of the annual accounts.

15. Public Administrations and tax situation

15.1 Current balances with Public Administrations

The breakdown of the current balances with Public Administrations at 31 December 2013 and 2012 are as follows:

	Thousands of Euros			
	Assets		Liabilities	
31 December 2013	Non-current	Current	Non-current	Current
Deferred VAT payable	-	-	-	47
Other taxes receivable	-	-	-	-
Deferred tax asset and tax credit	258,694	-	-	-
Provision for taxes	-	-	-	30,575
VAT payable	-	-	-	53,603
Personal income tax payable	-	-	-	1,441
Canary Islands General Indirect Tax payable	-	-	-	957
Amounts owed to the Social Security	-	-	-	254
Corporate income tax	-	10,559	-	-
Other taxes payable	-	-	-	3,245
TOTAL	258,694	10,559	-	90,122

	Thousands of Euros			
	Assets		Liabilities	
31 December 2012	Current	Non-current	Current	Non-current
Deferred VAT refundable	-	1	-	-
Deferred tax asset and tax credit	2,352	-	-	-
Personal income tax payable	-	-	-	-
Amounts owed to the Social Security	-	-	-	28
TOTAL	2,352	1	-	28

15.2 Reconciliation of the accounting result and tax base

The reconciliation between reported results for the year and the taxable base is as follows:

Period 2013	Income statement		Income and expenses taken directly to equity		Total
					Thousands of Euros
Net income and expenses for the year Profit/(Loss)		(260,533)		(113,983)	(374,516)
	Increases	Decreases	Increases	Decreases	
Corporate income taxes	-	(142,359)	-	(265,959)	(408,318)
Permanent differences	-	(71,639)	-	-	(71,639)
Temporary differences	-	-	-	-	
- arising during the year	384,037	-	379,942	-	763,979
- arising in prior years	-	(7,640)	-	-	(7,640)
Compensation of negative taxable bases from previous periods	-	-	-	-	-
Taxable base (tax result)	384,037	(482,171)	379,942	(379,942)	(98,134)

At 31 December 2013 the main temporary differences from transfers to provisions and depreciation/amortisation charges, among other items.

Period 2012	Income statement		Income and expenses taken directly to equity		Total
					Thousands of Euros
Net income and expenses for the year Profit/(Loss)		(5,488)	-	-	(5,488)
	Increases	Decreases	Increases	Decreases	
Corporate income taxes	-	(2,352)	-	-	(2,352)
Permanent differences	-	-	-	-	-
Temporary differences					
- arising during the year	6,738	-	-	-	6,738
- arising in prior years	-	-	-	-	-
Compensation of negative taxable bases from previous periods	-	-	-	-	-
Taxable base (tax result)	6,738	(7,840)	-	-	(1,102)

The above tables comply with the format required by the 2007 Spanish General Accounting Plan. The amounts included under “Income and expenses directly allocated to equity” relate to accounting adjustments that are not reflected in the taxable base and therefore are not included in the corporate income tax base for the year.

The only relevant tax recognised directly as equity at 31 December 2013 relates to the financial derivatives classed as hedging instruments and amounts to €113,983 thousand. During 2012 no direct taxes were recorded as equity.

The reconciliation between the corporate income tax expense recorded by Sareb and the result of multiplying the applicable corporate income tax rate by the total recognised income and expenses before taxes for 2013 and 2012 is as follows:

	(Income)/expenses (Thousands of Euros)		
Period 2013	Income statement	Recorded directly against equity	Total recognised income and expenses
Profit/(Loss) before taxes	(402,892)	(379,942)	(782,834)
Permanent differences	(71,639)	-	(71,639)
Total	(474,531)	(379,942)	(854,473)
Corporate income tax rate	30%	30%	
Total	(142,359)	(113,983)	(256,342)
Deductions and tax credits	-	-	-
PROFIT/ LOSS ON CORPORATE INCOME TAX	(142,359)	(113,983)	(256,342)

	(Income)/expenses (Thousands of Euros)		
Period 2012	Income statement	Recorded directly against equity	Total recognised income and expenses
Profit/(Loss) before taxes	(7,840)	-	(7,840)
Permanent differences	-	-	-
Total	(7,840)	-	(7,840)
Corporate income tax rate	30%	30%	30%
Total	(2,352)	-	(2,352)
Deductions and tax credits	-	-	-
PROFIT/ LOSS ON CORPORATE INCOME TAX	(2,352)	-	(2,352)

The reconciliation between the tax base and net tax payable for corporate income tax purposes in 2013 and 2012 is as follows:

	Thousands of Euros	
	2013	2012
Taxable base (tax result)	**(98,133)**	**(200)**
Taxable base by tax rate (30%)	(29,440)	(60)
Deductions and tax credits	-	-
Withholdings and interim payments	(10,559)	1
Net tax (refundable)/payable	**(10,559)**	**(1)**

The breakdown of taxable bases, registered at 31 December 2013 is as follows:

	Thousands of Euros	Due date
Negative taxable income		
Period 2012	200	2030
Period 2013	98,133	2031

The entire corporate income tax expense arising in 2013 relates to continued operations.

15.3 Deferred tax asset

At the 2013 and 2012 year end the deferred tax asset is as follows:

	Thousands of Euros	
	2013	2012
Tax credit	29,500	331
Temporary differences 2012	-	2,021
Temporary differences 2013	115,211	
Market valuation derivatives	113,983	-
TOTAL DEFERRED TAX ASSET	258,694	2,352

The deferred tax liabilities and tax credits for tax losses reflected above have been recognised in the balance sheet as the Company's directors consider on the basis of the best information available that the future taxable profits will be earned and therefore deferred income tax assets will be recovered.

15.4 Years open to inspection

Accordingly with current legislation, tax assessments may not be considered definitive until the returns filed have been inspected by the tax authorities or the four year inspection period has lapsed. At 31 December 2013, the Company's returns for all the taxes to which it has been subject since it was incorporated are open to inspection. As a result, among other things, of the possible different interpretations of the current legislation, additional liabilities may arise in the case of an inspection. In any case, the Directors consider that any such liabilities will not have a significant effect on the annual accounts.

At the end of 2013 no inspection assessments had been raised against the company by the Tax Agency.

16. Income and expenses

16.1 Revenue

The breakdown of revenue by business line at 31 December 2013 and 2012 is as follows:

	Thousands of Euros	
	2013	2012
Sales of loans and credit (7.1.1)	764,955	-
Income from accrued financial interest (Note 7.1.1)	765,910	-
Income from Investment Properties sales (Note 5)	804,081	-
Income from inventory sales (Note 8)	14,196	-
Rental income (Note 6)	68,198	-
Income from FABs' remuneration	1,013	
Capital gains recoveries from loans and credits (7.1.1)	443,123	
TOTAL	2,861,476	-

All revenues have been generated inside the national territory.

16.2 Cost of sales

The breakdown of this heading of the accompanying income statement is the following:

	Thousands of Euros	
	2013	2012
Cost of investment properties	629,191	-
Cost of sales of financial assets	627,530	-
TOTAL	1,256,721	-

16.3 Personnel Expenses

The breakdown of personnel expenses at 31 December 2013 and 2012, is the following:

	Thousands of Euros	
	2013	2012
Salaries and wages	13,246	73
Employee benefit expenses	1,637	2
TOTAL	14,883	75

The average number of employees by category during 2013 and 2012 was as follows:

	Number of employees	
	2013	2012
Executives	31	3
Managers and Specialists	62	-
Administration and sales employees	33	1
TOTAL	126	4

Likewise, the distribution of personnel by gender at 31 December 2013 and 2012 is as follows:

	2013			2012		
	Women	Men	Number of employees	Women	Men	Number of employees
Executives	10	29	39	1	2	3
Managers and Specialists	40	64	104	-	-	-
Administration and sales employees	26	25	51	1	-	1
TOTAL	76	118	194	2	2	4

There were no employees with a degree of disability exceeding 33% during 2013 or 2012.

16.4 External services

The breakdown of this heading at 31 December 2013 and 2012 is as follows:

		Thousands of Euros
	2013	2012
Asset management and sale fees (Note 1)	196,266	-
Leases and royalties	664	1
Repairs and maintenance	40,138	-
Independent professional services	37,764	4,863
Insurance premiums	3,468	-
Advertising and public relations	514	24
Banking services	492	1
Utilities	595	-
Other services	18,470	-
Total external services	**298,371**	**4,889**
TOTAL TAXES	87,359	-

"Repairs and maintenance" mainly includes owners' association fees relating to the properties owned by the Company, amounting to €39,237 thousand. "Taxes" mainly reflect the local property taxes expense on the Company's real estate assets and non-deductible VAT paid by in 2013.

The fees paid to PricewaterhouseCoopers Auditores, S.L. for auditing the Company's annual accounts for 2013 and for the period from 28 November 2012 to 31 December 2012 amount to €588 thousand and €15 thousand, respectively. During 2013 and 2012 fees accrued to other companies operating under the PricewaterhouseCoopers name for other services totalling €25 thousand and €30 thousand, respectively.

16.5 Financial expenses from debts with third parties

The breakdown of this heading of the income statement in the periods 2013 and 2012 are as follows:

	Thousands of Euros	
	2013	2012
Interest from liabilities and other marketable securities bonds(Note 13.2)	1,271,080	2,788
Loan interest (Note 13.1)	1,209	-
Other financial expense	171	-
TOTAL	1,272,460	2,788

16.6 Financial income

The breakdown of this heading of the income statement in the periods 2013 and 2012 are as follows:

	Thousands of Euros	
	2013	2012
Thousands of Euros	49.145	4
Interest on other financial assets (Note 7.1.2)	1.107	-
Otros ingresos financieros	290	-
TOTAL	50.542	4

17. Transactions and balances with related parties and legal information concerning the Board of Directors

17.1 Related-party transactions

Balances and transactions between Sareb and its related parties recorded in the annual accounts for 2013 and 2012 are as follows:

					Thousands of Euros
Period 2013	FROB and entities controlled by FROB	Significant shareholders	Banking Asset Funds (FABs)	Board of Directors	Senior management
Assets:					
Loans and receivables	571,321	-	-	-	-
Long-term investments in Group companies and associates	-	-	71,496	-	-
Short-term investments in Group companies and associates	-	-	-	-	-
Cash and cash equivalents	251,124	-	-	-	-
Liabilities:					
Long-term liabilities and other marketable securities bonds	39,796,360	-	-	-	-
Short-term and other marketable securities bonds	-	-	-	-	-
Profit and loss:					
Income from sales of investment property	-	-	146,358	-	-
Other operating expenses	(126,873)	-	-	(1,435)	(2,023)
Financial income	6,061	-	-	-	-
Financial expenses	(1,052,766)	-	-	-	-
Contingent exposures:		-	-	-	-
Guarantees issued	-	-	-	-	-

Period 2012	FROB and entities controlled by FROB	Significant shareholders	Banking Asset Funds (FABs)	Board of Directors	Senior management
					Thousands of Euros
Assets:					
Long-term investments in Group companies and associates	-	-	-	-	-
Short-term investments in Group companies and associates	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-
Liabilities:					
Long-term liabilities and other marketable securities bonds	25,686,200	-	-	-	-
Short-term liabilities and other marketable securities bonds	11,008,100	-	-	-	-
Profit and loss:					
Other operating expenses	-	-	-	(92)	(65)
Financial income	-	-	-	-	-
Financial expenses	(2,788)	-	-	-	-
Contingent exposures:	-	-	-	-	-
Guarantees issued	-	-	-	-	-

17.2 Statements of transparency concerning shareholdings and activities of the members of the Board of Directors

In accordance with Article 229 of the Spanish Companies Act, the relevant interests held by the members of the Company's Board of Directors in the capital of companies engaging in activities which are identical, analogous or complementary to those which constitute the Company's corporate objects and which have been reported to the Company, stating their positions or functions in the mentioned companies are disclosed below.

Positions held by members of the Board of Directors in other listed companies or relevant companies, referring to the directors as natural persons and the members of the Board as legal persons, are as follows:

Director/related party	Company with identical, analogous or complementary activity	Position at the Company	% shareholding
Ms. Belén Romana García	-	-	-
Mr. Walter de Luna Butz	Banco Bilbao Vizcaya Argentaria, S.A.	-	0.000
	Banco Santander, S.A.	-	0.000
Mr. Rodolfo Martín Villa	-	-	-
Ms. Ana María Sánchez Trujillo	-	-	-
Mr. Remigio Iglesias Surribas	Metrovacesa, S.A.	Director	0.000
	Banco Santander, S.A.	General Manager	0.001
Mr. Antonio Massanell Lavilla	Caixa Bank, S.A.	General manager	0.000
	Mediterránea Beach & Golf Community, S.A.	Deputy Chairman	-
Mr. Francisco Juan Sancha Bermejo	Banco Popular Español, S.A.	Assistant General Manager	0.001
Mr. Miquel Montes Güell	Banco de Sabadell, S.A.	General manager	0.0210
	Sabadell United Bank, National Association	Director	-
	Solvia Developments, S.L.U.	Director	-
	Solvia Hoteles, S.L.U.	Director	-
	Solvia Housing, S.L.U.	Director	-
	Banco Gallego, S.A.	Director	-
	Mediterranean CAM International Homes, S.L.	Deputy Chairman	-
	Sabadell Solbank, S.A.U.	Director	
	Tenedora de Inversiones y Participaciones, S.L.	Deputy Chairman	
Mr. Antonio Trueba Bustamante	Gecina, S.A.	Director	-
Mr. José Ramón Montserrat Miró	CaixaBank, S.A.	Assistant general manager	0.000
	Corporación Hipotecaria Mutual, E.F.C. S.A.U.	Director	-
	Gesticaixa, S.G.F.T., S.A.U.	Director	-
Mr. José Ramón Álvarez-Rendueles Medina	Inmobiliaria Colonial, S.A.	-	0.000
	CaixaBank, S.A.	-	0.000
	Banco Santander, S.A.	-	0.000
	Bankia, S.A.	-	0.000
	Banco de Sabadell, S.A.	-	0.000
	Royal Bank of Scotland	-	0.000
Mr. Emiliano López Atxurra	-	-	-
Mr. Isidoro Lora-Tamayo Rodriguez	Bankia, S.A.	-	0.000
	BBVA, S.A.	-	0.000
	CaixaBank, S.A.	-	0.000
	Banco Santander, S.A.	-	0.000
Mr. José Poveda Díaz	-	-	-
Mr. Luis Ángel Sánchez-Merlo Ruíz	-	-	-

17.3 Remuneration and other benefits paid to the Board of Directors and Senior Management

For the purposes of preparing the present annual accounts, Senior Management is presented by 11 persons (3 persons at 31 December 2012) and are classifies as key personnel of Sareb.

Salaries, per diems and any other kind of remuneration received in 2013 and 2012 by the governing bodies and senior management members of the Company amounted to €3,458 thousand and €157 thousand, respectively, in accordance with the following breakdown:

			Thousands of Euros
Period 2013	Board of Directors (*)	Senior management	Total
Fixed and variable remuneration	1,435	2,023	3,458
TOTAL	1,435	2,023	3,458

(*) Includes remuneration of the two executives that are the Board of Directors members, amounting to €680 thousand.

			Thousands of Euros
Period 2012	Board of Directors (*)	Senior management	Total
Fixed and variable remuneration	92	65	157
TOTAL	92	65	157

(*) Includes remuneration of the two executives that are the Board of Directors members, amounting to €60 thousand.

The Company has arranged third-party liability insurance for its Directors and Senior Managers.

At 31 December 2013, Sareb had not granted any guarantees or golden parachute clauses in favour of its Executive Officers or Senior Managers in the event of layoff or change of control.

The Company does not have any pension commitments with any of Board of Directors member or senior management.

The Company has not granted any advances, loans or guarantees to the Board of Directors members. The Company has not granted any share-based payments to any of the Board of Directors member or Senior Management.

18. Events occurring after the balance sheet date

On 5 February 2014 the Company formalised the "Dorian" real-estate portfolio sale which included a number of housing developments for rental use (see Note 5). The sale price was €30,100 thousand and the properties net cost at the selling date was €26,870 thousand. At the same time, the Company returned the €6,000 thousand guarantee deposit provided by the purchaser in 2013 (see Note 5).

45% of the price was deferred to 5 February 2016 and a resolutory condition was established whereby the Company could declare the transaction to be null and void in the event that the deferred amounts were not paid, with a penalty being stipulated on the amounts collected. The penalty established is higher than the margin recorded by the Company.

On 7 February 2014, Sareb and Banco de Caja España de Inversiones, Salamanca y Soria, S.A. ("CEISS") rectified the asset transfer agreement signed by them on 25 February 2013.

The assets covered by the adjustment total €52,464 thousand, calculated applying the criteria described in mentioned Asset Transfer Agreement.

The amount of the adjustment relates to a number of scope adjustments and the latest settled price adjustments, by virtue of the transactional settlement agreement concluded by CEISS and Sareb on 4 February 2014.

On 7 February 2014 the amount of the adjustment was settled through the partial advance redemption of senior bonds by Sareb, as follows:

- 2013-1 Senior Bonds (ISIN ES0352506036): 157 instruments with a face value of €100 thousand.
- 2013-2 Senior Bonds (ISIN ES0352506044): 236 instruments with a face value of €100 thousand.
- 2013-3 Senior Bonds (ISIN ES0352506051): 131 instruments with a face value of €100 thousand.

On 10 February 2014 the Company realised a partial early redemption of senior debt issued for the acquisition of Group 1 assets.

A summary of the redeemed senior debt is follows:

Name	Nominal amount yet to be redeemed (Note 13)	Redemption	Nominal amount yet to be redeemed following redemption
2012-02 SAREB SENIOR BONDS	15,722,300	74,000	15,648,300
2012-03 SAREB SENIOR BONDS	8,764,600	41,200	8,723,400
2013-04 SAREB SENIOR BONDS	10,481,300	49,300	10,432,000
TOTAL	34,968,200	164,500	34,803,700

On 28 February 2014 the Company realised simultaneously a partial redemption and a renewal of the term of unredeemed senior debt issued in 2013 for the acquisition of Group 2 assets (see Note 1).

The operation may be summarised as follows:

Name	Initial issue net of corrections (Note 1 and 18)	Redemption	Renewal	Outstanding amount	Due date	New ISIN renewal
2013-01 SAREB SENIOR BONDS	4,201,900	116,600	4,085,300	4,085,300	28/02/2015	ES0352506077
2013-02 SAREB SENIOR BONDS	6,303,100	175,100	-	6,128,000	28/02/2015	
2013-03 SAREB SENIOR BONDS	3,501,600	97,300	-	3,404,300	28/02/2016	
TOTAL	14,006,600	389,000	4,085,300	13,617,600		

Finally, at 28 February 2014, all management and administration contracts covering Group 2 assets have been tacitly renewed until 28 February 2015.

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

Directors' report for the year ended 31 December 2013

1. Main events in the period

The challenges that Sareb faced during the first full year of operations is evidenced by the magnitude of the annual: total assets of €50,782 million (see Note 1) as a result nearly 200,000 real estate and financial assets, to which over 400,000 properties guaranteeing loans and credit facilities have to be added.

This challenge becomes even more relevant when these figures are contrasted with Sareb's operational limitations at the time of its incorporation:

- Only three employees.
- Total lack of an integrated technological support
- No information on the assets received that would have enabled them to be managed on an efficient, orderly and centralised basis.
- Business paralysis of the transferring financial institutions as regards the active management of the properties and evident risk of deterioration due to the absence of financial assets active management by mentioned institutions.

In this first year, Sareb has had to work simultaneously on two fronts: first, to build its own internal structure, creating teams and designing procedures to allow progress in the settlement process and at the same time, not to neglect its principal mission, this being to manage and properties and loans acquired dispose.

During 2013, while analysing the assets transferred by the Group 1 institutions at year-end 2012 plus those acquired from the Group 2 institutions in February 2013, the Company's activity has focussed on unifying the main criteria to optimise the centralised management of the assets received, and to divest those assets that were considered to be in optimal condition on this regard.

The activities undertaken by the Company in this period, beyond the business activities mentioned above, have also focused on strengthening logistics and making progress in the technical, legal and human infrastructure implementation required to carry out the Company's activities.

Fianlly, and to ensure an orderly transition of the assets, management agreements were concluded with the originators of the financial and real estate assets received (Bankia, Catalunya Banc, NCG Banco, Banco Gallego, Banco de Valencia, Liberbank, BMN, CEISS and Caja 3), under which these institutions have been delegated part of the assets routine management and have acted as the main channel for the Company's properties retail sale.

Simultaneously, Sareb has launched two additional sales channels: a direct channel, in which the Company interacts directly with buyers of exceptional assets and a wholesale channel for selling bundles of assets to institutional investors through competitive processes. The Company has also designed and implemented commercial and operational policies that enable assets to be managed efficiently.
de una manera eficiente.

Regarding 2013 results, the following should be noted:

- Losses for the year stood at €260.5 million. This is due mainly to the net financial loss of €1,222.1 million, less operating income (€819.3 million) and the rationalisation of part of the financial assets received (€259.4 million).

- The most significant operating results aspects for the year are the following:

  - Property sales amounting to €818.3 million, with a margin of €179.0 million (22% on average).

  - Loans and credit facilities sales amounting to €764.9 million with a margin of €137.4 million (18% on average).

  - Financial income totalling €1,209.0 million, of which €765.9 million relates to loans accrual and €443.1 million to recoveries, via the collection of loans and credit facilities nominal values acquired at a discount.

  - Structural costs (operating expenses, depreciation and personnel expenses) stand at €517.3 million, relating mostly to property maintenance costs, local property taxes, and asset management and sale commissions.

According with the generation, and despite being its operation first year, the Company has been capable of generating a cash surplus for debt repayment amounting to €1,998 million, of which €1,445 million had been depreciated at 31 December 2013. €553 million relating to the redemption in February 2014 of bonds held by Group 1 and Group 2 financial institutions must be added to this amount. (see Note 18). These figures were achieved after meeting the Company's structural expenses, asset maintenance expenses and management and selling expenses, and in particular, the financial charge relating to senior debt which amounted to €1,273 million.

In addition, during the year bonds were redeemed as a result of amendments in the transfer process in the amount of €339 million, to which €52 million arising in February 2014 should be added (see Note 18).

As a whole, and considering the transactions executed in February 2014, the Company has reduced issued senior debt by €2,390 million, representing 4.7% of the original debt volume.

2. Business outlook

The Company can look forward to the current year on a much more solid basis than in the previous period. This includes not only the basic corporate infrastructure developed, but most notably, a much better knowledge of its own real estate and financial assets portfolio. This increased awareness of its own portfolio derives from three information sources developed by the Company during 2013:

- Legal review and assessment (due diligence) of the Company's real estate assets and assets serving as collateral for the loans transferred. Over 107,000 real estate assets and more than 214,000 assets guaranteeing loans transferred to the Company were analysed. This review has enabled the Company to obtain better information on the properties' legal and registry situation and the collateral backing the loans acquired, as well as an estimate of the price that each of them would attain in the retail channel.

- Loans internal appraisal. On the basis of the above data concerning guarantees and access to external data sources such as the Risk Information Centre of the Bank of Spain, the Company's Risk Department has valued the Company's financial assets based on a model which has been validated by an independent expert.

- Knowledge of the market through price and volume information gained in the Company's real-estate assets and financial assets sales in 2013.

The new information sources represent a major qualitative improvement compared with the information available in March 2013. This improved its portfolio knowledge has been used by the Company as a starting point for updating its Business Plan, in compliance with its contractual obligation.

The new information available - more abundant, more specific and better quality - has brought the directors to decide that it is necessary to continue making improvements to the business model that was started up in the first year of operation in order to ensure that the Company meets the objectives it is required to pursue under its legal mandate. In particular, the directors consider that the Company should explore the options for the proactive creation of value creation in its assets which are available to it and which, in the short term, are the following:

- Development of work in progress received as real-estate assets.

- Strengthen the development and sale of work in progress which is collateral for loans in the Company's portfolio from the debtor's balance sheet.

- Land redevelopment

- Maximise the rental potential of commercial and residential property which is not expected to be sold in the short term.

Another strategic area for the Company is to take the process for generating corporate infrastructures beyond the basic scheme achieved in 2013. The objective would be to increase the Company's operational efficiency. This initiative should include the management structure reorientation towards greater functional specialisation and the possibility of carrying out a detailed evaluation of the Company's main asset manager's performance. Regarding this second question, there is no doubt that past performance and the improvements that can be substantiated during 2014 should be a reference for the optimisation of the Company's assets external management.

Concerning market developments forecast for 2014, these are not expected to be particularly favourable although the situation should be considerable less negative than this year. The volume of transactions in the market is expected to stabilise and the prices of housing (our main real-estate and collateral asset) are expected to decline much less sharply than in 2013. It is particularly worth noting the modest growth in prices and transactions that are starting to emerge in certain geographical areas of Spain, which will enable commercial efforts to be concentrated on those areas. In overall terms, the less negative macroeconomic outlook, the infrastructure created and the sales channels opened in 2013, as well as the decisions taken by the Company at the start of this year, should lead to a major increase in the volume of retail sales in 2014, placing Sareb among the top 5 housing vendors in Spain.

In any event, the expectation for 2014 is to achieve a level of senior debt repayment which is up to 50% greater than the €2,000 million repaid against 2013 results, making a decisive contribution to the Company's legal mandate fulfilment.

3. Main business risks, risk management and utilisation of financial instruments

In addition to the financial risk factors and their management as described in Note 7 to the annual accounts accompanying, the Company has identified, initially, the following risk factors that could potentially affect the achievement of its objectives:

- Crisis in the property market (prices, occupation, defaults).
- Declines in asset valuation.
- Financial and liquidity crisis, which could affect future purchasers of Company assets.
- Impact of possible changes in tax and mercantile legislation. In particular, it is important to note the possible impact of the development, through a Bank of Spain Circular, of certain accounting policies and the entry into force of certain changes in regional regulations which affect the property market.
- Changes in the asset servicing business with the emergence of new players and a possible lack of interest by some of the current service providers in continuing with mentioned activity.

Regarding the use of financial instruments for interest rate hedging, it should be noted that during 2013 such products were used (see Note 13.3) in order to remove any uncertainty derived from the behaviour of and fluctuations in interest rates.

4. Acquisition of treasury shares

At 31 December 2013 the company holds no treasury shares. During 2013 no transactions involving treasury shares took place.

5. Information on related parties

Transactions with related parties are disclosed in Note 17 to the accompanying accounts. Most of these derive from financing agreements and the related financial costs, and the management and sale commissions accrued during the year with the financial institutions that have been entrusted with the management and sale of the Company's assets.

6. Events occurring after the balance sheet date

There have been no post-balance sheet events in addition to those mentioned in Note 18 to the annual accounts.

7. Research and development

No significant research and development investments were made in 2013, in accordance with the kind of activities in which the Company engages.

On 26 March 2014, the Board of Directors of the Management Company for Assets Arising from the Banking Sector Reorganisation (Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, S.A.), and in compliance with the requirements set forth in Article 253 of the Spanish Companies Capital Act and Article 37 of the Commercial Code, proceeded to draw up the Annual Accounts and the Annual Management report for the financial year ended as at 31 December 2013, which appear as the annexed documents to this note.

Ms. Belén Romana García
President

Mr. Jaime Echegoyen Enríquez de la Orden
CEO

Mr. Rodolfo Martín Villa
Director

Dña. Ana María Sánchez Trujillo
Director

Mr. Remigio Iglesias Surribas
Director

Mr. Antonio Massanell Lavilla
Director

Mr. José Ramón Montserrat Miró
Director

Mr. Miquel Montes Güell
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Mr. Antonio Trueba Bustamante
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Mr. Rafael de Mena Arenas
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Mr. José Ramón Álvarez-Rendueles Medina
Director

Mr. Emiliano López Atxurra
Director

Mr. Isidoro Lora-Tamayo Rodríguez
Director

Mr. José Poveda Díaz
Director

Mr. Luis Ángel Sánchez-Merlo Ruíz
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