



Management Discussion & Analysis of Financial Condition and Results of Operations

As of and for the nine months ended
September 30, 2017

December 22, 2017

Consolidated Balance Sheet as at 30 September 2017

(Thousands of Euros)

	30/09/2017(*)	31/12/2016
NON-CURRENT ASSETS:		
Intangible assets	276.211	213.590
Property, plant and equipment	1.570	1.605
Non-current financial assets	46.338	76.450
Deferred tax assets	10.115	9.336
Goodwill	6.079	6.079
Total non-current assets	340.313	307.060
CURRENT ASSETS:		
Current financial assets-	217.892	166.411
Cash and cash equivalents	53.727	55.581
Trade and other receivables	120.279	69.303
Current financial assets	43.886	41.527
Other current assets	280	261
Non-current assets held for sale and discontinued operations	1.444	-
Total current assets	219.616	166.672
TOTAL ASSETS	559.929	473.732
EQUITY:		
Share capital	9.683	9.683
Share premium	51.826	51.826
Reserves of the Parent	23.060	15.201
Reserves of the subsidiaries	2.201	215
Profit for the period attributable to the Parent	14.432	31.334
Equity attributable to the Parent	101.202	108.259
Total equity	101.202	108.259
NON-CURRENT LIABILITIES:		
Bank borrowings	176.496	201.954
Non-current payables to Group companies and associates	59.373	59.373
Long-term provisions	36	35
Total non-current liabilities	235.905	261.362
CURRENT LIABILITIES:		
Bank borrowings	77.157	40.247
Current payables to Group companies and associates	87.871	3.781
Other financial liabilities	16.900	16.503
Other current liabilities	12.761	18.171
Short-term provisions	557	500
Trade payables	27.271	24.909
Liabilities related to non-current assets held for sale and discontinued operations	305	-
Total current liabilities	222.822	104.111
TOTAL EQUITY AND LIABILITIES	559.929	473.732

(*) Unaudited financial statements.

Consolidated Statement of Profit and Loss for the nine-month period ended,

(Thousands of Euros)	30/09/2017 (*)	30/09/2016 (*)
CONTINUING OPERATIONS:		
Revenue	138.095	144.119
Other operating expenses	(43.557)	(40.804)
Staff costs	(34.612)	(36.119)
Depreciation and amortisation charge	(28.031)	(24.896)
Impairment and gains or losses on disposals of non-current assets	(12)	(23)
Profit from operations	31.883	42.277
Finance income	15	57
Finance costs	(11.118)	(13.410)
Profit before tax	20.780	28.924
Income tax	(5.148)	(7.050)
Profit for the period of continuing operations	15.632	21.874
Loss for the period of discontinued operations	(1.200)	-
Profit for the period	14.432	21.874
Attributable to the sole shareholder of the Parent	14.432	21.874

(*) Unaudited financial statements.

Consolidated Statement of Cash Flows for the nine month period ended,
(Thousands of Euros)

	30/09/2017 (*)	30/09/2016 (*)
1. CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	20.780	28.924
Adjustments for:		
Depreciation and amortisation charge (+)	28.031	24.896
Provisions (net) (+/-)	229	(289)
Finance income (-)	(15)	(57)
Finance costs (+)	11.118	13.410
Impairment and losses on disposals (+)	12	32
Adjusted profit	60.155	66.916
Income tax paid	(5.354)	(881)
Increase/(Decrease) in current assets and liabilities		
Increase/(Decrease) in current assets	(34.188)	2.293
Increase/(Decrease) in current liabilities	(689)	33
Total net cash flows from operating activities (1)	19.924	68.361
2. CASH FLOWS FROM INVESTING ACTIVITIES		
Payments due to investment:		
Property, plant and equipment	(267)	(299)
Other intangible assets	(110.007)	(6.709)
Other financial assets	(2.294)	(4)
Proceeds from disposal:		
Other financial assets and interest received	27.781	36.524
Total net cash flows from investing activities (2)	(84.787)	29.512
3. CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds and payments relating to equity instruments:		
Dividends paid	(21.489)	-
Proceeds and payments relating to financial liability instruments:		
Proceeds from issue of borrowings from-		
Group companies	84.800	-
Credit institutions	17.808	-
Repayment of borrowings from-		
Credit institutions	(10.578)	(52.000)
Interest paid (-)	(7.864)	(6.078)
Total net cash flows from financing activities (3)	62.677	(58.078)
4. Net increase/(decrease) in cash and cash equivalents (1+2+3)	(2.186)	39.795
Cash and cash equivalents at beginning of period	55.581	18.512
Incorporation in scope of consolidation (Note 1)	332	-
Cash and cash equivalents at end of period	53.727	58.307
Cash flows from operating activities	(1.316)	-
Cash flows from investing activities	(878)	-
Cash flows from financing activities	-	-
Net cash flows from discontinued operations	(2.194)	-

(*) Unaudited financial statements.

Summary Consolidated Financial Information

We present above the unaudited consolidated balance sheet, consolidated statement of profit or loss, and the consolidated statement of cash flows, which have been derived from the Company's Unaudited Interim Condensed Consolidated Financial Statements as of and for the nine-month period ended 30 September 2017, prepared in accordance with IAS 34.

This document contains forward-looking statements regarding Haya Real Estate's financial position and plans for future operations. All statements other than statements of historical facts may be forward-looking statements. These forward-looking statements speak only as of the date of the notice and are subject to a number of factors that could cause actual results to differ materially from any expected results in such forward-looking statements. Haya Real Estate expressly disclaims any obligation or undertaking to update or revise any forward-looking statement (except to the extent legally required).

Haya Real Estate uses adjusted revenues, Adjusted EBITDA, Adjusted Recurring EBITDA and Free Cash Flow as internal measures of performance to benchmark and compare performance, both between its own operations and as against other companies. These measures are used, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performance of its business. Haya Real Estate believes that EBITDA-based and other measures are useful and commonly used measures of financial performance in addition to net profit, operating profit and other profitability measures under IFRS because they facilitate operating performance comparison from period to period and company to company. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortization methods, historic cost and age of assets, financing and capital structures and taxation positions or regimes, Haya Real Estate believes that EBITDA-based and other measures can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, Haya Real Estate believes that EBITDA-based and other measures are regularly used by the investment community as a means of comparison of companies in the industry.

Key Factors Affecting Comparability

Acquisition of Liberbank contract

On August 8th 2017, we acquired Mihabitans from Liberbank, through PH62, our parent company. Mihabitans entered into a Service Level Agreement (SLA) with Liberbank, S.A. and other related entities ("Liberbank group"). By that agreement, Mihabitans acquired the exclusivity of the management of the Liberbank group's real estate owned assets: €2.579 million in AuMs by initial reference value. The results of operations of Mihabitans have been included in Haya's consolidated results of operations from August 8th to September 30th, 2017.

Key Performance Indicators

Assets under Management

The following table shows Assets Under Management (hereinafter AuMs) as of December 31, 2016, and September 30, 2017. While our AuMs increase with the addition of each contract, they decrease to the extent they are not replaced by new AuMs as we continue to successfully recover

REOs or commercialize REOs. This is also influenced by the fact that the Sareb RED portfolio is closed, which means no new assets will be added to the portfolio during the contract term.

	As of	
	December 31, 2016	September 30, 2017
	<i>(unaudited, in € millions)</i>	
REO	8,982.7	11,164.7
RED	30,443.7	28,718.6
Total AuMs	39,426.4	39,883.3

As of September, 30 2017, the AuMs increase by €457 million due to the inclusion of the Liberbank contract (€2,522 AuMs as of September 30, 2017), which offsets the decline of €2,065m due to the natural evolution of existing contracts.

Transaction Volumes

We classify recoveries volumes in three categories: (i) RED cash recoveries volumes; (ii) REO conversions volumes, which are REDs converted to REOs through foreclosures, deeds in lieu or bankruptcy proceedings, and (iii) REO sales volumes. As part of our advisory activities, we may also arrange or advise in connection with the sale of REDs owned by financial institution clients to financial investors. The mix of volume servicing fees in a given period may vary significantly depending on the type of asset recovery and which client portfolio the asset is recovered from, creating a complex revenue mix structure in each period. Overall, volume servicing fees and margins are higher for RED recoveries (3.0%-10.0%) than REO sales (3.0%-6.0%) or REO conversions (1.5%-3.0%). As a general matter, the contracts envisage that the volume servicing fees received for RED recoveries are equivalent to the volume servicing fees received for the combination of REO sales and REO conversions. We are therefore incentivized to proceed on either basis depending on the circumstances of the particular asset, in order to assist our clients with removing NPAs from their balance sheets through recovery of the underlying loan (insofar as possible) or the future sale of the related asset. Generally, fees received for wholesale sales are lower than fees received on individual (retail) sales.

The following table shows the split of transaction volumes between RED, REO Conversion and REOs:

Transaction Volumes	Nine months ended September 30,	
	2016	2017
RED.....	1,210.9	909.4
REO conversion.....	1,012.2	754.2
REO	594.8	790.1
Total.....	2,817.9	2,453.7

For the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016, the transaction volumes decrease by €364.2 million (-13%). The Liberbank contract contributed with €71 million of REO transaction volumes in the 9M 2017 period.

Decline in total volumes is mainly explained by weaker RED transaction volumes, decreasing by 25% vs 9M 2016 (-€302 million), impacted mainly by one large portfolio sale of over €100 million in 2016 by Cajamar and slower recoveries in Sareb. In addition, REO Conversion volumes also decreased by 25% (-€258 million) impacted by a slow down in the timing of recognition of foreclosures from client procedural changes and the impact of the judgment of the European Court of Justice on mortgage foreclosures. In addition, a few large Deeds in Lieu were closed in the first nine months of 2016 with no corresponding impact in 2017. On the other hand, we had very strong REO transaction volumes, increasing by 33% vs 9M 2016 (+€195 million) driven by existing contracts (mostly Cajamar and Sareb) and the newly awarded Liberbank contract.

Adjusted revenues

We generate revenues primarily from two types of fees under our core servicing contracts: (i) volume servicing fees, which are calculated as a percentage of the recoveries volume for each NPA (i.e., the recovery or sale of debt, the conversion of REDs to REOs or the commercialization of an REO) that we achieve on behalf of our clients, and (ii) management fees, which are generally calculated as a function of AuMs in each contract in a given period. Such fees vary significantly from contract to contract and by type of asset recovery. Other revenues consist of success fees (linked to the achievement of performance objectives agreed with the clients) and revenues derived from other types of businesses (e.g., securitization, advisory services, rental management and land development advisory).

As part of the servicing contracts we sign with our clients, we may pay a negotiated upfront fee at the time the contract is signed. The volume servicing fees and management fees we receive are dependent on the upfront fee paid for each contract; the higher the upfront fee in relation to the assets managed, the higher the fees are through the duration of the contract. Although all of the contracts we have signed have followed this structure of an upfront fee, this may not continue to be the case for future contracts. In the case of the Sareb contract, we paid €235.1 million when we signed the contract in December 2014. A portion of the upfront fee was considered a “guarantee” by Sareb for accounting and tax purposes and this guarantee is credited to us as part of our fees as REDs and REOs are recovered or sold. The primary adjustment in reconciling adjusted revenues or Adjusted Recurring EBITDA to their nearest IFRS measures is the recognition of this “guarantee refund” under the Sareb contract as revenues.

Adjusted revenues, which is the total of volume servicing fees, management fees and other revenues, including the Sareb guarantee refund, and Adjusted Recurring EBITDA are the primary key performance indicators we use to analyse our business.

The following table presents a reconciliation of adjusted revenues to net turnover for the nine months ended September 30, 2016 and 2017.

	Nine months ended September 30,	
	2016	2017
Net turnover	144.1	138.1
Sareb guarantee refund ⁽¹⁾	29.0	27.7
Adjusted Revenues⁽²⁾	173.1	165.8
Volume servicing fees	97.8	94.8
Management fees	61.6	57.6
Other	13.7	13.4

Notes:

- (1) The Sareb guarantee refund represents the portion of the invoiced amount during the period considered to be a refund of the original upfront payment made in relation to the Sareb servicing contract at the time it was signed, which is recognized as an adjustment to revenues and EBITDA for management reporting purposes.
- (2) Adjusted revenues are the sum of GAAP net turnover and the amount of the Sareb guarantee refunded during the period.

For the nine months ended September 30, 2017, adjusted revenues were €165.8 million, a 4.2% decrease from adjusted revenues of €173.1 million for the nine months ended September 30, 2016. This decrease of €7.2 million (€12.7 million excluding the Liberbank contribution) was primarily driven by a decrease in total transaction volumes during the period, and decline in management fee of €4.0 million (€5.2 million excluding the Liberbank contribution) due to the natural evolution of the contracts, in particular the Sareb contract where there are no inflows of new assets. Other revenues are in line with the previous year, helped by solid performance in Advisory and Rental Management business lines.

Volume servicing fees as a % of volume increased from 3.83% to 4.25% due to better fee mix, helping to soften the drop in volumes. Specifically, volume fees decrease 3.0% (7.1% excluding Liberbank contribution) compared with transaction volume decrease of 12.9% (15.5% excluding Liberbank contribution)

In terms of product, volume servicing fees declined of €3.0 million is explained by €8.5 million and €4.7 million decrease in REDs and REO Conversion, respectively, partially offset with €6.2 million increase of REO performance and €4.0 million of Liberbank contribution.

Adjusted Recurring EBITDA

The following table presents a reconciliation of Adjusted Recurring EBITDA to net profit for the nine months ended September 30, 2016 and 2017.

	Nine months ended September 30,	
	2016	2017
Net profit for the period	21.9	14.4
Loss for the period of discontinued operations	-	(1.2)
Corporate tax.....	(7.1)	(5.1)
Financial income.....	0.1	0.1
Financial expenses.....	(13.4)	(11.1)
Consolidation adjustments	-	-
Impairments and results on the sale of fixed assets	(0.0)	(0.0)
Amortization.....	(24.9)	(28.0)
TOTAL EBITDA	67.2	59.9
Sareb guarantee refund ⁽¹⁾	29.0	27.7
Adjusted EBITDA.....	96.2	87.7
Non-recurring Expenses	4.0	2.1
Adjusted recurring EBITDA	100.2	89.8

Note:

- (1) The Sareb guarantee refund represents the portion of the invoiced amount during the period considered to be a refund of the original upfront payment made in relation to the Sareb servicing contract at the time it was signed, which is recognized as an adjustment to revenues and EBITDA for management reporting purposes.

For the nine months ended September 30, 2017, Adjusted EBITDA was €87.7 million, 8.8% decrease from Adjusted EBITDA of €96.2 million for the nine months ended September 30, 2016. This decrease was primarily driven by volume fees decrease as a result of lower transactions volumes, lower management fees, higher operating expenses related to channel costs due to strong REO performance, partially offset with a decrease in personnel costs and the Liberbank contribution.



Income Statement

Key Income Statement Items

Set forth below is a brief description of the composition of the key line items of our consolidated statement of profit or loss:

Net turnover

Our net turnover is derived mainly from the volume servicing fees and management fees, which are linked to the transaction volume activity, as well as other revenues. GAAP Net turnover excludes the Sareb guarantee refund.

Other operating expenses

Other operating expenses consist primarily of channel costs, litigation costs for REO conversions, operational expenses and other operating expenses. Channel costs are commissions paid to real estate brokers or bank branches participating in the sale of REOs. Operational expenses are agency and consulting fees and the remainder of our operating expenses are comprised mainly of IT, marketing, rent and travel expenses.

Personnel costs

Personnel costs represent salaries, severance fees and related personnel expenses.

Amortization

Amortization includes the amortization of tangible and intangible fixed assets on a straight-line basis over the useful life of the assets.

Net finance costs

Net finance costs arise primarily from certain loan liabilities and related interest expenses.

Corporate income tax

Corporate income tax is calculated as the sum of the current tax payable resulting from the application of the relevant tax rate to the taxable income for the year, less any allowable tax deductions and the change in assets and liabilities due to deferred tax resulting from tax losses and deductions.

Results of Operations

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

The following table sets forth our results of operations for the periods indicated:

	Nine Months ended September 30,		Percentage Change
	2016	2017	
	<i>(unaudited)</i>		
	<i>(in € millions, except percentages)</i>		
Net turnover	144.1	138.1	(4%)
Other operating expenses ⁽¹⁾	(40.8)	(43.6)	7%
Personnel costs	(36.1)	(34.6)	(4%)
Amortization.....	(24.9)	(28.0)	13%
Impairments and results on the sale of fixed assets	(0.02)	(0.01)	(48%)
Operating result	42.3	31.8	(25%)
Net finance costs	(13.6)	(11.1)	(17%)
Earnings before corporate income tax	28.9	20.8	(28%)
Corporate income tax	(7.1)	(5.1)	(27%)
Net profit	21.9	15.6	(29%)

Note:

- (1) In our Financial Statements, other operating expenses includes other operation expenses, impairment and gains or losses on disposals of non-current assets, consolidation adjustments and supplies.

Net turnover

For the nine months ended September 30, 2017, net turnover was €138.1 million, a 4% decrease from net turnover of €144.1 million for the nine months ended September 30, 2016. This decrease was primarily driven by the natural evolution of management fee in our core contracts (ex-Liberbank) impacting negatively by €5.2 million due to the closed nature (no inflows) of the Sareb contract. This decrease was partially offset by €1.3 million of contribution in management fee from the Liberbank contract. In addition, a decline in transaction volumes from €2.8 billion for the nine months ended September 30, 2016 to €2.4 billion for the nine months ended September 30, 2017 impacted negatively volume fees. An overall improvement in the fee mix (higher weight of more profitable products) increasing volume fee as a % of volume from 3.83% to 4.25% and the excellent REO sales performance across our core servicing contracts helped to soften the drop in volumes.

Other operating expenses

Other operating expenses increased by €2.8 million, or 7%, during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The increase in expenses was driven by €1.6m of new costs associated to the Liberbank contract, and higher channel costs associated to the good performance in REOs.

Personnel costs

Personnel costs decreased by €1.5 million, or 4%, during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The decrease in the period was primarily due to a decline in severance costs. For the nine months ended September 30, 2016,

severance costs related to redundancy measures taken during the period amounted to €2.8 million compared with €1.2 million incurred in the nine months ended September 30, 2017.

Net finance costs

For the nine months ended September 30, 2017, net finance costs were €11.1 million, a 17% decrease from net finance costs of €13.6 million for the nine months ended September 30, 2016. This decrease was primarily the result of lower interest expenses arising from the decrease in principal outstanding under our syndicated facility, as well as a reduction in interest spread caused by lower leverage ratios in the period stipulated in the loan agreement existing in both periods. Such loan agreement has been repaid in full in November 2017 and substituted by the issuance of a high yield bond.

Net profit

For the reasons explained above, for the nine months ended September 30, 2017, net profit was €15.6 million, a 29% decrease from net profit of €21.9 million for the nine months ended September 30, 2016. As explained, this decrease was a result of the decline in net turnover impacted by lower transaction volumes (specifically, in REDs and REOs Conversion) and lower management fee associated to the natural decrease of AuMs (although impact partially absorbed by the inclusion of the Liberbank contract), and higher amortization caused by the new Liberbank contract and new IT platforms launched in 2017, partially offset with less net financial costs and corporate income tax.

Liquidity and Capital Resources

Our liquidity requirements consist mainly of debt servicing requirements, capital expenditures and working capital. Historically, our principal sources of liquidity have been our net cash generated from operating activities, borrowings under senior loan facilities, and loans from our shareholder.

As of September 30, 2017, our outstanding debt is a syndicated facility of €345 million signed in 2015; the loan consists of a first tranche of €330 million and a €15 million revolving credit facility. The facility matures in November 2020.

On November 15, 2017 we issued our Senior Secured Notes in an aggregate amount of €475 million. The Notes include a €250 million fixed rate tranche, with a coupon of 5.25% per annum and a €225 million floating rate tranche with a coupon of 3-month EURIBOR (subject to a 0% floor) plus 5.125%. The Notes are rated B3 and B- for Moody's and S&P respectively. In addition, we also replaced our existing revolving credit facility with a super senior revolving credit facility in the amount of €15 million, to be provided by Bankia and Santander. The proceeds of the bond have been used to: (i) €239.5 million to prepay the outstanding amount of the syndicated facility mentioned above, (ii) €85 million for the acquisition of Mihabitans and the Liberbank contract from PH62, our shareholder, as they had made the acquisition of such contract in August on our behalf, (iii) €188.1 million as a distribution to shareholders, (iv) €11.2 million of transaction costs and (v) €10 million to leave cash on balance sheet for general corporate needs.

We believe we have sufficient liquidity and capital resources to meet our current operating requirements, our ability to generate cash depends on our future operating performance, which is in turn dependent, to some extent, on a variety of factors, many of which are beyond our control.

Cash Flows

The following table provides a summary of cash flow data:

	Nine Months Ended September 30,	
	2016	2017
	<i>(unaudited)</i>	
Cash flows from operating activities.....	68.4	19.9
Cash flows from investing activities.....	29.5	(84.8)
Cash flows from financing activities	(58.1)	62.6

Cash Flows from Operating Activities

Cash flows from operating activities were €68.4 million and €19.9 million for the nine months ended September 30, 2016 and 2017, respectively. This change was mainly the result of the decrease in operating profit from €28.9 million to €20.8 million in the nine month periods ending September 30, 2016 and 2017, respectively, and a very significant temporary working capital impact in the 2017 period of -€34 million caused by: (i) H1 Sareb management fee collected in the month of September in 2016 vs in October in 2017 (approximately a €10 million impact); (ii) weaker volume performance and slower collection process in Sareb in the nine month period of 2017, impacting by approximately €16 million, partially expected to be recovered in Q4 2017; (iii) temporary impact from the Liberbank contract of -€3.8 million due to the start up phase of the contract; and (iv) a temporary VAT impact of -€4.7 million.

Cash Flows from Investing Activities

Cash flows generated by investing activities were €29.5 million for the nine months ended September 30, 2016 while €84.8 million were used in the same period of 2017. Investing activities in 2017 is explained by the Liberbank contract acquisition (€102.6 million, including VAT), partially offset with the recognition in investing cash flows of €27.7 million of the Sareb guarantee refund.

Cash Flows from Financing Activities

Financing activities used €58.1 million and generated €62.7 million of cash during the nine months ended September 30, 2016 and 2017, respectively. This increase is due to the recognition of a loan from PH62 to the Company to reflect the fact that PH62 financed the acquisition of the Liberbank contract in August and was repaid the exact amount with the proceeds from the bond issuance in November 2017. On the other hand, in the nine months ended September 30, 2016, financing outflows reflect the payment of principal and interest under the syndicate facility of €52 million and €6.1 million, respectively. Such facility was prepaid in full with the proceeds from the bond issuance in November 2017.