



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

ACTIVITY REPORT

FIRST HALF YEAR

2019

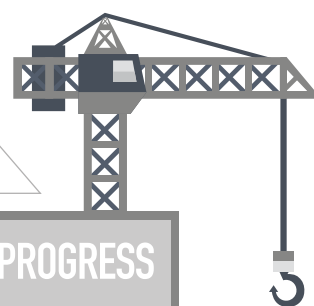


 **Sareb**



FOR
SALE


ÁRQURA
HOMES



WORK IN PROGRESS



Témpore
Properties

FOR
RENT



Sareb presents its Activity Report corresponding to the first half-year 2019 in line with the guidelines of the International Integrated Reporting Framework and the provisions of the *Global Reporting Initiative Standards* (GRI) for the preparation of sustainability reports.

This report, which does not include audited accounts, meets the transparency requirements set out in Royal Decree 1559/2012.

The orientation and approach of the content were determined by the conclusions of the materiality assessment, in line with the commitment undertaken by the company to continuously improve the transparency and quality of the information that is to be presented to its stakeholders.

The prospective information presented in this report is subject to the analysis of the current context and its expected evolution, without compromising those objectives for achieving it.



This report also shows Sareb's contribution to the **United Nations 2030 Agenda**, to illustrate how the company helps in complying with the **Sustainable Development Goals** set by that organisation.

After reviewing the different goals to which it contributes, the company explains its contribution under the corresponding headings.

Further information on the 2030 Agenda

<https://www.un.org/sustainabledevelopment/>

TABLE OF CONTENTS

1	EXECUTIVE SUMMARY	4
2	WHO ARE WE?	6
	Mission, vision and values	7
	Our milestones during this time	8
	Business model	10
	Beyond our mandate: a vision for the future	12
	Sareb in the world	17
	Social footprint	18
3	OUR BUSINESS IN THE FIRST HALF YEAR OF 2019	20
	Main figures for the half-year period	21
	Evolution of the Business Plan	23
	Divestment of the portfolio	25
	Repayment of Senior Debt	29
	Management and sale of loans	30
	Management and sale of properties	34
4	GOOD GOVERNANCE	50
	The composition of the Board of Directors and its functioning	51
	Governance model	52
5	APPENDIX	57
	Materiality Assessment	58
6	TABLE OF GRAPHS	61

1. EXECUTIVE SUMMARY

FIRST HALF YEAR OF 2019

During the first half of 2019 Sareb has continued advancing in the mandate for the management and divestment of its portfolio of loans and properties with which it was entrusted in 2012

Through its activity over the past six and a half years, **the company has cancelled 29.6% of the debt** issued at the time of its creation, and has reduced its total portfolio by **33.8% to €33,636 M. Looking at the portfolio of non-performing loans alone, the reduction achieved in these six and a half years is almost 47%.**

Between January and June of 2019 the company has defined several of the strategic projects that it had put into operation in the second half of 2018 and which mainly related to creating value in the assets and the search for specialised management for them.

With this, **during this period Árqura Homes came into being, the vehicle created by the company to promote over 17,000 properties** by 2027. This is a Bank Assets Fund (FAB) to which Sareb has transferred plots of land, developments under construction or halted for an overall

amount of €811 M, and in which Värde Partners will take a 10% interest. This partnership is completed by the management of the assets by Aelca, a leading property developer in the country.

The company has also taken steps in the rentals market, which is one of the markets that has developed the most in recent years. 2017 saw the creation of a REIT specialised in property rentals, **Témpore Properties**, to accelerate the pace of divestment of its portfolio, and **in 2019 it has advanced with a competitive sales procedure which culminated with the transfer of 75% of its shares to TPG Real Estate Partners (TREP).**

At the same time, and in the framework of its new strategy, in 2019 Sareb's Board of Directors approved the Esparta Project, which, amongst other things, will promote a new property *servicing* scheme that will accommodate more

specialised agents and will centralise certain activities in Sareb. This initiative also involves setting up five territorial branch offices, the first of which, the Regions of Valencia and Murcia (East), started operating in June.

After almost seven years of experience and lessons learned, both measures aim to improve both operational efficiency and the knowledge and proximity to the assets in the Sareb portfolio, within the framework of a strategic shift that seeks to speed up the conversion of a good portion of the portfolio of non-performing loans to developers held by the company into real estate.

In this respect, this conversion process was accelerated during the half-year period by properties entering the balance sheet amounting to €850.8 M, 46.3% more than in the first six months of the previous year.

The implementation of all these projects, with a medium-to-long-term vision, will allow Sareb to increase margins in the future, even though this involves current investment and containment of income, with their consequent impact on the short-term results. In fact, in the first half-year

period of 2019 some of these effects have already been seen. Specifically, income went down by 33.2%, to €1,052.7 M. As was to be expected, the greatest impact was in the income coming from the loan portfolio, under conversion, and which went down by 45% in the first half year. Moreover, the income from the management and sale of properties was contained to a lesser extent (-13.6%) and stood at €512.7 M, now accounting for 48.7% of the total.

In terms of marketing properties, between January and June the company sold 9,063 assets of different types, 14.6% less. These figures were particularly influenced by Sareb's proactive strategy for reducing the volume of real estate assets transferred through what are known as Sales Growth Plans (SGP), which enable the developers to sell properties from their balance sheet appearing as collateral for their loans with Sareb and in that way to reduce their debt with the company. The strategy involves incorporating those properties into the balance –which will take time– and selling them directly on the retail market, in a move that will allow Sareb to continue strengthening the effectiveness of its business.



Picture: Homes in Torre-Pacheco (Murcia).

2. WHO ARE WE?

Mission, vision and values / 7

Our milestones during this time / 8

Business model / 10

Beyond our mandate: a vision for the future / 12

Sareb in the world / 17

Social footprint / 18



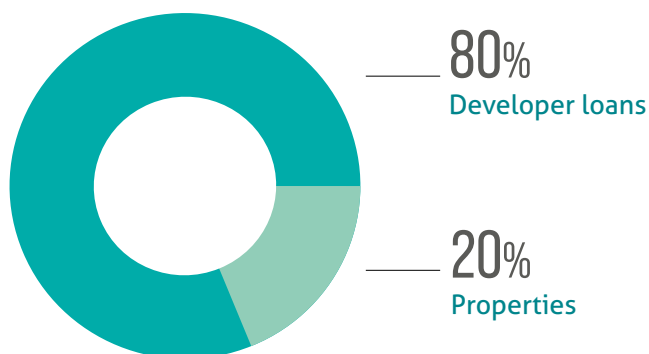
WHO ARE WE?

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

This agreement established that a management company would be set up to which the properties awarded and developer loans would be transferred from banks undergoing difficulties due to their excessive exposure in the real estate sector.

A key aspect for the recovery of the financial sector and the growth of the real estate market in Spain

Sareb received **200,000** assets valued at **€50,781 M** of which...



Sareb's contribution to the United Nations 2030 Agenda

Sareb's primary goal is to put the Spanish financial sector on a sound footing. With this it is contributing to goal 17.13 of the United Nations 2030 Agenda: "To increase global macroeconomic stability including through policy coordination and coherence".

17 PARTNERSHIPS FOR THE GOALS



Mission

Sareb is a special purpose vehicle whose assignment is to liquidate assets in an orderly manner, optimising their value. The company has to guarantee its viability as a company in order to meet the commitments assumed with shareholders, investors and society as a whole.



Vision

Sareb is a private company fulfilling the public, supranational and independent mandate that it has been entrusted with, contributing to the recovery of the financial and real estate sectors and the Spanish economy. In this process the professional qualifications and ethics of its employees are crucial.



Values

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

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

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

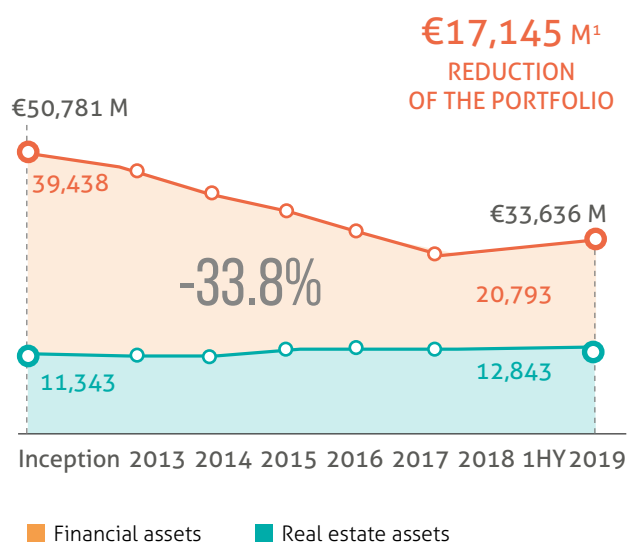
Further information on What is Sareb?

https://www.sareb.es/en_US/about-us/who-we-are/about-us

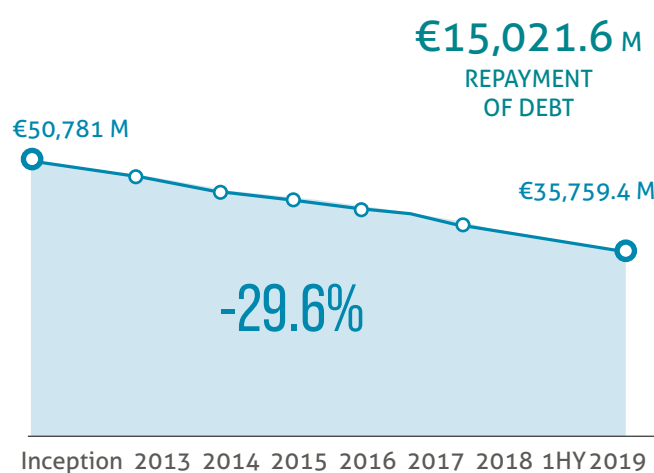
OUR MILESTONES DURING THIS TIME

Stock 2012- First half year of 2019

► 1. Evolution of the portfolio



► 2. Reduction of senior debt



2012

- Incorporation of Sareb.
- First subordinated debt subscribed.
- Assets received from BFA-Bankia, Catalunya Banc (CX), Banco de Valencia, Novagalicia Banco and Banco Gallego.

2013

- Second subordinated debt subscribed.
- Assets received from Liberbank, Caja 3, CEISS and BMN.
- Approval of the Sareb Code of Conduct.
- Creation of a pool of 2,000 properties for social purposes which subsequently would be increased to 4,000.

2014

- It was announced that €259 M had been written-off from the loan portfolio.
- Signing of the first agreement for assignment of social housing.
- Íbero Project: Management of the assets was assigned to four real-estate management companies or servicers: Altamira Asset Management, Haya Real Estate, Servihabitat and Solvia.

2015

- Further write-off of €719 M from the loan portfolio.
- The Bank of Spain Circular was published which establishes the criteria for valuing Sareb's assets.
- For the first time, the company announced the development of land it owns.

¹ Not including accumulated amortisation/depreciation or impairment.

² From application of the Bank of Spain Circular 5/2015 which establishes the criteria for valuing Sareb's assets and requires it to capitalise €2,171 M of the company's subordinated debt.

Key figures



€25,396 M

INCOME



€2,784.6 M

INTEREST PAID TO THE
ASSIGNING BANKS



98,493

PROPERTIES
SOLD



67,809

PROPOSALS FROM
DEVELOPERS
MANAGED



3,394

PROPERTIES
APPROVED FOR
CONSTRUCTION BY
SAREB



17,095

PROPERTIES APPROVED
FOR DEVELOPMENT
THROUGH
ÁRQURA HOMES



4,000

HOMES
FOR SOCIAL
PURPOSES

2016

2017

2018

1HY 2019

- A further recovery to the Sareb portfolio with €2,044 M in provisions².
- The company approved the capitalising of €2,171 M of subordinated debt to cover write-offs in the portfolio.
- Creation of the area for Development, Promotion and Investment to enhance the value of its portfolio.
- Launching of the online channel for the sale of loans.
- Creation of the REIT, Témpe Properties, with a portfolio of 1,554 assets transferred by Sareb worth €175 M.
- Témpe Properties makes its debut on the Alternative Stock Market (MAB).
- Sareb advances toward a territorial structure by setting up five branch offices.
- Launch of a competitive process to sell the stake of Sareb in Témpe Properties.
- The company, in partnership with Värde Partners, launched Árqura Homes to promote more than 17,000 properties.
- Negotiations began with TPG *Real Estate Partners* for the sale of part of Sareb's holding in Témpe Properties.
- The Esparta Project was launched, based on the selection of specialised managers, direct management of some activities from Sareb, centralisation of the information on assets and putting the territorial branch offices into operation.

Further information on [the present-day Sareb](https://www.sareb.es/en_US/whats-new/news)

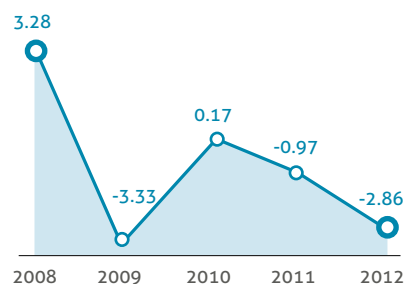
https://www.sareb.es/en_US/whats-new/news

BUSINESS MODEL

A long-term vision to be able to increase the value of the assets and to efficiently fulfil the divestment mandate and repayment of the senior debt

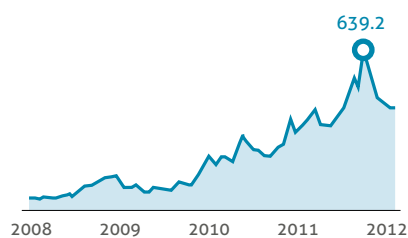
The effects of the systemic international financial crisis, which began in 2007, quickly became apparent in the Spanish economy, as most of the representative indicators show.

Year-on-year growth of GDP (%)



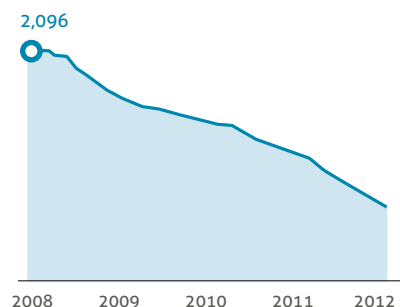
Source: National Institute of Statistics (INE)

Risk premium (basis points)



Source: Bloomberg.

Free-market housing price (€/m²)



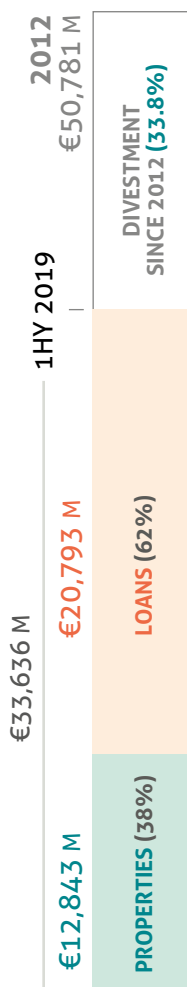
Source: National Institute of Statistics (INE)

Sareb



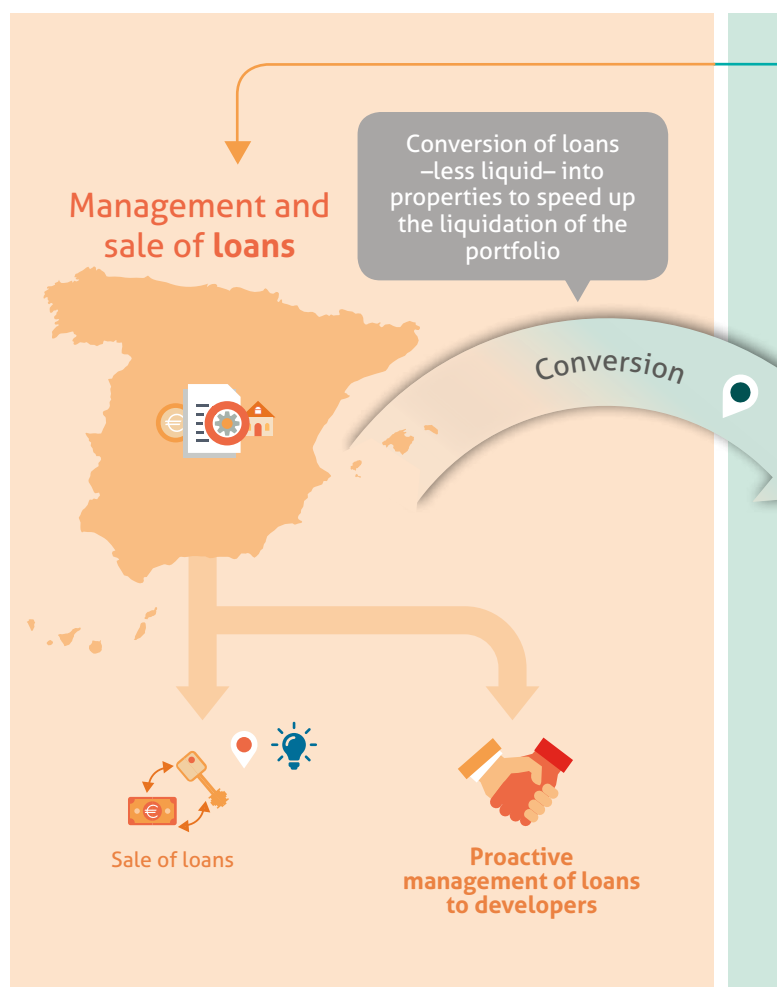
DIVESTMENT MODEL

REDUCTION OF THE PORTFOLIO



STRATEGIC GUIDELINES TO THE 2019-2027 BUSINESS PLAN

REDUCTION IN VOLUME OF THE PORTFOLIO



LEVERAGING THAT ACCELERATES THE DIVESTMENT MODEL

★ DISTINGUISHING TALENT

Employees with the skills and abilities required for assuming the challenges of organisation and fulfilling the strategy.

391
EMPLOYEES

497
SUPPLIERS

32
SHAREHOLDERS

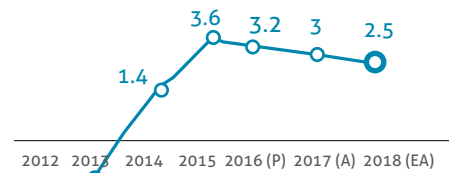
Following the creation of Sareb, and other the measures applied, the representative economic indicators have shown positive growth in the construction and real estate sectors.

INTENSIFICATION OF THE
CONVERSION OF THE
BALANCE SHEET

INVESTMENT AND SPECIALISED
MANAGEMENT FOR
THE CREATION OF VALUE

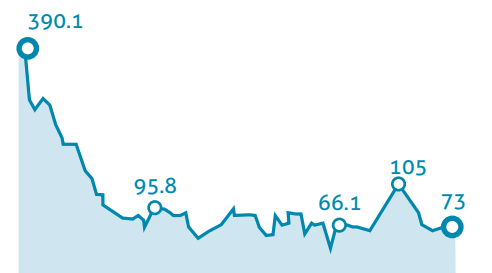
REPAYMENT OF
SENIOR DEBT

Year-on-year growth of GDP (%)



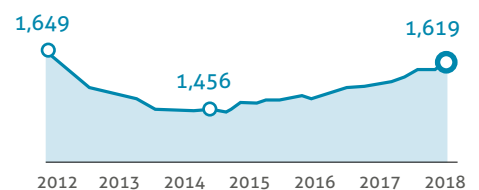
Source: National Institute of Statistics (INE).
Forecasts: Bank of Spain.

Risk premium (basis points)



Source: Bloomberg.

Free-market housing price (€/m²)



Source: National Institute of Statistics (INE).

Territorial branch offices to give
an impetus to divestment

Management
and sale of
properties

Stock of
properties for
rental

Creation of the REIT
Témpore Properties

Affordable homes



Signing agreements with the
Public Administration for the
temporary assignment of
properties to groups at risk of
social exclusion.

Property
development and
promotion

- Árqura Homes property development
- Sareb land development and completion of unfinished construction work

INNOVATION APPLIED

Innovative approach in carrying out
the activity to fulfil the mandate and
transform and boost the sector.

EFFICIENCY

Tight, efficient management of
resources and specialisation of
the associates –servicers and
suppliers.

REDUCTION SINCE 2012
€15,021.6 M (-29.6%)

2012
€50,781 M

1HY 2019

€35,759.4 M

BEYOND OUR MANDATE: A VISION FOR THE FUTURE

While fulfilling its assignment, the company carries out initiatives that contribute to the progress and growth of the sector

Sareb's activity is focused towards the fulfilment of its assignment to liquidate assets but, at the same time, the company implements innovative initiatives that enable it to transcend its period of useful life, contribute to the progress and the growth of the sector and to undertake its mandate efficiently.

The company's decision-making is based on a medium and long-term vision that allows the company to maximise the value of its assets. To this end, Sareb develops different projects that will allow it to increase margins in the future, even though this involves current investment and containment of income, with the consequent impact on short-term results.

Value-adding projects to optimise the divestment of Sareb's portfolio based on specialisation



Esparta Project

In 2014, Sareb launched the Íbero Project, which concluded with the hiring of Altamira Asset Management, Haya Real Estate, Servihabitat and Solvia as *servicers* responsible for the management and marketing of a large part of Sareb's portfolio. In the intervening period, the *servicing* market has evolved. Operators have undergone significant changes and new players have appeared. At the same time, Sareb has gained experience and knowledge to improve its efficiency in managing its assets.

In this context, and before the expiry of the current contracts, the company has studied alternatives to strengthen the efficiency and agility of its portfolio management. This analysis has allowed the company to determine three fundamental pillars on which the new approach defined by the Esparta Project will be based:

- Manager specialisation in certain activities and the development of different functions from Sareb.

- Centralised information about Sareb assets to enable any operator to manage this information with greater flexibility.
- Territorial management of the portfolio, with the creation of five branch offices.

In the coming months the company will advance in the definition of an organisational structure consistent with the Esparta pillars, and in incorporating and introducing it –progressively and in an orderly manner– into the dynamics of the company.

During the half-year period, it has also made progress in implementing the technological tools known as Capri (financial assets) and Mare (real estate assets), which will bring more agility and flexibility to managing the portfolio.



Árquora Homes

In the first half year of 2019, Sareb culminated its partnership with Värde Partners with the creation of Árquora Homes, a Bank Assets Fund (FAB) to which the company has transferred land plots, work under construction and unfinished projects for €811 M, and which will allow more than 17,000 properties to be built and placed on the market.

Värde Partners will have a minority interest of 10% in the FAB once it obtains authorisation from the European Commission's Directorate-General for Competition. Management of assets is handled by Aelca –100% owned by Värde–, a leading development company in the real estate sector which has over 150 professional distributed among three areas and 10 offices.

This expert agent's management of the assets will allow us to optimise the costs associated with project development and increase margins deriving from the marketing and sale of the properties.

Sareb's contribution to the United Nations 2030 Agenda

Property development and the completion of construction building work in the cities improve housing conditions and urban revitalisation of certain areas, and accounts for the contribution of Sareb and Árquora Homes to goal 11.1 of the United Nations 2030 Agenda, aimed at **“ensuring access for all to adequate, safe and affordable housing and basic services and to improve the marginalised neighbourhoods”**.



Témpore Properties

In 2017, Sareb promoted the creation of a REIT specialising in the rental of residential properties, in order to accelerate the divestment rate of its portfolio.

Témpore Properties commenced operations with a portfolio valued at €175 M. This total reached €339 M by the end of 2018, after acquiring new assets from Sareb. By the end of that year, the company had already transferred 2,249 homes to Témpore, and was working on a competitive process to sell its stake in it.

As a result of that process, in the first half year of 2019 Sareb was in formal negotiation with the U.S. Fund, TPG Real Estate Partners (TREP), which in July finalised with the sale of the 75% of its shares in Témpore Properties.



Picture: Árquora Homes residential development in Granada (Andalusia).

Initiatives for stimulating the real estate market and innovation



Territorial branch offices

One of the pillars of the Esparta Project is the creation and setting up of territorial branch offices to strengthen the knowledge on the local markets, be able to adapt to the demand of each area and be closer to both clients and borrowers.

In the first half year of 2019 Sareb has advanced in the definition of this structure, which will include five territorial branch offices:

- Centre (Castile-La Mancha, Castile and Leon and Madrid Region).
- East (Regions of Valencia and Murcia).
- North-East (Aragon, Catalonia and Balearic Islands).
- North-West (Asturias, Cantabria, Galicia, La Rioja, Navarra and the Basque Country)
- South (Andalusia, Canary Islands, Ceuta, Extremadura and Melilla).

At the end of June, the first territorial branch office was fully operational, namely that of the Regions of Valencia and Murcia. This branch office will manage properties amounting to more than €1,870 M and loans with a net book value of over €2,800 M.



Sales Growth Plans (SGP)

The Sales Growth Plans are initiatives with Sareb debtors for them to sell properties which are set up as collateral for their loans and in this way obtain the liquidity necessary to reduce their debt to the company.



Channel for the sale of loans

In order to bring greater visibility, momentum and transparency to the market for sales of non-performing loans (NPL), the company has been pioneer in launching an online channel for the sale of loans.

The objective is to provide maximum information to potential buyers who have already been referred to financing or servicing providers.



Picture: Apartment Árqura Homes apartment building development in the centre of Valencia (Valencia Region).



‘visitame’ is a tool launched by Sareb that enables potential buyers to arrange visits from their mobile devices, to view company properties whenever they wish, and independently.

In the first half year of 2019 a pilot test of ‘visitame’ was put into operation in a development of new homes in Alicante. After analysing how it worked, the company expects to extend its scope to a further 500 properties distributed throughout Spain.

Sareb's contribution to the United Nations 2030 Agenda

The development of innovative initiatives used in its sector of activity has enabled Sareb to contribute to goal 8.2 of the United Nations 2030 Agenda, which seeks to **“achieve higher economic productivity levels through diversification, technological upgrading and innovation, amongst other things, focussing on the sectors with high added value and which are labour-intensive”**.



Contribution to economic and social development of the geographical areas in which Sareb operates



Collaboration with the Public Administration and agreements for stimulating regional economies

At the same time as its divestment activity, Sareb is working to contribute to stimulating the regional economies by implementing agreements with Public Administrations and private undertakings, amongst others.

Since 2018, there is a collaboration agreement in place with the Government of Murcia to promote the economic and social development of the region. Measures designed to attract new investment to the Region include Sareb's commitment to facilitating the locating of real estate for the development of industrial and business projects of common interest, and the provision of promotion and presence at trade fairs and events in the real estate sector.

In 2019, the company reached an agreement with the Senator Hotels & Resorts group for renting the five-star hotel Mar Menor Golf & Spa and 145 holiday apartments in Torre Pacheco (Murcia). Sareb anticipates investing €3 M to reposition and modernise the facilities of the resort, in line with the actions already approved in the past for

the Sheraton Hacienda del Álamo Golf & Spa Resort, also located in the Region of Murcia, and which entailed a total investment of almost €19 M.



Picture: Hotel Sheraton Hacienda del Álamo Golf & Spa Resort, in Fuente Álamo (Murcia).



Specific plans for provinces with less real estate stimulus

Sareb has launched specific initiatives to stimulate its sales activity in regions in which the real estate market develops less rapidly. In this way the company contributes to the growth and development of these areas while also advancing in the divestment of its assets.



Picture: Marketing of rental properties by Témcore Properties in Daganzo (Madrid Region).

Sareb's contribution to the United Nations 2030 Agenda

The modernisation of the Hacienda del Álamo Resort pursues the growth of the real estate sector in the Region of Murcia, and contributes to the development of tourism and the local economy through the direct creation of 120 jobs, in response to goal 8.3 of the United Nations 2030 Agenda, that seeks to **"promote policies aimed at development supporting the production activities, the creation of decent jobs, enterprise, creativity and innovation, and to boost the formalisation and growth of microenterprises and small and medium businesses, by also facilitating access to financial services"**.



Sareb's contribution to the United Nations 2030 Agenda

The materialisation of collaboration agreements with public institutions for the social and economic development of the regions is one of Sareb's contributions to goal 17.17 of the United Nations 2030 Agenda, which proposes **"fostering and promoting the creation of effective alliances in the public and public-private spheres and civil society, making the most of experience and the strategies for obtaining resources from those alliances"**



Picture: Homes under construction in Udías (Cantabria).

SAREB IN THE WORLD

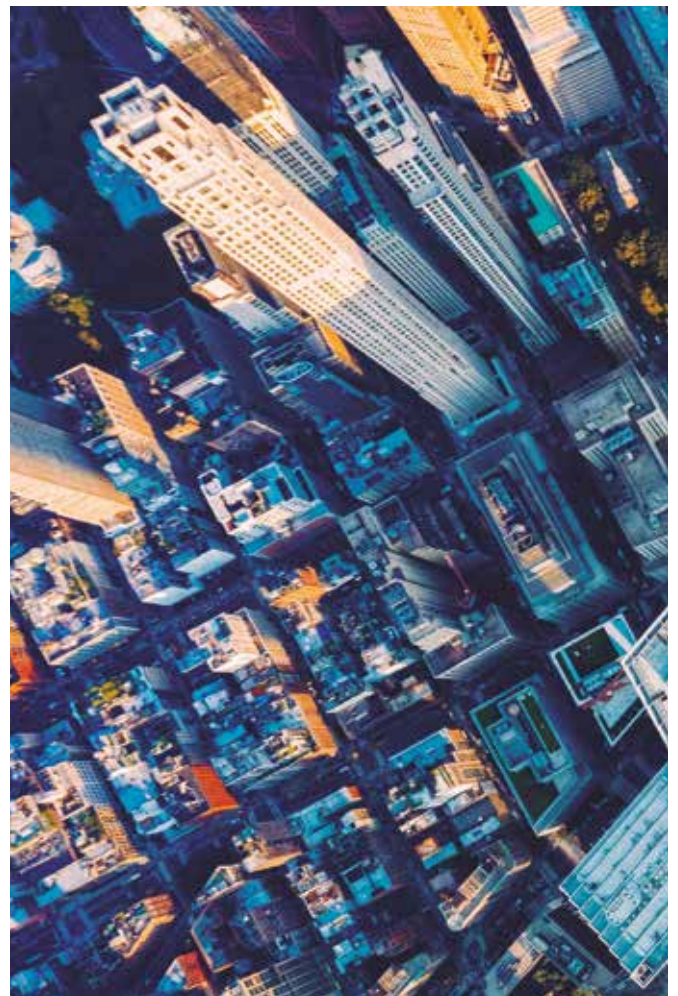
The company advises other countries who are exploring similar formulas for restoring the health of their financial systems

The Sareb model and the management carried out during its six and half years of life has already resulted in important lessons learnt which are serving as a reference for other countries around the world who are currently studying formulas similar to the one applied in Spain for restoring the health of their financial systems.

Since its creation, the company has held meetings with international authorities interested in learning about its strategy and operation. In the first half year of 2019 Sareb has explained the Spanish experience in managing non-performing loans, or NPL, in an event organised by the World Bank and the European Bank for Reconstruction and Development (EBRD) in Turkey. At this event, which was also attended by the regulatory authority and the main private Turkish banks, the company explained its nature, mission and experience, and also the lessons learnt over these years.

This event follows those held in the past with countries such as Slovenia, Mongolia, Kazakhstan and Vietnam, amongst others, who showed interest in learning about Sareb's track record.

Moreover, different international institutions are observing and studying the activity of Sareb. Amongst these, the European Commission (EC), who in its report on monitoring the Spanish economy dated July 2019, has echoed Sareb's strategy for maximising the value of its assets, although it thinks its implementation should be closely monitored.



Sareb's contribution to the United Nations 2030 Agenda

Over and above being an example for other countries, by taking over part of the assets of banks going through difficulties, Sareb has contributed to cleaning up their balance sheets, reinforcing their liquidity and increasing their solvency. This contributes directly to goal 8.10 of the United Nations 2030 Agenda, which aims to **"strengthen the capacity of domestic financial institutions for promoting and widening access to the banking, financial and insurance services for everyone"**.



Further information on International reference

https://www.sareb.es/en_US/about-us/international-references

SOCIAL FOOTPRINT

In the first half year of 2019 four new agreements were signed with Public Administrations in relation to social housing

Over and above the commitment assumed by Sareb for complying with the mandate it was given, the company demonstrated its social vocation by responding to the housing needs of groups at risk of exclusion in Spain.

Sareb has a pool of social housing units –currently composed of 4,000 properties– and has signed agreements with 10 autonomous regions and 11 town councils with the aim of guaranteeing access to housing for people in a vulnerable position.

In the first half year of 2019, agreements were signed with the Town Councils of Santander, Badalona, Cordoba and Villafranca del Penedès, making a total of 40 properties assigned. These agreements and those already reached with other administrations are benefitting more than 6,000 people.

Once the temporary assignment agreements expire, Sareb offers the Public Administrations the possibility of negotiating the sale of those properties so that they can become part of their pool of properties.

Sareb's contribution to the United Nations 2030 Agenda

Sareb's assignment of properties enables the company to respond to housing needs in Spain and demonstrates its voluntary commitment to goal 11.1 of the of the United Nations 2030 Agenda which aims to **"ensure access for all to adequate, safe and affordable housing and basic services and to improve the marginalised neighbourhoods"**.



Social housing initiatives and their main results

► Affordable homes aid

Temporary assignment of properties to groups at risk of social exclusion.

► Aid to groups in a situation of social emergency

Temporary assignment of the use of properties to groups who are in exceptional circumstances.

► Alternative affordable rentals

In collaboration with the social services, it is proposed as an alternative housing solution for families who are socially vulnerable.

4,000

Pool of properties intended for social purposes

5,993³

People benefitting from the social housing programmes with autonomous regions and town councils



2,407

properties used for rented social housing

980⁴

People benefitting from agreements with Sareb itself for assignment of properties

³ Estimate based on the average size of homes according to the National Institute of Statistics (INE) (2.49 people in 2017). (Considered as committed properties).

⁴ Estimate calculated for an average of 4 people per unit in properties assigned through agreements signed with Sareb itself.

10 Agreements with autonomous regions (Number of homes)



Andalusia	400
Aragón ³	80
Balearic Islands	75
Canary Islands	50
Cantabria	40
Castile and Leon	100
Catalonia	930
Extremadura	45
Galicia	50
Basque Country	10

11 Agreements with Town Councils (Number of homes)



Barcelona	200
Madrid	300
San Sebastián de los Reyes	9
Malaga	6
Seville	15
Hospitalet de Llobregat	50
Elche	7
Santander	6
Badalona	2
Cordoba	17
Villafranca del Penedès	15

³ Agreement signed in February 2015 and ended in 2019.

Sareb's contribution to the United Nations 2030 Agenda

The training workshops given by Sareb volunteers at the Strengthening Schools respond to goal 4.4 of the United Nations 2030 Agenda: **"To substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship"**.



Creation of employment with social value

With the goal of improving the job opportunities and quality of life of people living in Sareb's rented social housing, the company develops initiatives aimed at improving their employability and integration into society.

During the first half year of 2019, in collaboration with the Integra Foundation Sareb developed the second edition of the programme 'Building future: jobs with social value'. This programme makes available to people in a vulnerable situation the social and employment tools that they need for being able to enter the employment market through sessions of technical and motivational training.



28

volunteers
from Sareb have undertaken to give workshops



5

participants in the programme
have found work



25

Participants
in vulnerable circumstances have received counselling

Sareb's contribution to the United Nations 2030 Agenda

The implementation of collaboration agreements with Autonomous Regions and Town Councils on matters of social housing, and the partnerships with the civil society for creating jobs, are Sareb's contribution to goal 17.17 of the United Nations 2030 Agenda: **"To foster and promote the creation of effective alliances in the public and public-private spheres and civil society, making the most of experience and the strategies for obtaining resources from those alliances"**



Sareb's contribution to the United Nations 2030 Agenda

Through the "Building future" job creation programme, the company aims to contribute to goal 8.3 of the United Nations 2030 Agenda which seeks to **"promote policies aimed at development supporting the production activities, the creation of decent jobs, enterprise, creativity and innovation, and to boost the formalisation and growth of microenterprises and small and medium businesses, by also facilitating access to financial services"**.



3. OUR BUSINESS IN THE FIRST HALF YEAR OF 2019

Main figures for the half-year period / 21

Evolution of the Business Plan / 23

Divestment of the portfolio / 25

Repayment of Senior Debt / 29

Management and sale of loans / 30

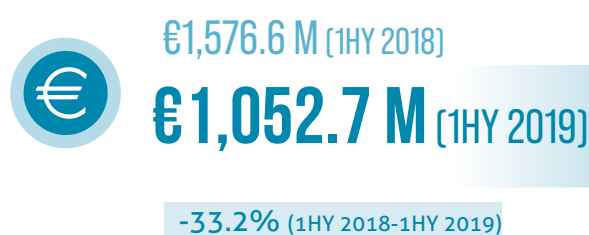
Management and sale of properties / 34



MAIN FIGURES FOR THE HALF-YEAR PERIOD

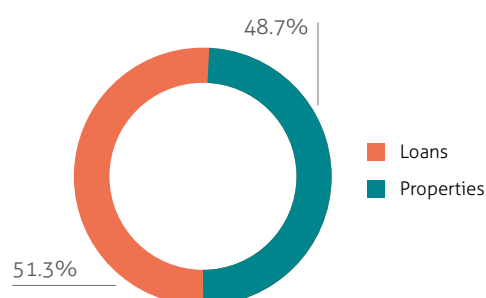
Advances for the fulfilment of our mandate

TOTAL INCOME

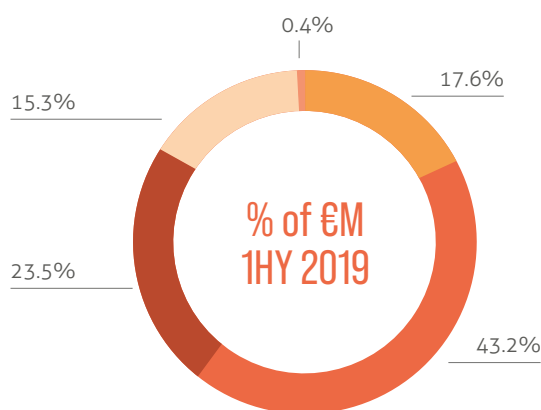


PER TYPE OF ASSET

(% of €M 1HY 2019)

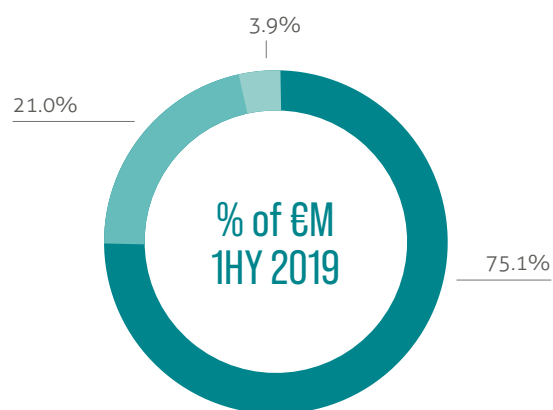


LOANS



- Interest
- Repayment and sale of loans
- Special operations
- Liquidation of collateral and SGP
- Repayments

PROPERTIES



- Rent and others
- Land and Commercial property
- Residential

MANAGEMENT AND SALE OF LOANS



4,372

Proposals managed

-45.6%
(1HY 2018-1HY 2019)



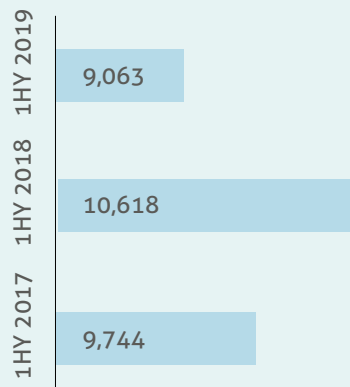
12,915

Number of debtors

-9.7%
(1HY 2018-1HY 2019)

MANAGEMENT AND SALE OF PROPERTIES

Number of units



9,063

Properties sold (1HY 2019)

Sareb-owned units
6,448

Agreements with developers
2,615

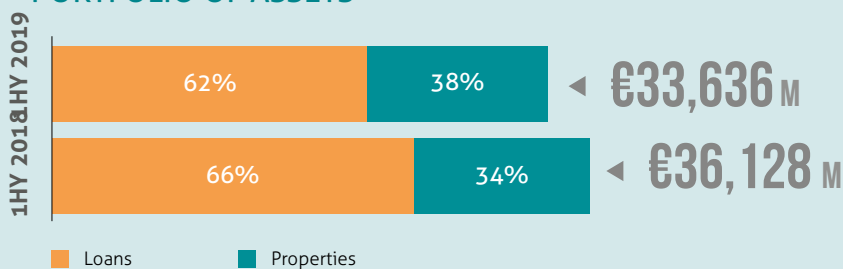
BALANCE OF OUTSTANDING DEBT



-5.6%

1HY 2018-1HY 2019

PORTFOLIO OF ASSETS



-6.9%

1HY 2018-1HY 2019

EVOLUTION OF THE BUSINESS PLAN

Sareb remains committed to its obligation to submit the fulfilment of the proposals set out in its Business Plan for annual review

The Business Plan, updated in the first months of the year as, every year, is based on the use of multiple sales channels and asset recovery, adapting to the market in respect of prices and strategies and, lastly, the search for formulas to add value to the assets and recover the value for which they were transferred to Sareb.

That Plan is adjusted every year to the actual situation, based on the experience accumulated and the quality and prices of the assets held in the portfolio. This way, the Plan reflects the complexity in divesting part of the portfolio that from the outset is the one that is least liquid.

This constraint in the divestment process also confirms the shift in the strategy of business towards a perspective more in line with reality and that is regularly adjusted.

For 2019, Sareb has designed a budget with less activity and a loss level similar to that of the previous year. In fact, the drop in activity can be observed in the evolution of the company's income, which went down by 33.2% in the first half year compared to the same period of the previous year. This is a voluntary decrease, which must be attributed to the decision to slow down the transactions in the loan portfolio, **in view of the heavy discounts demanded in that segment of market**, and to give more emphasis to converting them into real estate through processes of dation or court-ordered foreclosure.

Fulfilment of the Business Plan in the first half year of 2019

In financial terms, and taking into account that this year's budget is less ambitious than in previous years due to the new business strategy, **Sareb has fulfilled its Business Plan for the first half year of 2019 by 97% in respect of the income figure, and by 129% in respect of the net margin figure for the business.**

The level of fulfilment has varied between the two major divisions of the business, with 196% fulfilment in income from financial assets and 62% from real estate assets. This shows that the change in the weight from the financial side of the business to the real estate side is taking place but at a slower pace than expected. However, at the close of June 2019, in terms of net margin generated, both sides of the business were above the target set for the half-year period.

The geographical distribution of sales of real estate assets is marked by the location of the Sareb portfolio itself, but a growing trend is seen in the importance of the Mediterranean area, where sales of residential properties have exceeded their portfolio weight. The same area also has special relevance in sales of commercial properties and land. Nevertheless, the evolution in this type of property is less positive in the regions of Andalusia, Extremadura and the Canary Islands.

On the financial assets side, as mentioned, the business has been reduced gradually and voluntarily by the company, although it is worth highlighting that the lower pressure in volume on this part of the business has made it possible to select the best operations and meet the target prices expected for those operations in the Business Plan.

With regard to the conversion of financial assets into real estate, the acceleration expected in the awards made under bankruptcy procedures and mortgage foreclosures on loans to developers has not occurred at the pace that was expected. Conversely, the dynamics of the agreements for dation in payment with borrowers has been given a decided boost, making it possible to remedy a good part of the deficit, leaving the level of fulfilment of the Business Plan at 92% in this segment. It should be stressed that, although 100% of the target is not met, the conversion of loans into properties has increased by 46.3% compared to the first half year of 2018, to €850.8 M.

Keys to the 2019-2027 Business Plan

The Sareb 2019-2027 Business Plan is based around different mechanisms that allow the company to address the challenges posed by the current context, while maintaining a balance between disinvestment rate agility and the maintenance of the value of its assets.



Reduction in volume of the portfolio

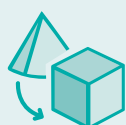
Search for alternatives and new formulas that contribute to operational efficiency and divestment

A thorough analysis of market has brought the company to an adapted strategy in which the financial asset lines lose weight in favour of the real estate asset business. This strategy aims to maximise the value achieved in the sale of assets, in order to avoid the discount demanded in transactions involving loans with institutional investors. The percentage of revenue obtained from the financial asset business line in the first half year dropped from 62% to 51% in just one year.

- Implementation of a new management model (**Esparta**) with its servicers that seeks to improve the efficiency of the company through direct control of information on the part of Sareb, greater proximity to the territory and the specialisation of certain services.

This new approach to the way we operate will also contribute to the achievement of substantial savings in the cost of servicing.

- Regional sales growth plans will be maintained in order to ensure adequate rotation of the portfolio and to counteract downward pressure on the price of other properties.
- The creation of Témopore Properties, a REIT engaged in residential rentals is seen to be one of the most efficient methods of asset divestment and has already borne fruit in 2019 with the sale of a large percentage of Sareb's interest in the vehicle. To be specific, the company has transferred 75% of its shares in Témopore at a very satisfactory price to an investor with which it will remain as a minority partner in anticipation of selling the rest of the shares in the medium term.



Intensification of the conversion of the balance sheet

Greater liquidity: acceleration of the process of conversion of loans into properties

In the light of current conditions in the loan market, and in line with the maximisation of the recovery value of assets, the company has opted to avoid the divestment of NPL loans in the form of financial assets.

This decision enables Sareb to contain its short-term losses in return for a profit *a posteriori*.

The reduction in the sale of loans must necessarily go hand-in-hand with a much greater emphasis in accelerating the process of converting financial assets into property, with a view to then being sold. In that respect, the level of assets awarded and dations increased in 2019 compared to the same period of the previous year. In the same way, improvements are seen in the average time of Sareb's mortgage foreclosure processes, while no remarkable developments have yet been observed regarding bankruptcy procedures.



Investment and specialised management for the creation of value

Optimisation of the value of the portfolio through the reserving of assets for property development and sale in the medium term

Greater amount of resources assigned to assets with potential for maximising value in the medium term:

- Setting up *Árquora Homes* a specialist vehicle in the field of residential property development through a partnership with an investor and a manager for multiplying the capacity and speed of residential

property development. This formula is intended to add value to the land and work under construction transferred to Sareb when it was incorporated.

- Promotion of new developments on Sareb-owned land, completion of work in progress and investment in land for urban development by Sareb.

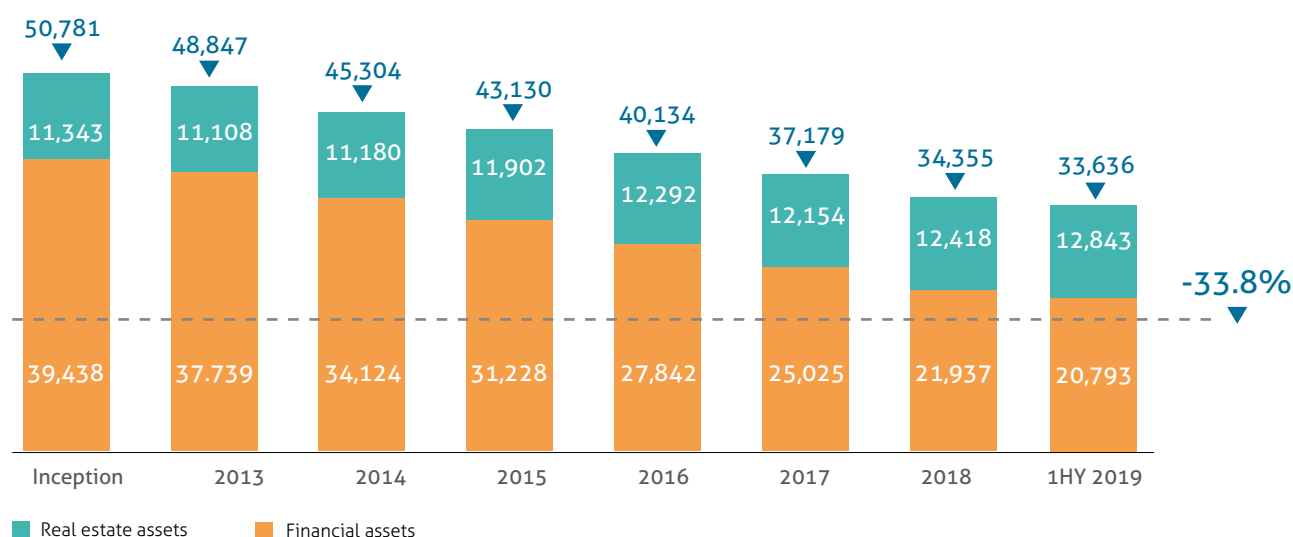
DIVESTMENT OF THE PORTFOLIO

Sareb's asset portfolio has decreased by 33.8% since its inception

Sareb has continued advancing in the process of divesting its portfolio of assets, which in the first half year of 2019 went down by €719 M now standing at €33,636 M. Compared to the original starting portfolio of €50,781M,

this figure represents a reduction of 33.8%. From what is seen of the real estate assets, this figure went up in comparison to 2018 as a result of the process of converting loans into properties.

1. Evolution of the portfolio (€M)⁵

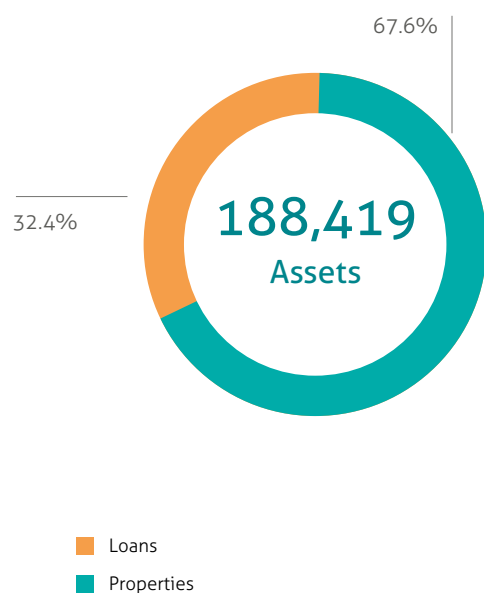


2. Composition of the portfolio (% of €M)

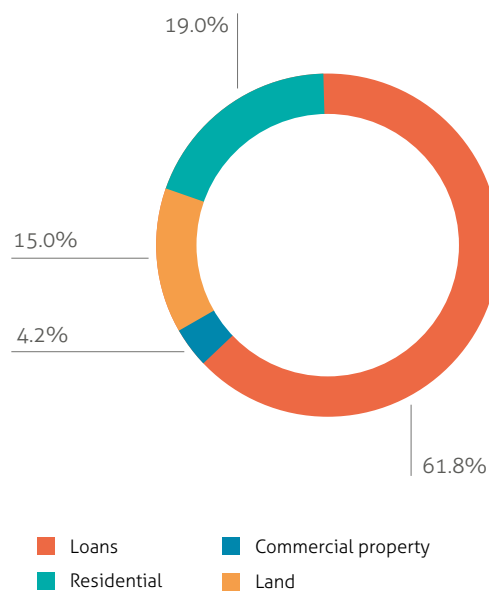


⁵ Not taking into account amortisation/depreciation or impairment.

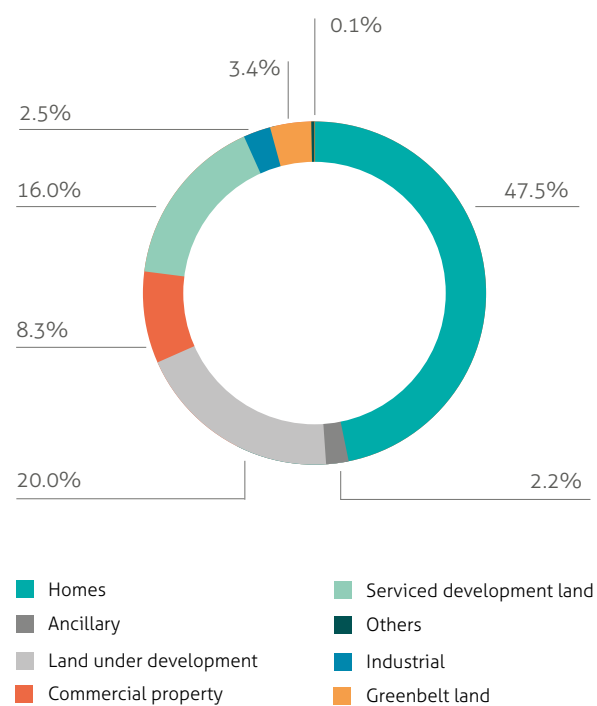
3. Composition of the portfolio (number of assets)



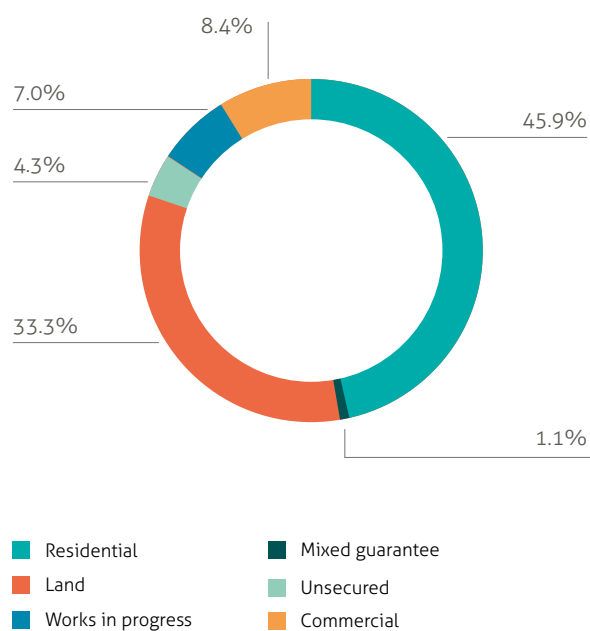
4. Breakdown per type of asset (% of €M)



5. Breakdown of real estate assets per type (% of €M - NBV⁶)

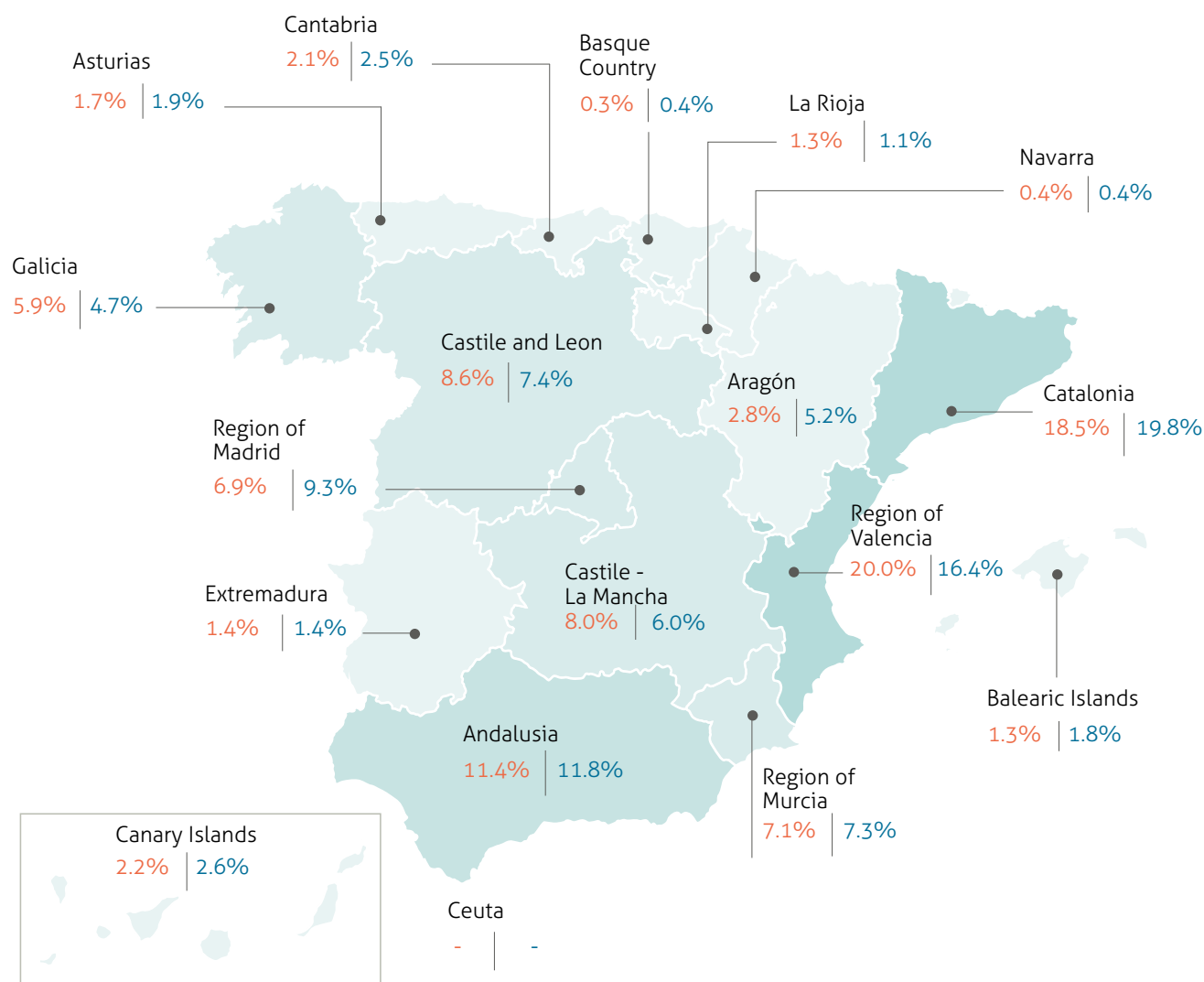


6. Breakdown of financial assets per type of guarantee (% of €M - NBV⁶)



⁶ Net Book Value. Not taking into account amortisation/depreciation or impairment.

7. Geographical breakdown of the portfolio of real estate assets⁷ (% of units⁸ and NBV⁹)



■ % of units

■ % of NBV

⁷ Does not include works in progress.

⁸ Not reported: 0.1%. For the case of Ceuta it is one unit.

⁹ Net Book Value. Not taking into account amortisation/depreciation or impairment.

8. Geographical breakdown of loan management¹⁰ (% of €M based on NBV¹¹)

¹⁰ 0.004% of the debt is not assigned to a specific autonomous region.

¹¹ Net Book Value. Not taking into account amortisation/depreciation or impairment.

REPAYMENT OF SENIOR DEBT

Over €15,021 M of debt repaid from the inception

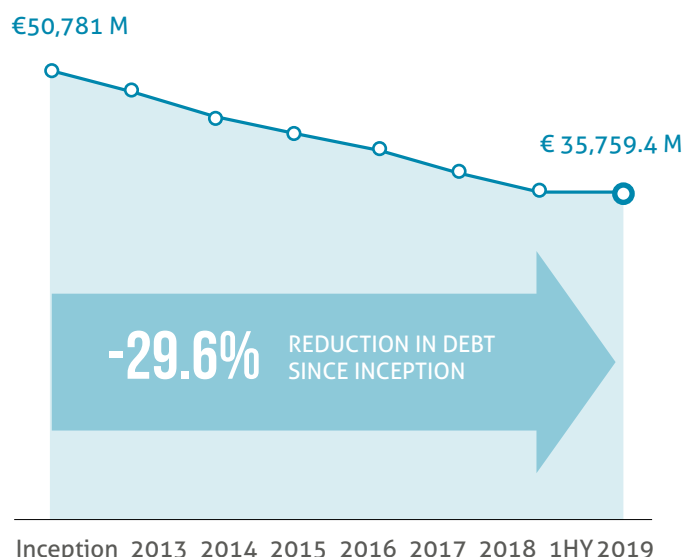
Sareb's activity focuses on generating revenue through the management and sale of loans and properties to pay off the debt issued when the company was set up and to pay the associated costs.

Since its creation, Sareb has reduced the amount of senior debt by €15,020.6 M, 29.6% of the total. Of this total, €2,114 M were cancelled in 2018¹² and €1.29 M were repaid in the first half year of 2019 as a result of adjusting the scope provided for in the contract for assets received from one of the assigning banks¹³.

In 2018 the company cancelled €1,945 M of senior debt corresponding to Group 1 bonds¹⁴ – maturing on 31 December 2018 – and to Group 2 bonds¹⁵ – which matured in February 2019, charged against the previous year.

Interest paid, associated to Sareb's debt since its inception, stood at €4,841.7 M, of which €2,784.6 M went directly to the banks assigning the assets.

9. Evolution of senior debt since the inception of Sareb (€M)



¹² Includes €169 M of the escrow account -cancelled in 2019 and charged against 2018.

¹³ This is a rectification process under which an adjustment is made to the scope of the agreement in place with Bankia for the transfer of assets since December 2012.

¹⁴ Group 1: BFA-Bankia, Catalunya Banc, NCG Banco-Banco Gallego and Banco de Valencia.

¹⁵ Group 2: Liberbank, BMN, CEISS and Caja 3.

How is the debt repaid?

The repayment mechanism is based on applying the cash surplus pursuant to the cash protocol defined in Sareb's senior debt contract. Under that mechanism, 92% of the cash generated was used entirely for the regular or early cancellation of the debt on the corresponding amortisation date.

During the first five years of Sareb's life, the remaining 8% had been reserved in a deposit account as a guarantee or escrow account against possible management contingencies. At the end

of that period, and after complying with one of the conditions established for their release, €1,058 M accumulated in that account and charged against 2017 and 2018 were repaid. Of that amount, €889 M related to 2017 and €169 M to 2018.

From this year on, Sareb will use 100% of the cash surplus for the repayment of the debt, provided that the two conditions defined in the company's senior debt contract have been met.

MANAGEMENT AND SALE OF LOANS

The financial asset portfolio of Sareb has decreased by 47.2% since its inception

Sareb's loan portfolio went down by 5.2% in first six months of 2019 compared to the end of 2018, to €20,793 M, which represents 62% of the total value of its assets. Since its inception, in 2012, this type of asset has been reduced by over 47.2%.

In the first half year of 2019 the income from the management and sale of loans stood at €539.9 M, 45.1% less than in the same period in 2018. The reason for this decrease arose from Sareb's strategic decision to maximise sales only for those loans with least expectation

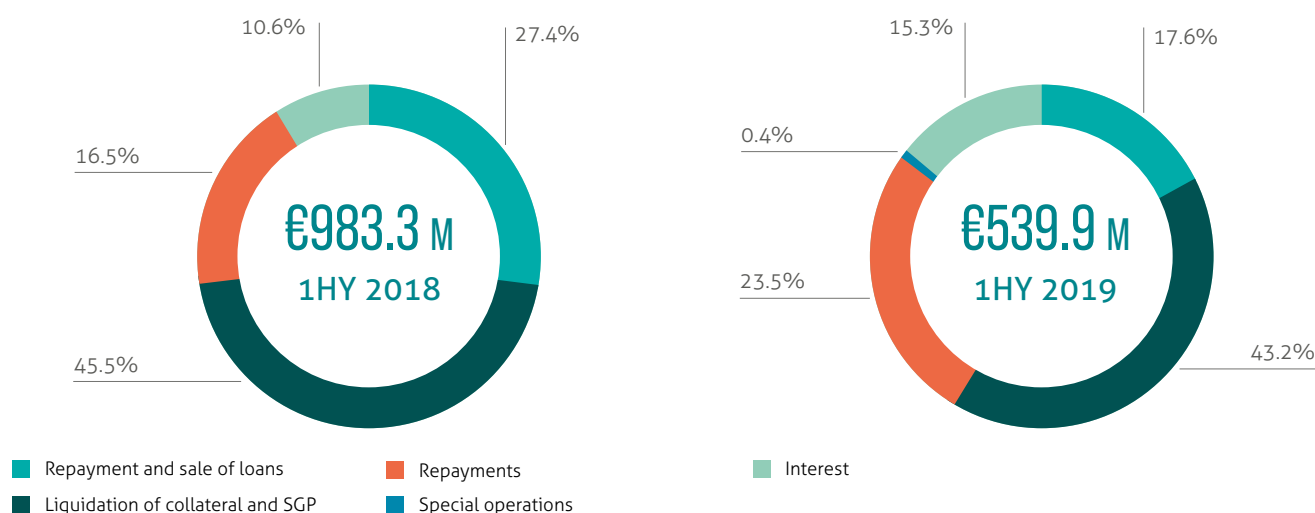
for growth in value, as opposed to the conversion and management of those more likely to generate value in the long term. This has involved a significant reduction in the prospects for income from the liquidation of financial assets.

It should be taken into account that the loans market has undergone structural changes -such as the prices drop-, due to the entry of large funds, the strong competition and the demand for heavy discounts in transactions.

10. Strategy for the management and sale of loans

Debt recovery	Repayment of loan	Liquidation of collateral and Sales Growth Plans (SGP)	Dation in payment	Sale of debt
Continued collection of non-performing loans within the deadlines established.	Paying off debt positions by the agents involved in the loan.	Sale of real estate collateral from the developers' books for repayment of the debt.	Paying off debt through dation of the property held as collateral.	Sale of debt positions to third parties.

11. Breakdown of income from managing and selling loans per business line (% of €M)



Between January and June 2019 the repayment and sale of loans has lost weight in respect of the volume of income, accounting for 17.6%, as opposed to 27.4% at the close of the first half year of 2018. Although Sareb has concluded operations for the sale of loans, the company continues giving priority to other alternatives for liquidating debt in conditions providing a higher return.

Repayments and the liquidation of properties held as collateral and SGP accounted for 66.7% of the total income for the first half year of 2019 and they are consolidated as the main strategies for this period.

Sales Growth Plans and liquidation of property given as collateral

Following an agreement with the developers, the SGP facilitate the sale of properties –residential promotions or single buildings– which appear as collateral for the loans directly on the debtor balance sheets, thus enabling them to reduce their debts with Sareb. These operations allow the company to recover part of the debt without being involved in the costs and deadlines involved in mortgage foreclosure procedures.

The sale of properties through the SGP and liquidation of collateral properties has shown a decline of 44.2% in the first half year of 2019, down to 2,615 units. This is mainly explained by two reasons: the reduction in the scope of assets that meet the characteristics for signing an agreement of this type and Sareb's progress in submitting its non-performing loans to legal procedures in order to include the associated real estate properties in the balance sheet and then sell them off.

Active management of the loan portfolio

The features of each asset and the situation of the debtors determine the assignment of the strategy for recovering debt

The high number of debtors, the volume of debt and the level of risk concentration requires proactive and systematised management of the processes.

One of the most important variables used by Sareb for establishing and segmenting its loan management strategies is the expectation that the debtor will cooperate. The objective is to accelerate the collection of outstanding debt, mainly through arranging agreements or by taking over the properties given as collateral for the loans, in order to then sell them on the retail market.



Picture: Marketing of a residential development in Madrid (Madrid Region).

Pillars of the management model



Establishing strategies for segmenting the portfolio



Monitoring management by controlling the evolution of the strategies.



Tactical and operational planning that guarantees flexibility in implementing strategies

Acceleration of the process of conversion of loans into properties

The company has a roadmap for dynamically and uniformly divesting financial assets in a way that allows for monitoring the operations and ensuring the overall, effective management of the portfolio of loans. From the

risk aspect, this model makes it possible to prevent and analyse the cause of possible deviations in order to act accordingly well in advance.



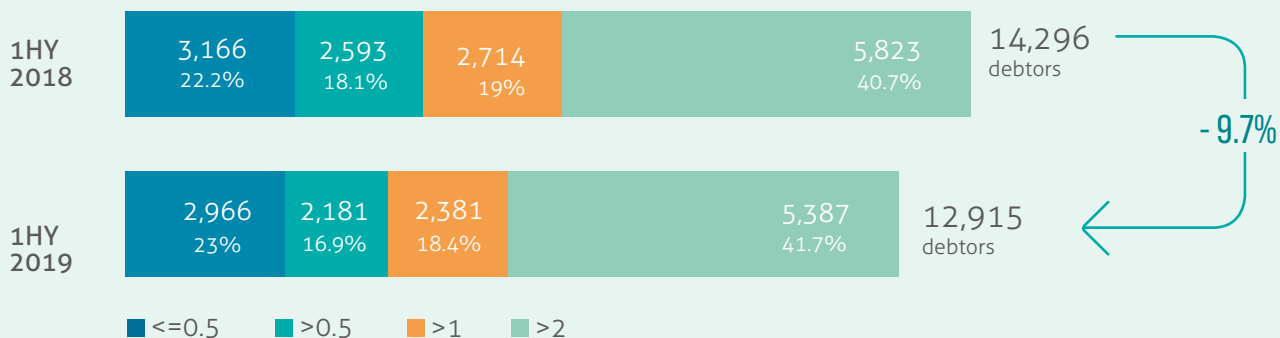
Type of debtor

58.3% of borrowers are subject to exposure of less than two million euros and 39.9% to exposure of less than one million.

At the close of the first half year of 2019, Sareb's financial asset portfolio was composed of 12,915 debtors, 9.7% less than for the first half year of 2018.

The distribution per volume of debt is similar to that in June 2018, as 80% of the debt is concentrated in 23% of debtors.

12. Number of debtors per ranking of debt (€M) and proportion of the total



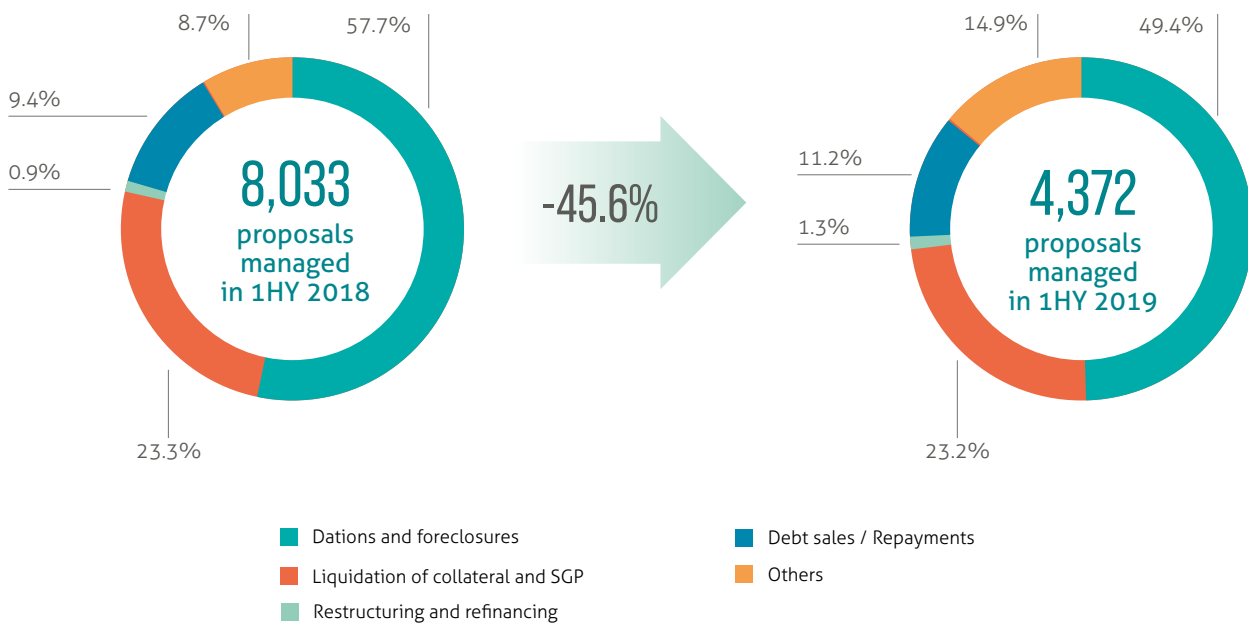
Proposals managed

Since it was created, Sareb has managed 67,809 proposals, of which 4,372 were handled in the first half year of 2019

Since 2018, in line with the strategic priority of promoting the conversion of its financial assets into properties, Sareb has intensified the work of submitting its entire loan portfolio to litigation. Although the transactions of dation and foreclosure continue accounting for the highest number out of the total proposals managed during the first half year of 2019 in absolute terms, the reduction in transactions has led to a fall in the total number of proposals managed –45.6% compared to the first half year of 2018.

The reduction of the proposals for foreclosure, which take place when there is no possibility of reaching an agreement with the debtors and enable Sareb to take possession of the properties appearing as collateral for the loans, has come about because the majority of non-performing loans are already involved in the litigation process and the remainder to which this measure can be applied is now lower. Furthermore, the work on monitoring the portfolio under litigation –highly relevant for the conversion of financial assets– does not generate any new proposals until the auction takes place, unless an agreement is reached through an alternative management channel that will enable Sareb to recover the debt.

13. Breakdown of proposals managed per type (%)



MANAGEMENT AND SALE OF PROPERTIES

Income for the first half-year period associated to the management and sale of properties accounts for 48.7% of the total

The company's strategic decision to further the conversion of loans into real estate assets to facilitate their divestment has resulted in the management and sale of those properties acquiring greater importance in Sareb's business as a whole.

In the first half year of 2019, the income associated to assets of this type amounted to €512.7 M (13.6% less than between January and June of 2018) and represents 48.7% of the total volume for the period¹⁶, almost ten percentage points more than a year ago.

Conversion of loans into properties to speed up the liquidation process

Despite the fact that the transfer of the portfolio to Sareb was completed in 2013, the company's balance sheet changes every day with the sale of loans or the incorporation of the properties which are collateral for those financial assets unpaid.

Between January and June, the value of the real estate collateral allocated to Sareb amounted to €850.8 M, 46.3% more than in the first half-year period of 2018.

This conversion process takes place based on the circumstances of each asset, and can be realised in three ways:

- Dation in payment: A process of collaboration with debtors, with agreements in place for repaying their debt in exchange for handing over their assets.

- Foreclosure proceedings: If such collaboration is not possible, the debt will be claimed through legal action.
- Insolvency proceedings: In cases in which the borrower is the subject of insolvency proceedings, Sareb collaborates with them or with the insolvency administrator to come to a solution.

In addition to preserving the value of the portfolio, the inclusion of these properties in the balance sheet makes it possible to diversify the company's real estate offer and increase the number of assets being marketed.

¹⁶ 0.01% of the total sales figure for the first half year of 2019 relates to other income.

Property sales

Sareb has increased sales of its own properties by 8.8% compared to the first half-year period of 2018.

The real estate market in Spain has largely been stimulated by an improved economic situation of the population and better access to financing. Nevertheless, significant differences between regions continue to be observed.

Between January and June of 2019, Sareb sold 9,063 properties, 14.6% more than in the first half-year period of 2018. Of these, 6,448 were own properties, which represents an 8.8% increase on the same period in 2018, while 2,615, 44.2% less, were real estate assets that were held as collateral on Sareb loans and have been transferred from the developers' books through Sales Growth Plans (SGP) or liquidation of collateral properties.

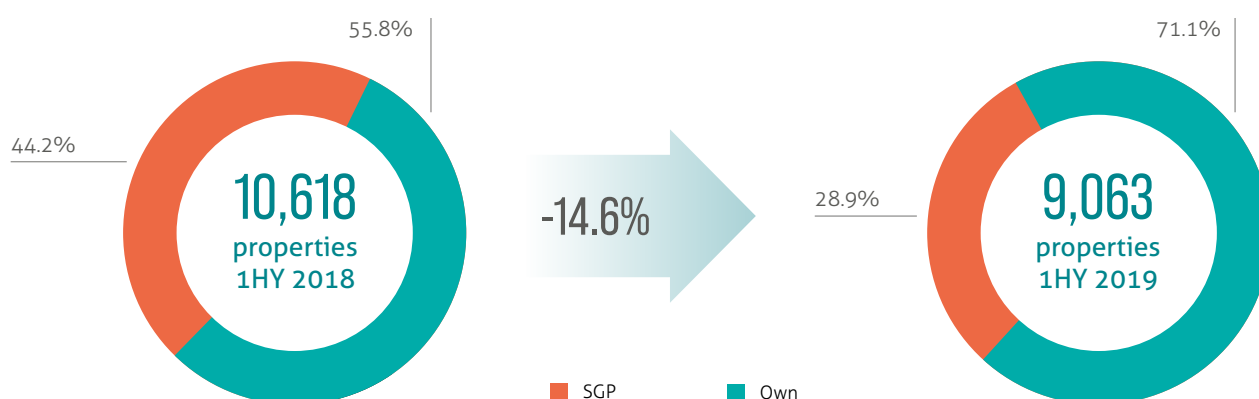
to significantly reduce the sale of properties through SGP, and to convert those loans into real estate assets that will end up on Sareb's balance sheet. The ultimate purpose of this model is for Sareb to become the owner of those properties and obtain greater income after selling them directly on the market.

In terms of declared price, income from sales of its own properties reached €492.6 M this year, 10.9% less than in the same period of the previous year.

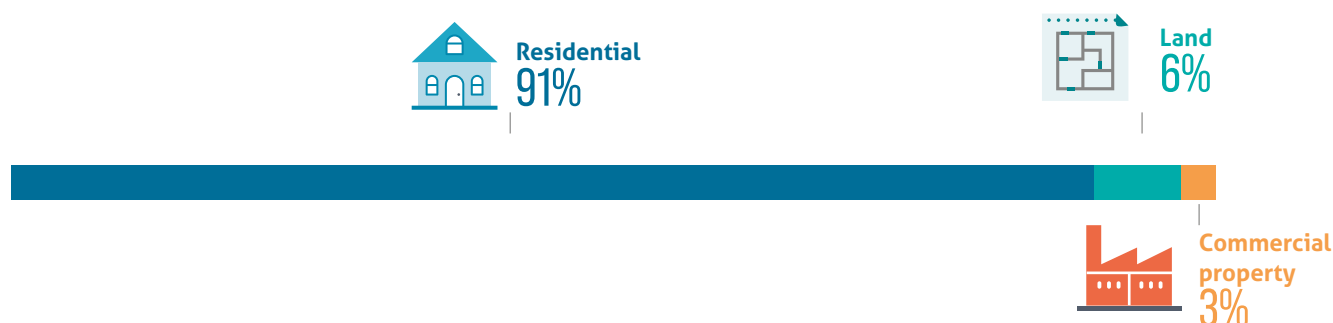
Per number of units, the Region of Madrid, the Region of Valencia and Catalonia are the autonomous regions that were the leaders in sales in the first half year of 2019.

These figures respond to the company's strategic decision

14. Property sale (% of the total of units sold)



15. Sale of real estate assets per type (% of the total of units sold)





Residential

In the first half year of 2019, Sareb sold a total of 8,268 residential units, a 9.7% year-on-year decrease. Nevertheless, sales of its own residential assets have been bolstered, going up to 5,948, 16.7% more than between January and June 2018, which reflects Sareb's wager for promoting the marketing of its own properties while the legal procedures continue on the loan portfolio and the collateral properties.

In terms of declared price, sales of Sareb's own residential properties went up by 12.4% compared to the previous year, reaching €382.1 M.

In units, the highest volume for residential real estate asset sales was concentrated in Catalonia, the Region of Valencia and the Madrid Region, which account for 48.9% of the total.

Profile of the buyer of an own residential property (1HY 2019)



Individuals



Companies

Spanish

60%

Foreign

9%

31%



Land

Land sales stood at a total of 524 units during this half-year period, of which 281 are Sareb-owned land, 42.2% less than in the same period of 2018.

In terms of declared price, the volume of income obtained from marketing its own land was €60 M, 33.3% less than a year ago. This figure is the result of Sareb's marketing strategy for this type of assets, focussed on

maximising their value by reserving land for future property development.

In units, Castile and Leon, the Region of Valencia and Catalonia accounted for 54% of sales in the first half year.



Commercial property

During the first half year of 2019, Sareb has sold 271 commercial properties, which is a 51% decrease on the same period of the previous year. Of the total of properties sold, 81% relates to Sareb-owned assets.

The declared value of own commercial properties sold amounted to €50.6 M, 58.8% less than the first half-year period of 2018.

The decline in sales both in number of units and in terms of declared price is explained by the lack of large-scale

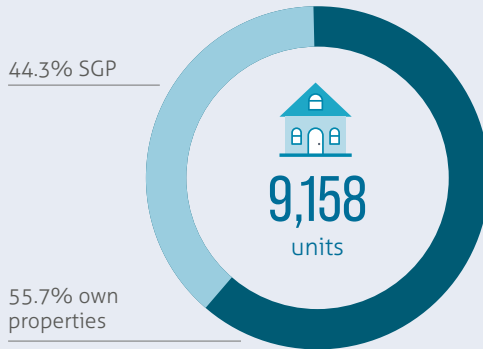
transactions with institutional buyers and the reduced income from the area of hotels and commercial premises. In that context, the company opted to implement a rentals strategy that makes it possible to improve the return on this type of assets and optimise their sale in the medium term.

Per geographical area, the Madrid Region, Catalonia and Region of Valencia, with a total of 118 units sold, account for the highest volume of sales of own commercial properties in the period.

1HY 2018

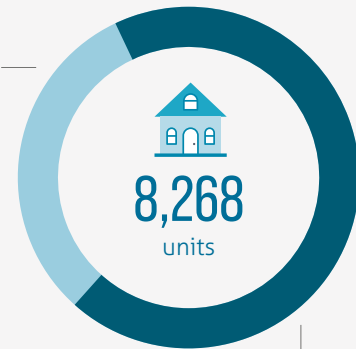
1HY 2019

16. Sales of residential properties (% of units)



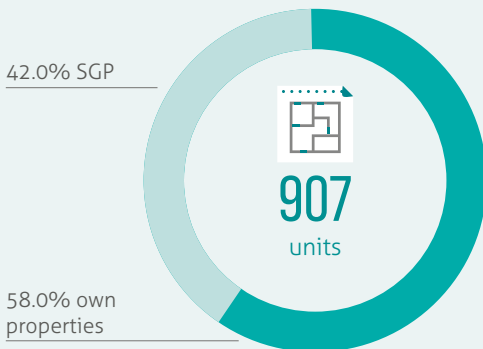
-9.7%

28.1% SGP

**71.9% own properties**

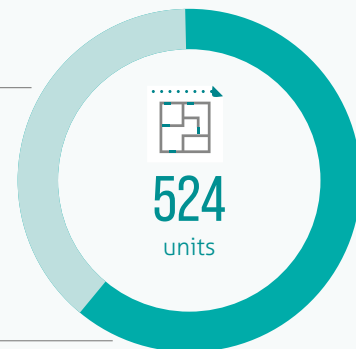
42.8% Units 29.1% Ancillary

17. Land sales (% of units)

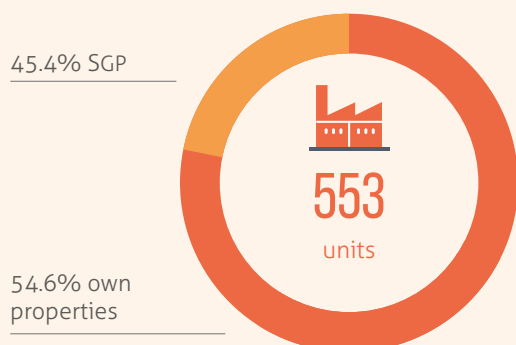


-42.2%

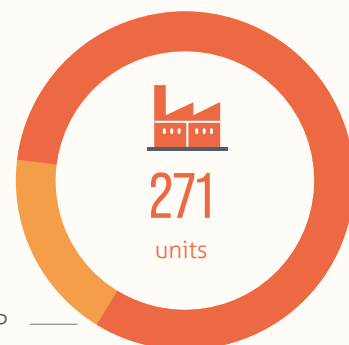
46.4% SGP



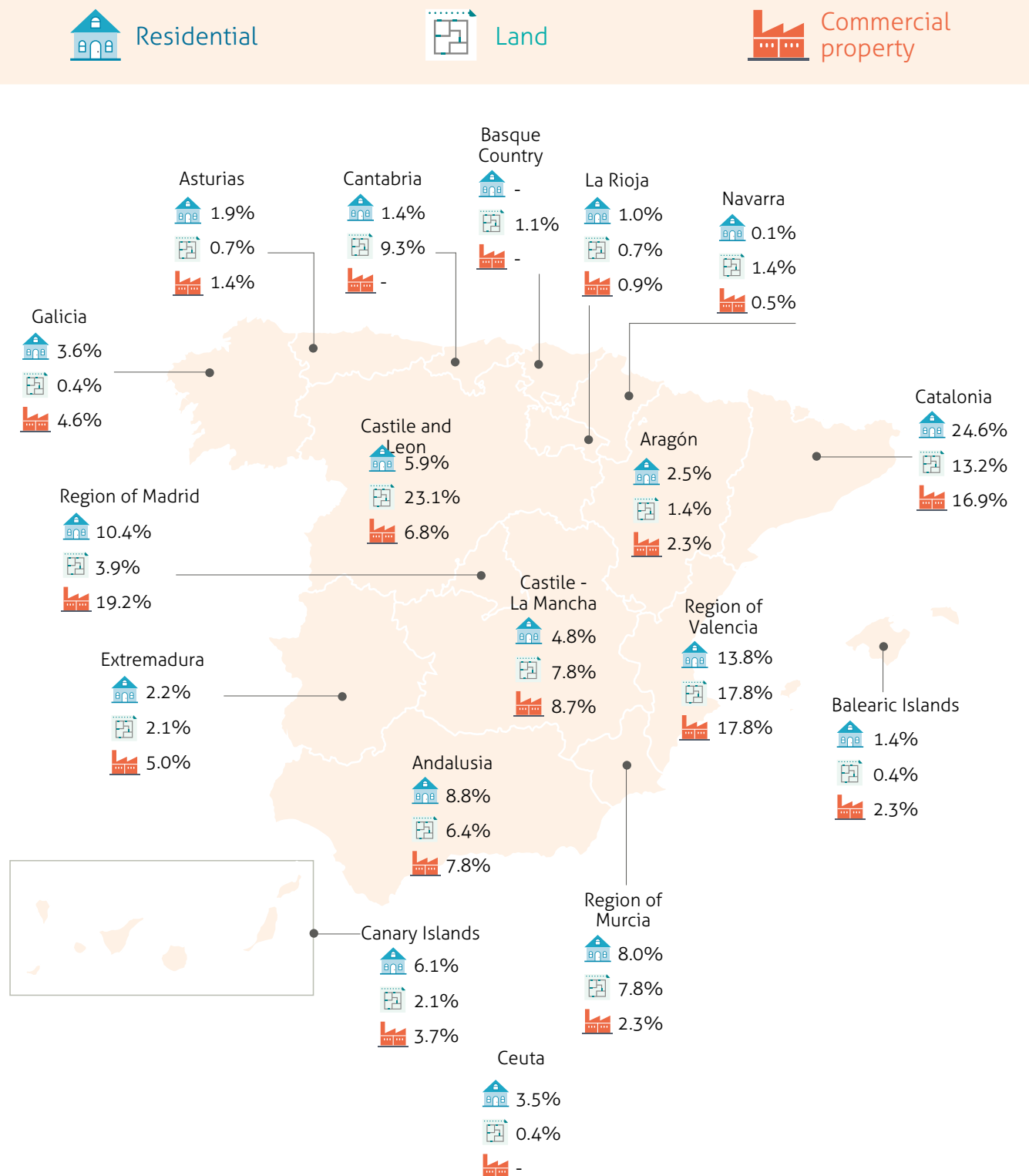
18. Sales of commercial properties (% of units)



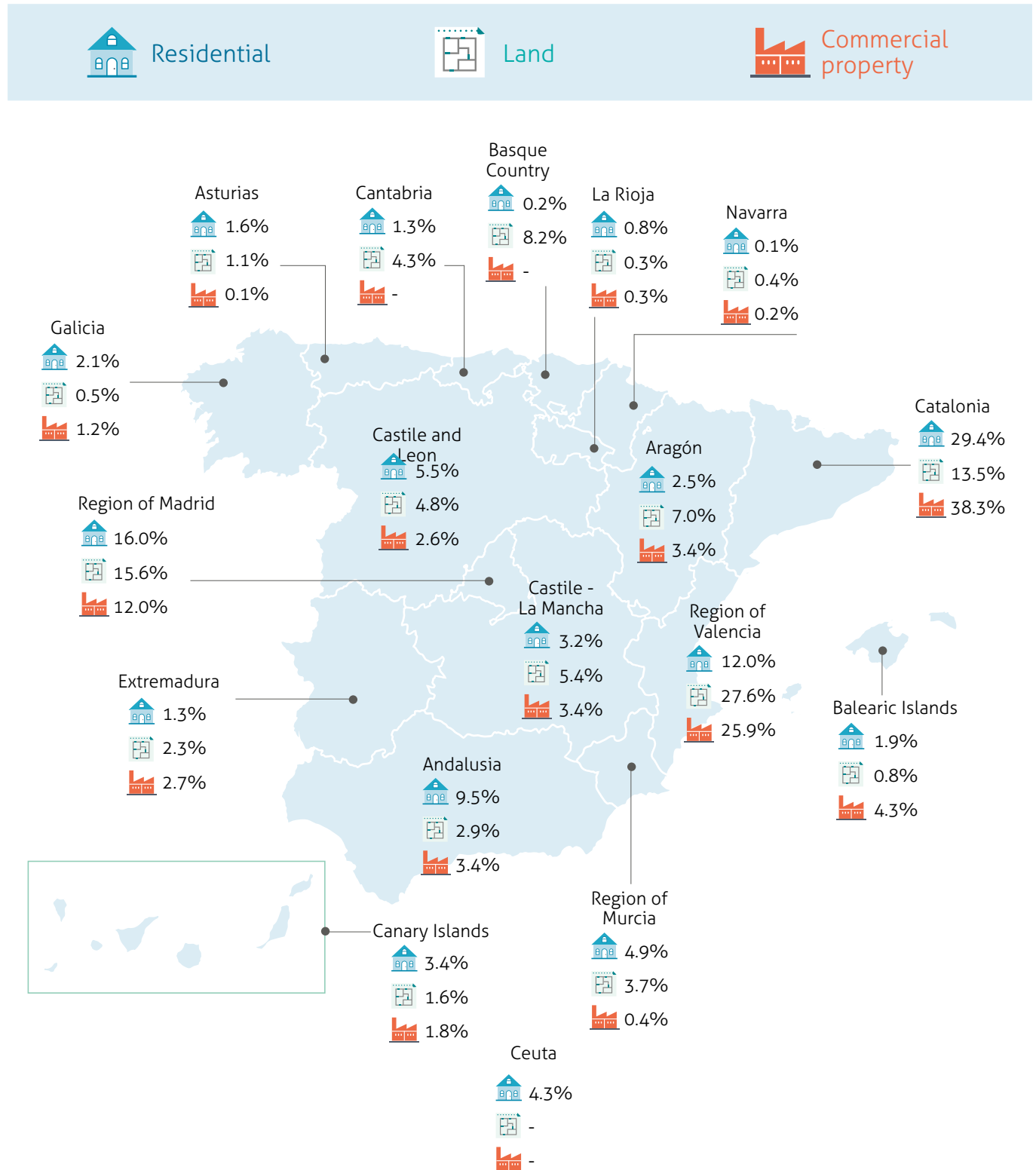
-51.0%

47.9%
Commercial
premises26.0%
Warehouses24.7%
Offices1.4%
Hotels
and others**80.8% own properties**

19. Geographical breakdown of sales of own properties (% of units sold)



20. Geographical breakdown of sales of own properties (% of sales volume)



Rentals

At the close of the first half-year period of 2019, Sareb’s rental portfolio amounted to 9,024 properties¹⁷, of which 85.5% are residential assets and the rest are commercial assets.

The rental business enables Sareb to optimise the value of the properties making up its real estate portfolio, at the same time as providing income that helps to cover the maintenance expenses.

Within the framework of the implementation of a territorial management model, in the first half year of 2019 Sareb has incorporated the rentals unit to its network, commencing with the territorial branch office for the Regions of Valencia and Murcia Region, the first to come into operation.

Amongst the most significant rental transactions concluded between January and June 2019 special mention is made of the agreement with the Senator Hotels & Resorts group for the rental of the Mar Menor

21. Portfolio of properties for renting per asset type



Homes
61.9%

Ancillary
23.6%



Offices
1.6%

Commercial premises
3.2%

Warehouses
1.2%

Hotels and others
8.5%

Golf & Spa Resort which, in addition to a five-star hotel, includes 145 holiday apartments in Torre Pacheco (Murcia). Also of note is the rental of an industrial warehouse in San Vicente del Raspeig (Alicante) to a *start-up* of an international distributor.

¹⁷ The figure does not include the assets transferred by Sareb to the REIT T  mpore Properties or the properties assigned through agreements with Autonomous Regions and Town Councils.

Further information on T  mpore Properties and the agreement with the Senator Hotels & Resorts group in the chapter *Get to know Sareb* https://www.sareb.es/en_US/about-us/who-we-are/about-us



Picture: T  mpore Properties show flat in Arganda del Rey (Madrid Region).

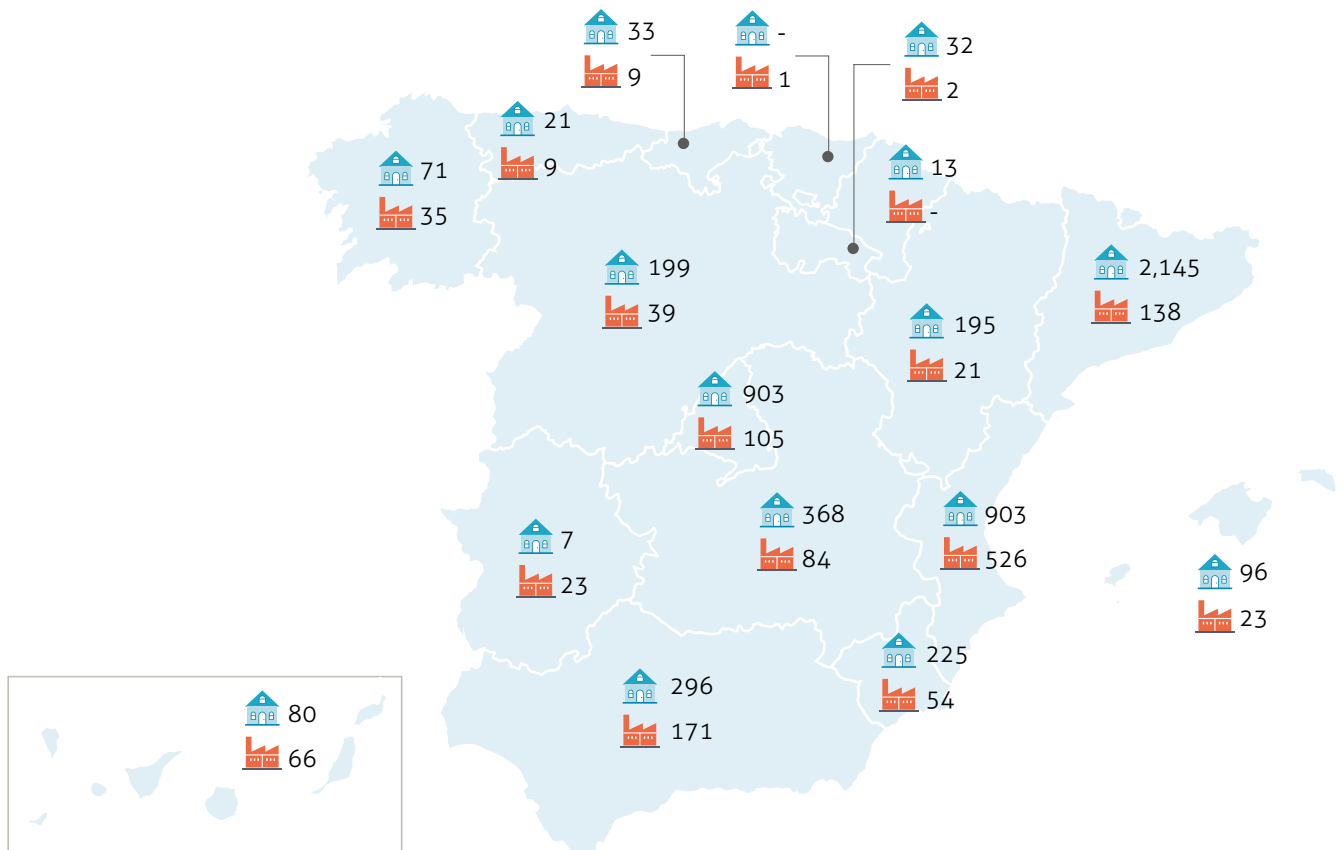
22. Geographical breakdown of the number of residential and commercial properties for rental (units)



Residential



Commercial property



Picture: Interior of Sareb apartment building in the centre of Madrid.

Commercial activity

In the first half year of 2019 five new marketing campaigns were launched, with an income figure of €71.4 M.

Since early 2019, the company is working on the shaping of an individualised roadmap that will make it possible to study new marketing opportunities for each asset.

Closeness with clients

Sareb works on broadening the knowledge and profile of the potential buyer base through processes of participation and active listening.

In this context, in the first months of 2019 the company has engaged in discussion sessions with clients to identify improvements in the sales process.

Furthermore, the degree of general satisfaction with the sales process is analysed, with a result of 83% in the two assessments performed in the first half year of 2019. Other issues related to the purchasing process are also analysed, such as delays or notarisation times, amongst others.

During the first half year of 2019 a backup was implemented for the sales complaints procedure by reviewing the management and attention given to each complaint.

Sareb Response

The company's customer service centre attends to sales queries, clarifies doubts and manages complaints related to the assets managed by Sareb. In the first half year of 2019, it received a total of 189,098 queries, 7.2% more than the same period of 2018.

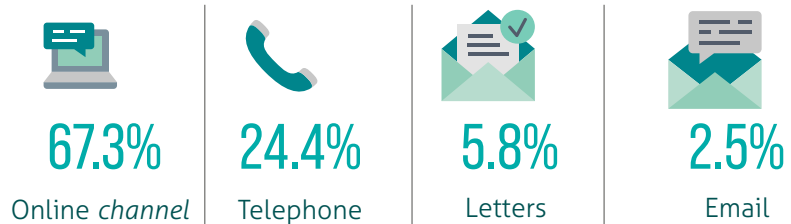
 **83%**
General customer satisfaction.

(75% at close of 2018)

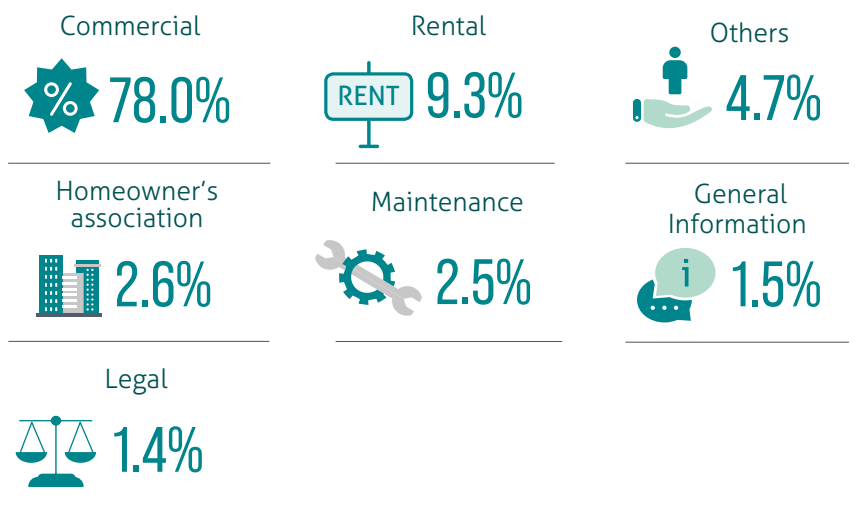
Per type of client



Per input channel



Per type of enquiry



Property development

Árqura Homes, created in the first half year of 2019, is the main vehicle through which Sareb carries out its development business

Árqura Homes property development

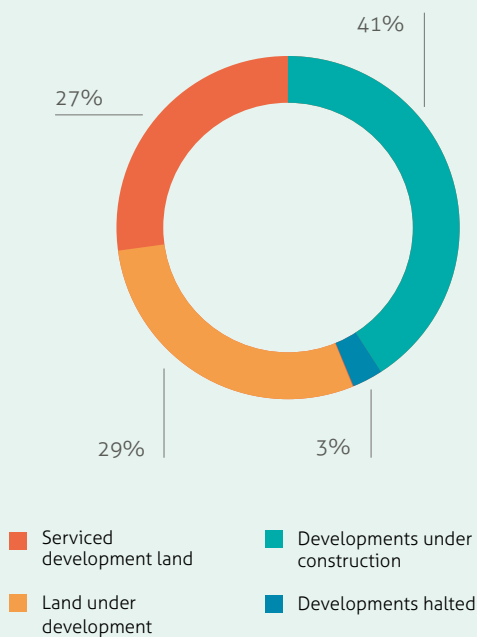
In the first half year of 2019 the company's real estate development and promotion activity was marked by the launch of Árqura Homes in June, a Bank Assets Fund (FAB) through which Sareb will carry out the management and development of part of its portfolio of residential projects.

The company has transferred assets valued at €811 M to Árqura Homes, amongst which some are developments that have been halted and others under construction, and also land.

Sareb currently holds 100% of Árqura Homes, although it is anticipated that funds managed by Värde Partners will take a 10% interest in the FAB once it obtains authorisation from the European Commission's Directorate-General for Competition.

Further information on Árqura Homes in
[Beyond our mandate](#)

23. Type of assets transferred to Árqura Homes (as a % of the contribution value)



Picture: Árqura Homes residential development under construction in Vigo (Galicia).



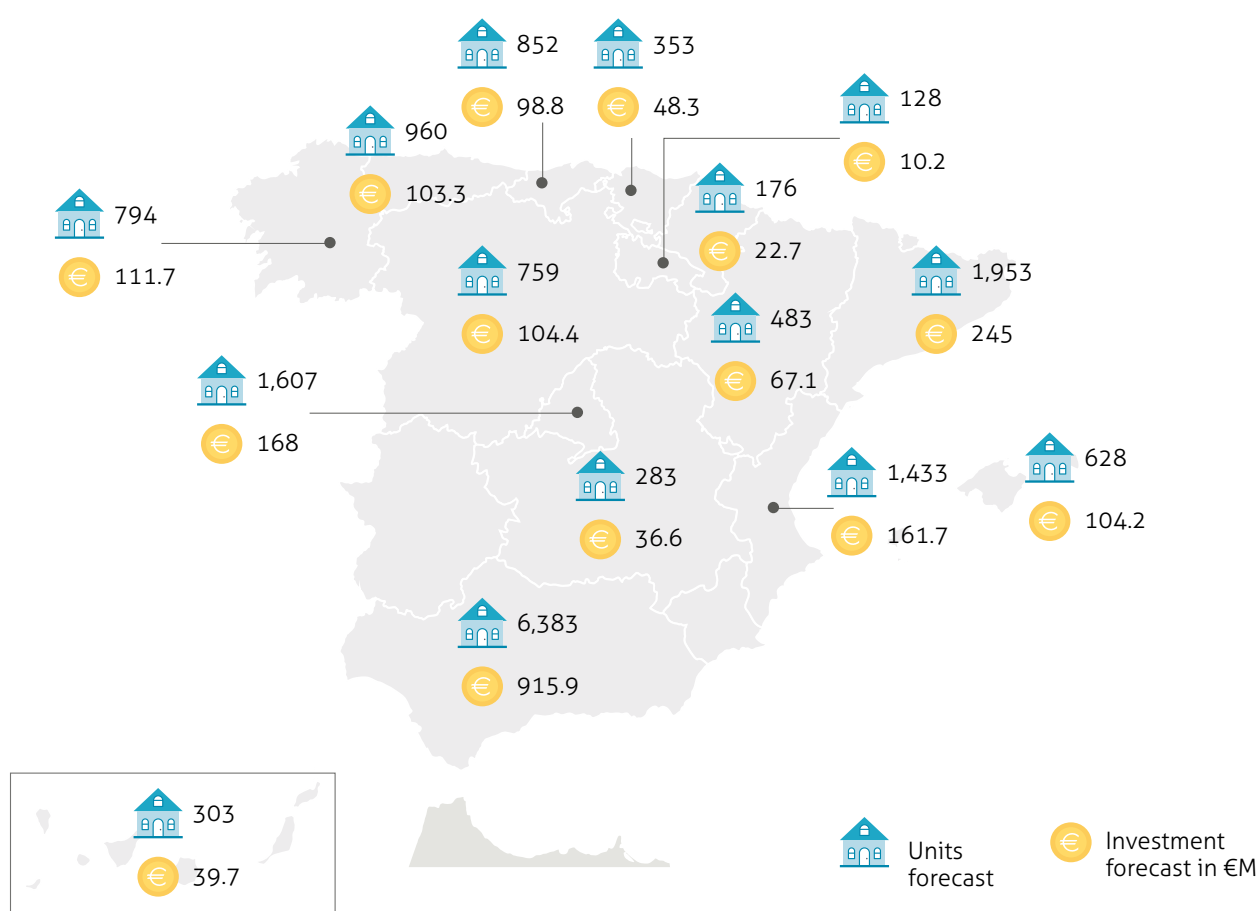
Projects and land for development up to 2027

In line with the strategy promoted by Sareb for encouraging specialisation in certain activities, the company has entrusted the management of the Árqura Homes assets to Aelca, one of the leading development companies in the sector and owned by funds managed by Värde Partners

This activity, carried out by Aelca with more than 150 professionals, three territorial areas and 10 branch offices, will make it possible to have first-hand knowledge on the local markets and adapt products to the demand in each area.

Through Árqura Homes, Sareb forecasts investing a total of €2,238 M by 2027 in developing 17,095 properties distributed throughout Spain, mainly in Andalusia, Catalonia, the Madrid Region and the Region of Valencia, which accounts for 66.5% of the properties to be built.

24. Properties and investment projected until 2027 through Árqura Homes (units and €M)



Sareb property development

Since its creation -and excluding the projects transferred to Árqura Homes in 2019-, Sareb has already approved the construction of 3,394 homes by developing real estate projects on own land or by finishing construction works that had been left unfinished.

Of that total number of properties, 2,014 are already finished, while the rest is still under construction.

Moreover, following the transfer to Árqura Homes, Sareb has land valued at over €3,750 M in its portfolio.

25. Sareb property development in figures¹⁸ (units)



Approved
3,394



Completed
2,014¹⁹



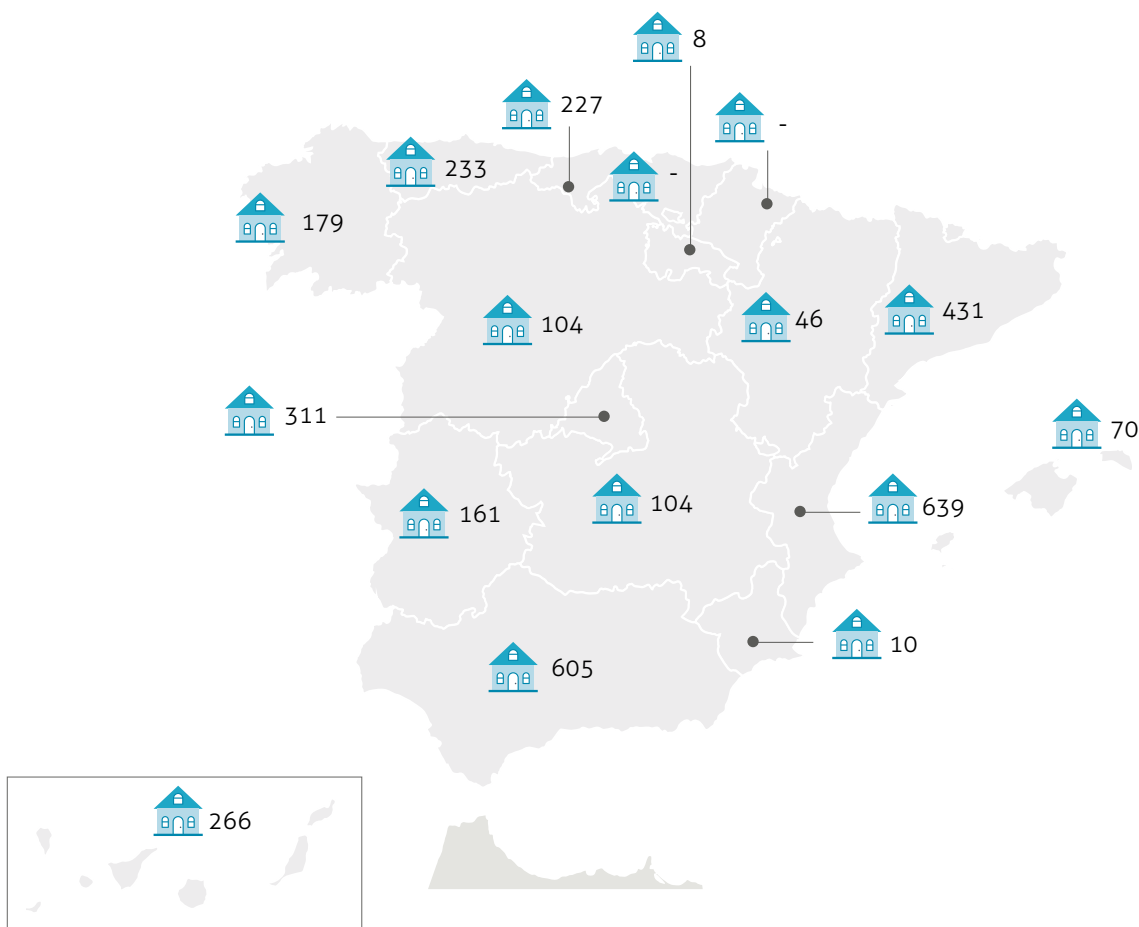
Under construction
1,380

Notarised
1,501

¹⁸ Does not include the promotion and development projects transferred from Sareb to Árqura Homes.

¹⁹ In addition to the notarised units, it also includes 513 available.

26. Geographical breakdown of Sareb residential property development (units approved)



Sareb's contribution to the United Nations 2030 Agenda

Through its activity of property promotion and development, Sareb stimulates the growth of cities, resuming building works that were halted and reaching agreements at local level for improving the situation of certain areas, which is considered an advance toward its fulfilment of goal 11.1 of the United Nations 2030 Agenda: **"To ensure that everyone has access to adequate, safe and affordable housing and basic services and to improve the marginalised neighbourhoods"**.



27. Total investment in Sareb property development (% of €M)



During the course of the first half year, Sareb has continued to work on the creation of a Bank Assets Fund (FAB) composed of unfinished construction works in which the company will conserve a minority interest.

Sareb's contribution to the United Nations 2030 Agenda

To carry out its property development and promotion activity, Sareb forms alliances with suppliers in the different regions, in this way stimulating local employment, which contributes to goal 8.3 of the United Nations 2030 Agenda, that seeks to **"promote policies aimed at development supporting the production activities, the creation of decent jobs, enterprise, creativity and innovation, and to boost the formalisation and growth of microenterprises and small and medium businesses, by also facilitating access to financial services"**.



Picture: Árqura Homes residential development in Badalona (Catalonia).

Urban land management

Sareb's portfolio of land encompasses 84.4 M m² of land under development and serviced development land, and 5,879 hectares of greenbelt land.

The company has put different initiatives into operation for enhancing the value of these assets before they are sold, amongst which drawing up individualised strategies for sale or lease.

28. Breakdown of the Sareb land portfolio



²⁰ The volume of Sareb land under development has been reduced following the transfer of land to Áqura Homes.



Environmental recovery of soil

The company performs a series of soil analyses on the land in its portfolio that could be contaminated by activities carried out on it prior to being transferred to Sareb. In the first half year of 2019, work began on the decontamination of surface land affected by hydrocarbons

in Malaga, in collaboration with the Town Council –who jointly owns this land with Sareb. This work has been carried out as a preliminary step required for the future development of this land area, in which Sareb owns two plots with building capacity of around 60,000 m².

Property development in Las Naves de San Luis (Seville)

Sareb's real estate activity includes urban land management for the land it owns throughout Spain, some of which in very attractive city locations.

At the beginning of 2019, the Seville Town Council approved the reparcelling project under the Special Plan for Internal Reform (PERI) "Naves de San Luis" proposed by Sareb, with building capacity of nearly 5,000 m². The agreement includes the sale by the

Town Council of 500 m² of building capacity to Sareb, with the 10% of land for use by the Council. These plots of land are amongst the largest areas of unconstructed land in the centre of Seville and on which the company will build more than thirty homes.

Property management and maintenance

The creation of territorial branch offices brings a new approach to management based on closely monitoring the conditioning made

Sareb assumes the management and maintenance costs of its properties and carries out conservation work on them until they are sold.

Since it was created, the company allocates funds for identifying and keeping up to date with the payments for all of the real estate assets that were transferred to it, within the framework of a model for comprehensive maintenance which has become consolidated in the first half year of 2019. Since 2018 the company has a Technical Real Estate Management system with ISO 9001 standard certification.

The new territorial structure has brought about improvements in property management and maintenance, as a result of being more familiar with the portfolio. In this way, Sareb can supervise even more closely the evolution of the conditioning work, saving costs and optimising time scales. Visiting the developments that require considerable investment makes it possible to ensure that the work is being carried out properly and prevent possible deviations.

Between January and June 2019 the expenses associated to management and maintenance amounted to € 98.6 M, of which the main items related to payment of taxes and community expenses (55.8%).

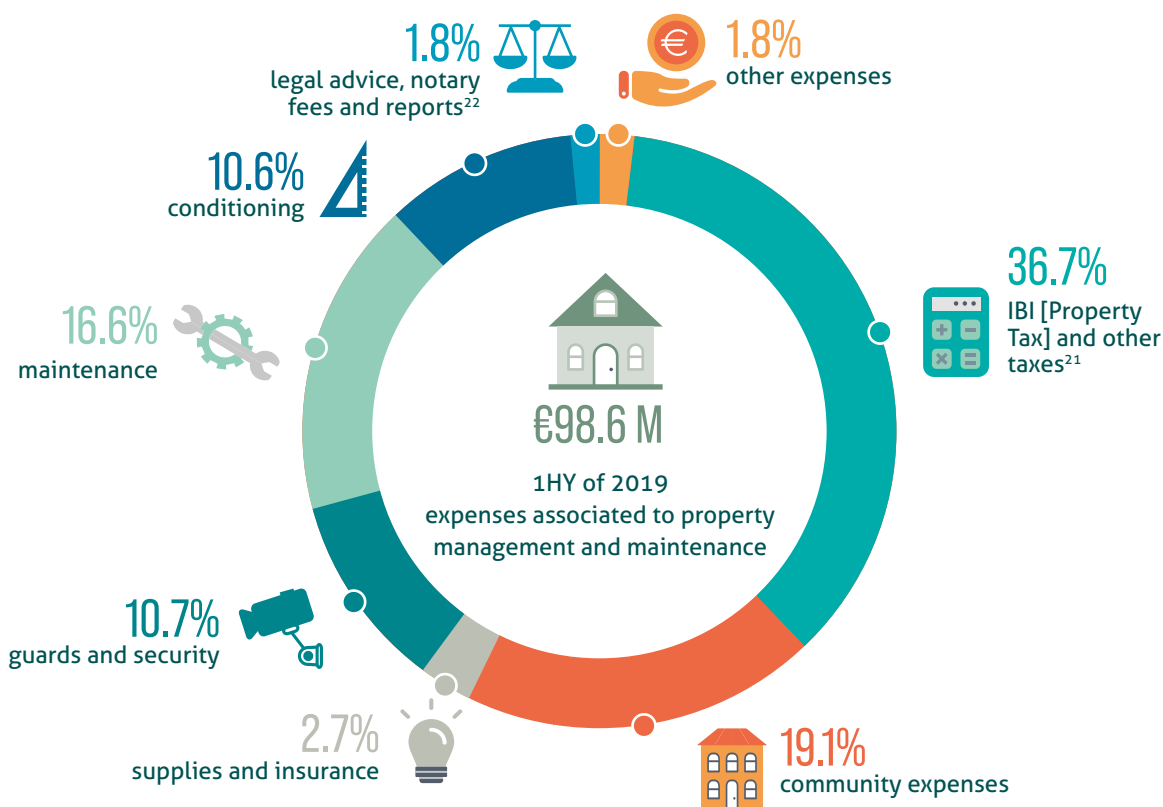


Picture: Sareb apartment building development in the centre of Madrid.

Regarding the improvements planned for the short term, Sareb is developing modules of technical renovation and monitoring of the conditioning under way on its

management platform, which it expects will be operational at the end of 2019.

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



²¹ IBI [Property Tax] and other taxes also includes licence/permit costs.

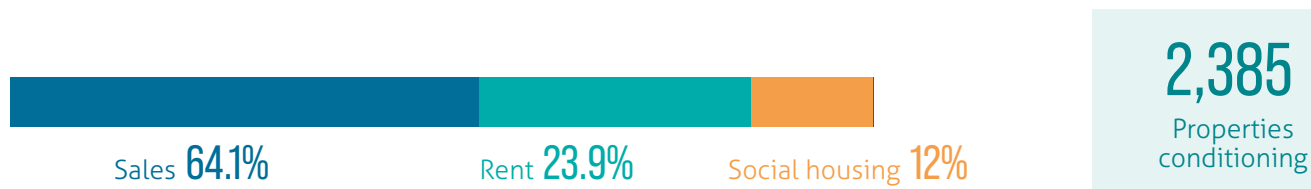
²² Legal advice and technical reports comprises expenses for lawyers, court representatives and the fees for preparing technical reports.

Property conditioning

In the first half year of 2019 conditioning work was completed on 2,385 properties, amounting to €10.4 M. The conditioning work includes minor repairs but which

are necessary for marketing the properties –whether through sale or rental– or for assignment of social housing.

30. Conditioning and investment in properties for marketing and assignment (% of the number of assets conditioned)



4. GOOD GOVERNANCE

The composition of the Board of Directors and its functioning / 51

Governance model / 52



COMPOSITION AND FUNCTIONING OF THE BOARD OF DIRECTORS

The experience of its members, the diversity of their profiles and balance in its composition are factors that characterise Sareb's highest governance body.

The Sareb Board of Directors is currently composed of 15 members, of which one third are independent, in compliance with the provisions of Royal Decree 1559/2012, which establishes the legal system governing asset management companies.

In the first half year of 2019, the independent directors Isidoro Lora-Tamayo Rodríguez and José Poveda Díaz completed their five-year mandate, while Antonio Cayuela Gil resigned as proprietary director –representing CaixaBank. In that context, in April 2019, the Shareholders General Meeting approved the appointment of three new directors:

- Idoia Arteagabeitia González, as independent director, member of the Auditing Committee and of the Remuneration and Appointments Committee.
- Carmen Motellón García, as independent director, chair of the Auditing Committee and member of the Remuneration and Appointments Committee and of the Executive Committee.

- Joaquín Vilar Barrabeig, as proprietary director, representing CaixaBank, member of the Auditing Committee.

That Meeting also re-elected Jaime Echegoyen Enríquez de la Orden as CEO of Sareb, with a five-year mandate.

Meanwhile, Pedro Antonio Merino García was appointed as chair of the Remuneration and Appointments Committee to replace Isidoro Lora-Tamayo Rodríguez, following a favourable report from that Committee.

All appointments followed the principles established to that effect in the applicable provisions in the Articles of Association and in the Board Regulations. In that respect, an assessment was made of the skills, knowledge and experience required for being a member of the Board and the various Committees as well as the dedication necessary for performing their duties and the availability and existence of any possible incompatibilities of the candidates.

Greater gender diversity in Sareb's Board of Directors



20% of Sareb's directors are women

40% of all independent directors

Since 30 April 2019, there are three women directors on Sareb's highest governance body: Francisca Ortega Hernández-Agero, Carmen Motellón García and Idoia Arteagabeitia González.

In the light of the best international practices and recommendations on good governance, in addition to being a milestone for Sareb, the new additions show progress in matters of equality and diversity in the Board of Directors of the company.

Further information in Legislation

https://www.sareb.es/en_US/about-us/corporate-governance/normative

GOVERNANCE MODEL

Sareb develops its activity while meeting the specific requirements for governance required under applicable legislation and acts under strict rules of ethics that safeguard its integrity at all times as well as its transparency, commercial reputation and professionalism

A clear and specific legislative framework

The incorporation and development of Sareb is defined under the following legislative framework:

- Act 8/2012, of 30 October, on the write-off and sale of real estate assets in the financial sector.
- Act 9/2012, of 14 November, on the restructuring and winding-up of credit institutions.
- Royal Decree 1559/2012, of 15 November, which establishes the legal system governing asset management companies.
- Bank of Spain Circular 5/2015, of 30 September, on the accounting particularities of Sareb.
- Royal Decree-Law 4/2016, of 2 December, on urgent financial measures.

Sareb’s contribution to the United Nations 2030 Agenda

Sareb’s good corporate governance practices, the internal control mechanisms and systems and transparency in the management and rendering of accounts are consistent with the fulfilment of goals 16.6 and 17.3 of the United Nations 2030 Agenda, which, respectively, aim to: **“Create efficient, transparent institutions at all levels that can be held”** and **“Increase global macroeconomic stability including through policy coordination and coherence”**.



16 PEACE, JUSTICE AND STRONG INSTITUTIONS



17 PARTNERSHIPS FOR THE GOALS



Supervision

The singularity of its corporate purpose and the public interest associated to Sareb’s activity mean it is also subject to supervision by the Bank of Spain, the Spanish National Securities Market Commission (CNMV) and the Monitoring Committee.



Governance

Monitoring of the best governance practices applicable to listed companies.

Composition of capital

54.1%	45.9%
Private Capital	Public capital through the FROB [Fund for Orderly Bank Restructuring]



Compliance and regulation

Strict regulatory regime which helps to ensure that the business is carried out according to legislation, with integrity and ethics, which helps to safeguard its reputation.

Monitoring corporate targets



Bank of Spain

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



Spanish National Securities Market Commission (CNMV)

Issue of fixed income and registration authority for Banking Asset Funds (FAB)



Monitoring Committee

This reviews the compliance of the general objectives. It is formed by:

- Ministry for Economy and Business (Sub-Directorate-General for Public Treasury and International Financing)
- Ministry of Finance
- Bank of Spain
- CNMV

Board of Directors

100% attendance at all meetings

15 directors



9 Meetings in the 1HY 2019

- Independent Director
- Executive Director
- Proprietary Director

Executive Committee

6 directors



> 2 Meetings in the 1HY 2019

Auditing Committee

8 directors



> 7 Meetings in the 1HY 2019

Remuneration and Appointments Committee

8 directors



> 4 Meetings in the 1HY 2019

Support Committees¹

- Management Committee
- Risks Committee
- Investments Committee
- Assets and Liabilities Committee

> 3 Meetings² in the 1HY 2019

Management Committee

Assumes the functions of the Support Committees since 27 March 2019.

> 29 Meetings in the 1HY 2019

¹ In force until 27 March 2019.

² The four committees meet as a joint meeting.

Internal control system

Internal control system on governance and strategic processes (SCEG)

Governance and strategic processes:

- Strategy and reputation

Internal control system on Ethical Standards (SCISNE)

Ethical standards:

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

Internal control system on Processes for Managing Business Risks (SCIR)

Risk management:








































































































































- Credit
- Property price
- Liquidity
- Operational
- Interest rate

Internal control system on Financial Information (SCIIF)

Financial Information:

- Risk of reliability of financial reporting

Profile of Sareb directors

First appointment	Director	Nature	Committees to which they belong	Profile and competences
05/03/14 ¹	Jaime Echegoyen Enríquez de la Orden	Executive	  	     
14/04/2015	FROB (represented by Jaime Ponce Huerta)	(D) FROB	  	     
10/06/2015	Francisca Ortega Hernández-Agero	(D) Banco Santander	  	     
10/06/2015	Pedro Antonio Merino García	Independent	  	     
25/11/2015	Enric Rovira Masachs	(D) Banco Sabadell	  	     
05/05/2016	Javier García-Carranza Benjumea	(D) Banco Santander	  	     
28/11/2016	Iñaki Goikoetxea González	Independent	  	     
28/11/2016	Javier Bartolomé Delicado	Independent	  	     
13/12/2017	Jaime Rodríguez Andrade	(D) Banco Santander	  	     
13/12/2017	Jorge Mondéjar López	(D) CaixaBank	  	     
13/12/2017	Eduardo Aguilar Fernández-Hontoria	(D) FROB	  	     
17/05/2018	Juan Ignacio Ruiz de Alda	(D) FROB	  	     
30/04/2019	Idoya Arteagabeitia González	Independent	  	     
30/04/2019	Carmen Motellón García	Independent	  	     
30/04/2019	Joaquín Vilar Barrabeig	(D) CaixaBank	  	     

¹ Jaime Echegoyen Enríquez de la Orden was re-elected by the Shareholders General Meeting in April 2019.



Executive Committee



Remuneration and Appointments Committee



Auditing Committee



Chairman of the Committee

(D) Proprietary



Finance



Real Estate Sector



Business management



Legal



Public Administrations



International

Further information on [Board of Directors](https://www.sareb.es/en_US/about-us/corporate-governance/board-of-directors)

https://www.sareb.es/en_US/about-us/corporate-governance/board-of-directors

Bodies and responsibilities

The governance of Sareb takes place through two main bodies: the Shareholders General Meeting and the Board of Directors, whose functioning is backed up by the Auditing Committee, the Remuneration and Appointments Committee, the Executive Committee and the Management Committee –the first two in place since Sareb was incorporated; the third since 2017; and the fourth (formerly the Management Group and Support Committees) since March 2019.

Responsibilities and functions of the governing bodies and their committees

SHAREHOLDERS GENERAL MEETING	Composed of Sareb shareholders, it discusses and makes decisions on matters within its competence, according to the articles of association and the Capital Companies Act.
BOARD OF DIRECTORS	The body holding the representation, administration, management and control of the company.
▶ Auditing Committee	Responsibility for internal control systems, requisite financial information, and associated non-financial information, auditors or auditing firm, and conflict of interests and related transactions.
▶ Remuneration and Appointments Committee	Amongst its functions are the duty to inform, propose and assess the suitability of the Sareb directors, and to inform on the general policy on remunerations and incentives.
▶ Executive Committee	Its activity focusses on the approval of business transactions and other powers delegated by the Board of Directors.
▶ Management Committee	<p>In March of 2019 it was decided to set up this committee as a result of integrating the Management Committee and the different Support Committees into a single body. With this, the functions previously attributed to the Support Committees are now assigned to this Committee, in compliance with the provisions of Royal Decree 1559/2012²³ and in Sareb's Articles of Association. Furthermore, integrating them into a single body has led to the Board of Directors approving the creation of the Shareholder Forum, with the object of improving the functioning and effectiveness of the activities that were carried out by the Support Committees.</p> <p>The Management Committee's activity focuses on support and assistance to the Board of Directors and other powers delegated by it.</p>

²³ Royal Decree 1559/2012, of 15 November, which establishes the legal system governing asset management companies.

Further information on the nature, functions and scope of action of the governing bodies:

Board of Directors

https://www.sareb.es/en_US/about-us/corporate-governance/board-of-directors

Remuneration and Appointments Committee and Auditing Committee

https://www.sareb.es/es_ES/conoce-sareb/gobierno-corporativo/comites



The Board of Directors approves the creation of the Shareholder Forum

The Forum will facilitate access to information for all shareholders, strengthening transparency and communication

Sareb's Shareholder Forum was created to facilitate access to information for all shareholders, regardless of their percentage interest in the capital of the company.

In the framework of its activities, the Forum will follow up and disclose the most relevant resolutions taken within the Board of Directors. In addition meetings will be held -at least on a quarterly basis- in which Sareb's shareholders will be informed of and provided with the information that up until now was provided through the Support Committees.



5. APPENDIX



MATERIALITY ASSESSMENT

Since 2017, Sareb has a materiality analysis –revised in 2018– to identify and inform on issues relevant for the business and its stakeholders, which furthermore enables it to continue complying with the guidelines of the International Integrated Reporting Framework and the provisions of the Global Reporting Initiative Standards (GRI) for the preparation of sustainability reports.

In addition, the company continuously analyses the evolution of the context and trends of the sector, in order to identify those issues that could have an effect on the business, in the both the short and the long term.

Methodological development

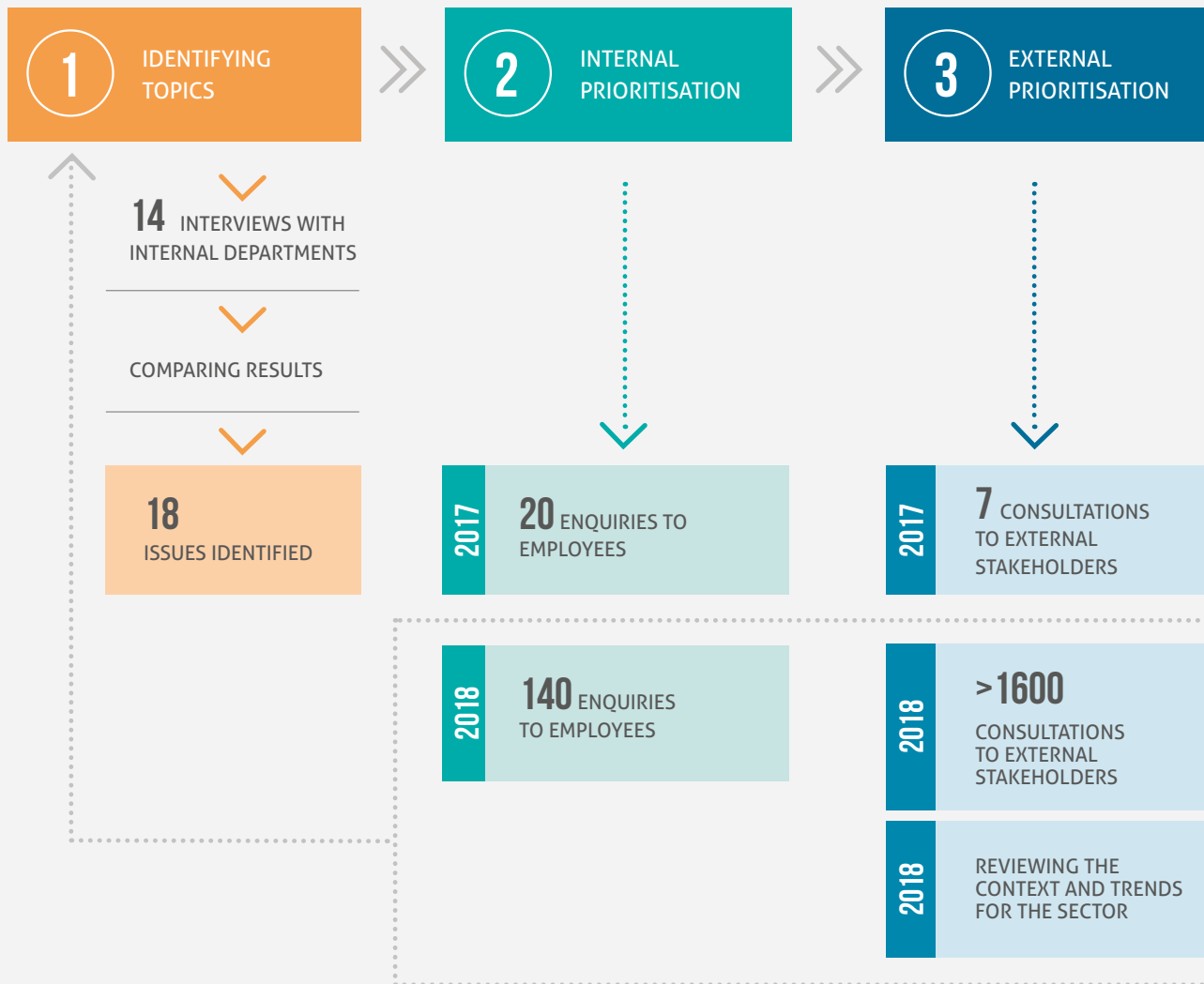
The identification of issues and their prioritisation is addressed from two perspectives: internal, as a starting point to define and prioritise those issues relevant to the business; and external, which allows Sareb to know which of these issues concern its stakeholders or that could have an impact on them, considering the context and trends for the sector.

In the 2018 review, the company has taken into account new aspects to enhance both perspectives:

INTERNAL PRIORITISATION	140 employees were surveyed to reflect on, review and update the results obtained in the previous materiality assessment.
EXTERNAL PRIORITISATION	<p>In addition to the interviews carried out in 2017 with the various external stakeholders, the reputation survey that Sareb presented in 2019 is also taken into account. This quantitative and qualitative analysis, which was based on over 1,600 surveys of company stakeholders²⁴, gathered information about stakeholder concerns and priorities in relation to Sareb.</p> <p>The company has also carried out a review of the sector context and trends that affect Sareb and potentially influence stakeholder assessments and decisions.</p>

²⁴ The reputation survey includes consultations with experts from the real estate, financial and public administration sectors, clients, opinion leaders, employees and society in general. Consultations with opinion leaders do not have quantitative assessments. Employees are not taken into account for the external perspective, as they are part of the internal dimension, where ad hoc consultation has been conducted with 140 people.

Assessment methodology



Sareb stakeholders

Sareb identifies stakeholders on the basis of their influence and impact on the activity of the company. Taking these criteria into account, and bearing in mind the assumption that the identification of stakeholders is an ongoing process, Sareb's main stakeholders are the following:



EMPLOYEES



SHAREHOLDERS

SUPERVISOR AND
PUBLIC AUTHORITIES

CLIENTS



SUPPLIERS



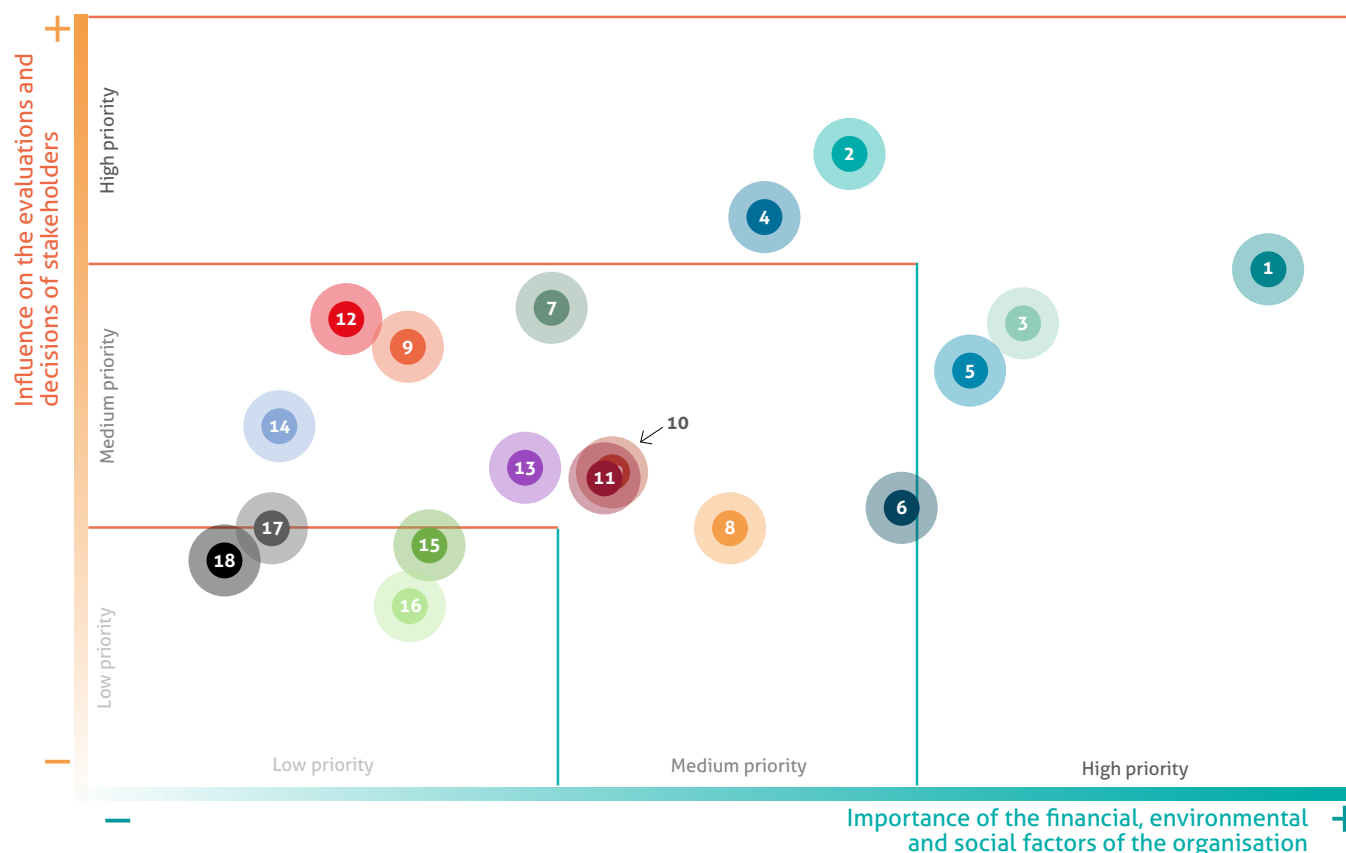
COMPANY

List of topics²⁵

HIGH PRIORITY	MEDIUM PRIORITY	LOW PRIORITY
<ol style="list-style-type: none"> 1 Efficient and responsible management of the asset portfolio received 2 Transparency in the activity carried out 3 Payment of the debt without cost to the taxpayer 4 Integrity, prevention of corruption and conflicts of interest 5 Creation of value to improve the commercial viability of the portfolio 	<ol style="list-style-type: none"> 6 Commercial viability of real estate assets 7 Systems for the control, supervision and monitoring of activity 8 Flexibility to adapt to the market 9 Relationship with counterparties: public authorities, suppliers, etc. 10 Expected return for shareholders 11 Talent management and the professional development of employees 12 Respect for free competition and the free market 13 The company's role in providing impetus to the real estate sector 14 Closeness and communication with stakeholders 	<ol style="list-style-type: none"> 15 Respect for equality, diversity and non-discrimination 16 Applied innovation: efficiencies and development of new products and services 17 Impact of construction work on the environment 18 Social action initiatives related to housing

Materiality matrix

Prioritisation of topics on the basis of internal and external assessments.



Further information on issues relevant to Sareb's activity

https://www.sareb.es/en_US/about-us/corporate-governance/reports

²⁵ For further information on Sareb's management of the entire list of topics, you can consult the last Annual Activity Report for 2018 and the data available on the company website.

TABLE OF GRAPHS

1. Evolution of the portfolio (€M)	25	20. Geographical breakdown of sales of own properties (% of sales volume)	39
2. Composition of the portfolio (% of €M)	25	21. Portfolio of properties for renting per asset type	40
3. Portfolio (number of assets)	26	22. Geographical breakdown of the number of residential and commercial properties for rental (units)	41
4. Breakdown per type of asset (% of €M)	26	23. Type of assets transferred to Árqura Homes (as a % of the contribution value)	43
5. Breakdown of real estate assets per type (% of €M - NBV)	26	24. Properties and investment projected until 2027 through Árqura Homes (units and €M)	44
6. Breakdown of financial assets per type of guarantee (% of €M - NBV)	26	25. Sareb property development in figures (units)	45
7. Geographical breakdown of the portfolio of real estate assets (% of units and of NBV)	27	26. Geographic breakdown of Sareb property development (units approved)	45
8. Geographical breakdown of loan management (% of €M based on NBV)	28	27. Total investment in Sareb property development (% of €M)	46
9. Evolution of senior debt since the inception of Sareb (€M)	29	28. Breakdown of the Sareb land portfolio	47
10. Strategy for the management and sale of loans ..	30	29. Expenses for management and maintenance of the properties (% of €M)	49
11. Breakdown of income from managing and selling loans per business line (% of €M)	30	30. Conditioning and investment in properties for marketing and assignment (% of the number of assets conditioned)	49
12. Number of debtors per ranking of debt (€M) and proportion of the total	32		
13. Breakdown of proposals managed per type (%)	33		
14. Property sale (% of the total of units sold)	35		
15. Sale of real estate assets per type (% of the total of units sold)	35		
16. Sales of residential properties (% of units)	37		
17. Land sales (% of units)	37		
18. Sales of commercial properties (% of units)	37		
19. Geographical breakdown of sales of own properties (% of units sold)	38		



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

**PASEO DE LA CASTELLANA, 89
28046 MADRID
T. (+34) 912 763 655**

www.sareb.es/en_US