

ACTIVITY REPORT

FIRST HALF YEAR

2020



Sareb presents its Activity Report corresponding to the first half year of 2020 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 the audited annual accounts, complies with the obligations on transparency required of Sareb in article 26 of Royal Decree 1559/2012, which establishes the Company's obligation to draw up six-monthly reports on its activity, giving systematic and easily understandable details of the essential data of Sareb's activity during the corresponding period, and also the degree of fulfilment of the objectives set out in its Business Plan and the reasons that explain any possible deviations from it.

The orientation and approach of the content of this document 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 contained in this report is subject to the analysis of the context at the time when it is presented (October 2020) and its expected evolution, without compromising those objectives for achieving it.

The images used to illustrate this report show Sareb real estate assets.



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.

i **Further information on the 2030 Agenda**



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1 Executive Summary



In a context marked by the health crisis generated by Covid-19, Sareb has made unprecedented efforts to adapt, even though some of the advances implemented in previous years have made it possible to establish a new reality in the company

The social, economic and political reality of the first half of 2020 was conditioned by the impact of Covid-19. A health crisis that Sareb has confronted from the outset with measures aimed at preserving the value of its portfolio, establishing an Efficiency Plan for containing expenditure, guaranteeing the health and protection of its employees and, to the extent possible, cooperating with the Public Administration by placing real estate assets at its disposal for medical or logistical purposes. That line of collaboration has also extended to the company's relationship with its clients, to whom it has granted moratoriums on rent payment in 191 residential properties and 43 commercial properties throughout Spain.

The same as all actors in society, Sareb has made unprecedented efforts to adapt, although some of the advances implemented in previous years have made it possible to establish a new reality in the company. In this respect, the steps taken by Sareb using technology have been essential in enabling 100% of its employees to carry out their work from home as soon as the State of Emergency was declared on 14 March 2020.

At the same time, and in order to minimise the effects of the crisis on the business, in the first half of the year Sareb has implemented various alternatives for collaborating with its debtors in reaching agreements, such as the case of datations in payment.

The development of initiatives for revitalising the market has gone hand-in-hand with measures for streamlining and making expenditure management more effective, for which Sareb has launched an Efficiency Plan. At the same time, senior management decided to waive receiving the variable remuneration for 2019 and the remuneration to be received in 2020, while keeping the salaries of the rest of the employees unchanged during this year.

Meanwhile, during the first six months of 2020 the company has continued with its activity of converting loans into property, one of the pillars of its business strategy, aimed at preserving the value of the portfolio. This area has been affected by the slowdown of court activity during confinement, which has forced Sareb to focus its efforts on reaching extrajudicial agreements using formulas such as datations in payment. Between January and June the company has added almost 7,500 properties to its books, valued at €585.8M, 31.1% less than in the same period of 2019. The swing toward a more property-based balance sheet will continue in the coming years, and between 2020 and 2022 Sareb anticipates that the conversion process will make it possible to add 97,647 properties to its asset portfolio, of which 79.4% will be residential.

The health crisis has had a significant impact on the economy due to confinement and movement restrictions, amongst other factors. The slowdown has reached the real-estate sector and, therefore, Sareb's activity. With the close of the institutional market and the slowdown in demand, the company has adopted a cautious sales strategy, waiting for the recovery of the economic context. Furthermore, the paralysis in retail activity between March and May had a significant impact on, amongst other things, the sales of Sareb properties which, in the first half of 2020 stood at €223.8M of declared price, compared to the €492.7M between January and June 2019.

The downturn in the sales pace lead to a 48.6% decline in the total volume of revenue for the company, to €540.6M. 52% of this amount came from the real-estate business, while the rest came from loan management. However, the results for the year are anticipated to be in line with expectations, mainly due to the positive evolution of the net margin.

As for total expenditure -excluding finance costs-, it decreased by 25% in the first half-year compared to the same period last year, mainly due to the reduced sales activity. The introduction of the first measures developed under the framework of the Efficiency Plan also contributed to this effect.

Through its activity over the past seven and a half years, the company has cancelled 31% of the debt issued at the time of its creation, and has reduced its total portfolio by 36.5% to €32,246 M. The decrease in the portfolio of non-performing loans in isolation is 54%.

Furthermore, in March 2020, the Council of Ministers passed a Royal Decree-Law which amended the seventh additional provision of the Law on the restructuring and winding-up of credit institutions to adapt the grounds for the dissolution of Sareb to its singular nature, which is the orderly liquidation of its assets. In accordance with the Royal Decree, a reduction in equity is not cause for winding up Sareb on account of its own mission and, according to the RD, of the need for a special legal system to be in place for certain aspects that are essential for the company to be able to fulfil its purpose. In this context, Sareb will be able to continue carrying out its activity as normal.

Internally, this period has also been marked by the incorporation of Javier García del Río as CEO in February. His appointment as executive director was subsequently submitted to the Shareholders General Meeting for approval, on 28 October. The arrival of García del Río, with extensive experience in the real-estate industry, is intended to give a boost to the business strategy and consolidate the Sareb model as a company focussed on the management and sale of properties. The organisation has adapted to this new reality by creating seven operational business departments which report directly to the CEO.

Between January and June, the company has continued advancing in its work of collaborating with Public Administrations to palliate the problem of housing in Spain. As proof of this, in the first half-year period, Sareb's Board of Directors decided to expand the pool of properties intended for social purposes from 4,000, the number previously available, to 10,000 units, while at the same time giving the green light to implementing a strategy of cooperation with minor-sized municipalities with housing problems.

In its seven and a half years of life Sareb has signed agreements for the temporary assignment of properties with 12 Autonomous Regions and 17 Town Councils, and at the end of June some 9,500 people have been able to benefit from the properties made available to those institutions. This line of cooperation is also serving to nurture the social programmes of some administrations, such as the governments of the Basque Country and Canary Islands which, in the first half of 2020, have acquired Sareb properties for those purposes.

2 Get to know us: who are we?

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Who are we? Mission, vision and values

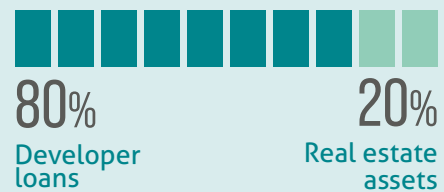
Sareb was founded in November 2012, as part of the Memorandum of Understanding (MoU) signed between the Spanish and international authorities to assist the restructuring and recapitalisation of the Spanish banking sector.

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 assets sector.

A key aspect for the recovery of the financial sector created in 2012 in the context of the paralysis of the real estate assets market in Spain in Spain

200,000
assets acquired
by Sareb

...valued at
€50,781 M
of which...



VISION

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

MISSION

Sareb is a special purpose vehicle whose assignment is to liquidate those assets in an orderly manner, optimising their value over a 15-year period, until November 2027. 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.

VALUES

Integrity

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

Transparency

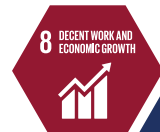
Sareb assumes the commitment to openness in communicating its policies and procedures, aware that it acts under the watchful eye of society as a whole.

Civic engagement

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

Sareb's contribution to the United Nations 2030 Agenda

Sareb's primary goal is restoring the Spanish financial sector and helping in reactivating the real estate assets market, assuming part of the assets of banks experiencing difficulties when the company was created. With this it is contributing to goals 8.10 and 17.13 of the United Nations 2030 Agenda: **"To strengthen the capacity of domestic financial institutions for promoting and widening access to the banking, financial and insurance services for everyone" and "To increase global macroeconomic stability including through policy coordination and coherence."**



What is Sareb?



Our milestones during this time

Balance of period 2012- First half year of 2020

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

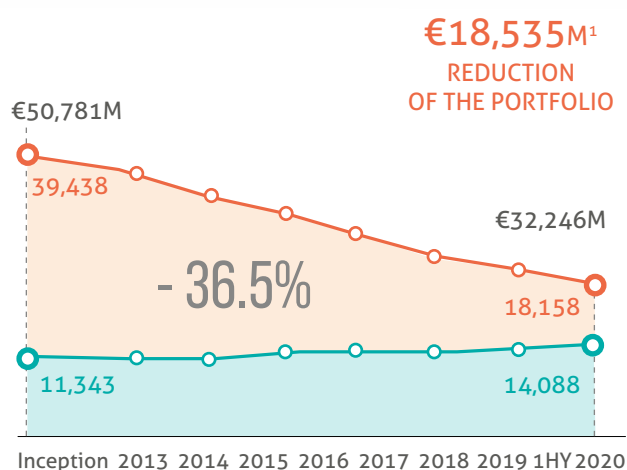
2015

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

2016

- A further write-off to the Sareb portfolio with €2,044M in provisions².
- The company approved the capitalising of €2,170M of subordinated debt to cover write-offs in the portfolio.

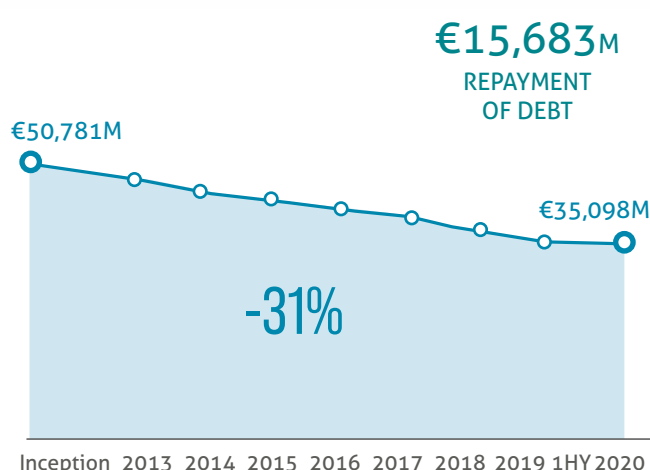
1. Evolution of the portfolio



Loans

Real estate assets

2. Reduction of senior debt



¹ Not including accumulated amortisation/depreciation or impairment.

² From application of the 2015 Bank of Spain Circular which establishes the criteria for valuing Sareb's assets and requires it to capitalise €2,170M of the company's subordinated debt.

2017

- Creation of the department for development, promotion and investment to enhance the value of the company's assets.
- 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 for the value of €175 M.

2018

- Témpe Properties makes its debut on the Alternative Stock Market (MAB).
- Sareb began its decentralisation process by setting up a small geographical structure in five regions.
- Launch of a competitive process to sell the holding of Sareb in Témpe Properties.

2019

- Sareb, in partnership with Värde Partners, launched Arqura Homes to promote more than 17,000 properties on Sareb-owned land.
- The company arranged the sale of 75% of Témpe Properties to TPG Real estate assets Partners.
- The Board of Directors approves the Esparta Project, based on the selection of specialist managers, direct management of some activities from Sareb, centralisation of the information on assets and putting the geographical branch offices into operation.
- Under the Esparta Project, Sareb chose Haya Real estate assets for the commercial management of a portfolio of €8,400M.
- Sareb concluded the first sale to a Public Administration (Town Council of Badalona) of properties for social purposes.

1HY 2020

- The company launched a business initiative that includes a cautious sales strategy focussed on the retail market.
- Sareb puts an Efficiency Plan into effect to streamline its operating expenditure.
- Sareb expands its pool of social housing to 10,000 units and launches a plan for promoting collaboration with small municipalities throughout Spain.
- Appointment of Javier García del Río as CEO.
- Introduction of a new business organisation structure to speed up the divestment process.
- The executive management waived receiving the variable remuneration for 2019 and 2020.
- The Basque Country and Canary Islands became the first Autonomous Regions to acquire Sareb properties for social purposes.

Key figures since its inception

109,983

Properties sold

€2,784.9 M

Interest paid to the assigning banks

€27,046.6 M

Income

10,000

Properties for social purposes

17,368

Properties for development through Arqura Homes

4,050³

Properties to be directly promoted by Sareb

³ This figure is slightly lower than that published in the Annual Activity Report for 2019 due to adjustments in building projects.



An effort of adapting to Covid-19, what measures has Sareb taken?

The context established by the health crisis has meant implementing a number of measures for palliating its effects

The Covid-19 health crisis has become the great global risk facing the society and all actors in the system in 2020 and subsequent years.

With a preventative approach and in a context of the State of Emergency in Spain during a large part of the six-month period, the company has worked from a dual perspective –business and corporate– to address the short term contingencies and to try to anticipate and minimise any possible deviations that this crisis could cause to business in the medium and long term.

Sareb's priority continues to be preserving the financial value of its portfolio, streamlining its operating expenditure and protecting the health and well-being of its employees and suppliers. The company has also worked toward guaranteeing ongoing dialogue and collaboration with the Public Administration and all of its stakeholders.

On a business level, the company has tried to face Covid-19 with a cautious sales strategy to avoid having to make discounts in 2020 on assets that could be sold in better conditions in future years. Along those lines, Sareb has focussed in increasing the sales activity in segments of assets where there is greater demand and in which the prices have gone down less, such as the case of selling properties in the retail market. Conversely, it has reduced its presence in the segments of selling non-performing loans, land and commercial properties.

Sareb has also made a significant effort to speed up the volume of converting loans into real estate assets in order to recover the pace anticipated in its Business Plan once the strictest period of confinement concluded after the Spring. At the same time, the company has continued its property development activity, although it adapted the development of its projects to the slight decrease in demand, and it halted those in which there was practically no demand, such as the case of holiday residences targeted toward foreign buyers.



Picture: Arqura Homes apartment building under construction in Valencia (Region of Valencia).



More details on the measures adopted on the Sareb website



Conversion of the balance sheet



- With regard to the conversion of loans into properties, one of the pillars of the business strategy, the company has encouraged collaboration with the debtors, such as datations in payment. This measure has acquired greater importance in a context in which the legal channels were at a standstill.

i More information under the heading **Conversion of the balance sheet.**

Collaboration with the Administrations



- In line with Sareb's values and commitments on social issues, from the outset of the health crisis the company has been in contact with the Public Administration to place properties of different uses at its disposal as it may require. In coordination with the geographical branch offices, different sized industrial warehouses were earmarked for logistics purposes, in addition to hotels, apart-hotels, apartments, offices and services buildings that could be used for healthcare purposes. The assets were located in the provinces of Cordoba, Granada, Cadiz, Valencia, Vitoria, Zaragoza, Barcelona, Huelva and Castellón.
- The Administration thanked Sareb for its willingness and readiness, and looked into the possibility of using those properties, although so far this has not been necessary.
- In parallel with this offer, Sareb has continued with its regular activity in relation to social housing and has entered into five agreements with local Public Administrations in the first half of 2020.

i More information under the heading **Social Fingerprint.**

Measures regarding rentals



- In order to facilitate the protection of housing for people in vulnerable situations, at the end of the first half-year of 2020 Sareb had handled 334 moratoriums in rent payments on properties in all of the autonomous regions of Spain. Of these, 256 were residential and the rest were commercial properties. With this measure, Sareb also fulfils the obligations of renegotiating rents for large-scale landlords.

i More information under the heading **Rentals.**

Employees and suppliers health as a priority



- In order to avoid physical contact and protect employees, 100% of the workforce began teleworking days before the State of Emergency was declared. As a measure of precaution, some groups of employees were already able to carry out their work remotely in the days leading up to it. This form of working could be implemented because the employees already had the technological media for working from home: laptops, mobile phones, applications...
- When the de-escalation process began in May, a reduced group of 50 people returned to the office. Later, every two weeks 50 more employees voluntarily returned, up to a maximum of 250 people. This system of rotating shifts—which will be operative as long as it is necessary—provides for the use of a maximum of 50% of the occupation capacity of Sareb offices, despite the fact that all employees could be present with the safety distance guaranteed.

i More information under the heading **Closeness and communication with stakeholders.**

Decisions of the Board of Directors and senior management regarding remuneration



- In April, the Chairman of Sareb, Jaime Echegoyen and the other members of the Company's executive management decided to waive receiving the variable remuneration for 2019, and also the amount they might receive in 2020, in an exercise of responsibility due to the situation caused by the Covid-19 crisis.
- Furthermore, the company decided to not introduce any salary increases for the workforce in 2020.

i More information in the chapter **Good governance.**

Business Model

A long-term vision 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 some of the most representative indicators show.

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

MANAGEMENT AND SALE OF LOANS



Acceleration of the divestment process

- > Strategies for segmenting the portfolio and increasing the conversion of loan guarantees into real estate assets.



Proactive management of developer loans

- > Agreements with the developers for facilitating the sale of the properties given as collateral for their loans.



Sale of loans

- > Sale of debt positions to third parties.

Geographical branch offices to identify business opportunities and give an impetus to divestment.

NORTH-WEST

CENTRE

SOUTH

PORTFOLIO
(€50,781M ORIGINALLY)

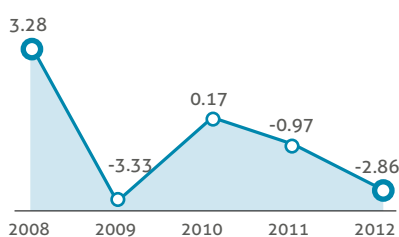
DIVESTMENT SINCE 2012 (36.5%)

SENIOR DEBT
(€50,781 M ORIGINALLY)

REDUCTION SINCE 2012 (31%)

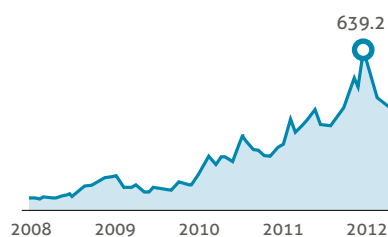
Evolution of the Spanish economy between 2008 and 2012:

Year-on-year growth of GDP (%)



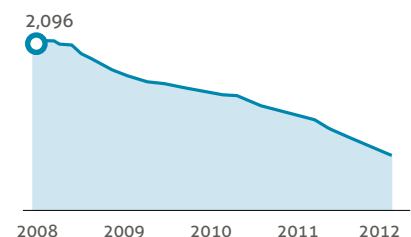
Source: National Institute of Statistics (INE).

Risk premium (basis points)



Source: Bloomberg.

Free-market housing price (€/m²)



Source: National Institute of Statistics (INE).

MANAGEMENT AND SALE OF REAL ESTATE



The conversion consists of transforming loans –financial assets which are less liquid– into real estate assets, to speed up divestment of the portfolio and strengthen the effectiveness of the liquidation process.

Retail property sales through the sales managers or servicers.



Property development and promotion

- > Creation of Arqura Homes to promote more than 17,368 homes.
- > Sareb property development:
 - Construction of new developments.
 - Completion of unfinished construction works.



Stock of properties for rental

- > Residential and commercial rental.
- > Creation of the REIT Tempore Properties and subsequent sale of 75% of the holding in the company.



Social housing

- > Signing agreements with the Public Administration for the temporary assignment of properties to groups at risk of social exclusion.
- > These agreements open the door to the acquisition of said properties by the administrations.



STRATEGIC GUIDELINES TO THE 2020-2027 BUSINESS PLAN

- REDUCTION IN VOLUME OF THE PORTFOLIO
- INTENSIFICATION OF THE CONVERSION OF THE BALANCE SHEET
- EFFICIENCY AND STREAMLINING OF COSTS
- INVESTMENT AND SPECIALISED MANAGEMENT FOR THE CREATION OF VALUE

GREATER FOCUS AND SPECIALISATION: THE ESPARTA PROJECT

- Assets under management and marketing:**
 - Loan portfolio
 - Real estate assets portfolio
- Assets undergoing conversion:**
 - Dations in payment
 - Foreclosures
 - Insolvency proceedings
- Direct management:**
 - Major debtors
 - Property developed and promoted by Sareb and through Arqura Homes
 - Single items of assets
- Specialist suppliers** (property maintenance, conversion, legal recovery, etc.)

PORTFOLIO AT THE END OF THE 1HY 2020. €32,246M

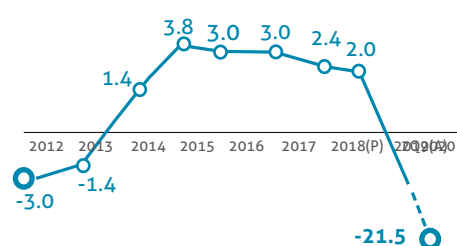
LOANS €18,158M (56.3%)

REAL ESTATE ASSETS €14,088M (43.7%)

Balance of outstanding debt at the end of the 1HY 2020 €35,098M

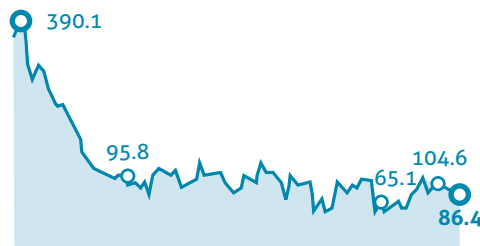
Evolution of the Spanish economy between 2012 and the second quarter of 2020

Year-on-year growth of GDP (%)



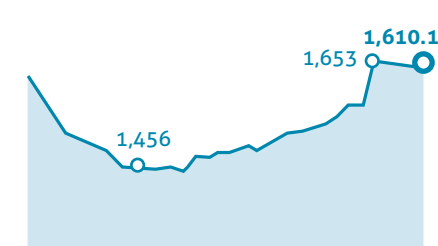
Source: National Institute of Statistics (INE).
(P) Provisional estimate
(A) Forecast estimate

Risk premium (basis points)



Source: Bloomberg.

Free-market housing price (€/m²)



Source: Ministry of Transport, Mobility and Urban Agenda. September 2020.

A new organisation for boosting business

In the first half of 2020, the company has launched a new organisational structure to speed up its mandate of divestment

In June 2020 Sareb concluded the reorganisation of its internal structure to adapt it to its new business strategy, focused on protecting the value of the assets, converting loans into properties, creating value through new construction and developing land, and also giving momentum to sales through five geographical branch offices and a new model of relations with its sales management companies, the *servicers*.

In that context, the responsibilities and functions of the business directors were also redefined and seven operational departments were established that report directly to the CEO, Javier García del Río, who joined Sareb in February. With this, the Management Committee of the company is made up of the Chairman, Jaime Echegoyen, the CEO, Javier García del Río, and the directors of those seven departments.

At the same time, the geographical branch offices continue as they were under the previous structure and they will also report directly to the CEO. The five branch offices continue performing the function for which they were created, which enables Sareb to be closer to the territories in aspects such as identifying business opportunities, management of real estate assets and loans, or property development, amongst others.

After implanting this new structure, Sareb centred its efforts on ensuring that the different associates are properly aware of their new roles and responsibilities and feel that the company accompanies them along that path.



Sareb appoints Javier García del Río as CEO

The incorporation of this executive, with extensive experience in the real-estate industry, is intended to give a boost to the business strategy and support for adapting the Sareb model as a company focussed on the management and sale of properties.

The appointment of Javier García del Río took place in February 2020, when he joined Sareb as CEO. Since the end of May he has been acting as the sole CEO, responsible for the seven operational business departments and the geographical branch offices of the company. His appointment as executive director was subsequently submitted to the Shareholders General Meeting for approval, on 28 October.

Between 2014 and 2019 he was CEO of Solvia, a *servicer* that became one of the market leaders under his management.

He has also been deputy managing director of Banco Sabadell, having joined this bank in 2012 after leaving Caja de Ahorros del Mediterráneo. Until 2010 he was project manager for The Boston Consulting Group. García del Río is an industrial engineer and has an MBA from the Instituto de Empresa Business School.



From left to right, Javier García del Río and Jaime Echegoyen, Sareb's CEO and Chairman, respectively.

i More information on the new organisation under the heading **Good Governance** and **on the Sareb website**



Seven areas under the responsibility of Javier García del Río



In the framework of the new organisational structure introduced, the following departments report to the Chairman, Jaime Echegoyen: Legal Department and Secretary of the Board, Internal Audit, Compliance and Institutional Relations, Sustainability and Communication.

The seven recently created business departments perform under the responsibility of Javier García del Río, with the functions described below:



Portfolio Management

This defines the strategy for action, asset by asset, ensuring full consistency with the company's Business Plan.

Its functions include fixing prices, market analysis and strategic segmentation, and it also has portfolio managers for each type of asset: loans, residential properties, land and commercial assets.



Loan management

The department responsible for promoting the collection and sale of NPLs and the conversion of the loans into property, putting them on a sound footing—both technically and legally—so these assets can be included in the portfolio for their promotion and subsequent sale.



Management of real estate assets

Its function is to preserve and increase the value of the real-estate assets, mainly by industrialising of the process of conditioning, maintenance and administration of the portfolio of own properties, maintaining a suitable level of efficiency and risk control.



Commercial

The sales department is in charge of Sareb's divestment activity. In this context, it heads the sales activity—including sales with institutional investors—and the design and supervision of the sales networks contracted by the company with the *servicers*.



Real estate developments and asset management

It carries out the work of land development, promotion, management of real-estate transactions and management of major borrowers.

In order to perform this work, this department has to create and foster Sareb's capacity for production in these fields, ensuring that the activities are carried out in line with the Business Plan in terms of value created and completion time.



Finances and Management Control

The department in charge of drawing up and supervising the performance of the Business Plan.

It provides the financial, accounting and tax information and carries out the entire control function for managing Sareb, in addition to managing the company's purchases and payments, liquidity, market risks and efficiency plan.



People, Processes and Technology

This unit works to guarantee that the service is covered and equipped with the means necessary for all areas of the company as regards people, processes, projects, technology and safety so that they can perform all the functions with the quality, backup and reliability required.

It ensures that Sareb operates focussed on efficiency and effectiveness.

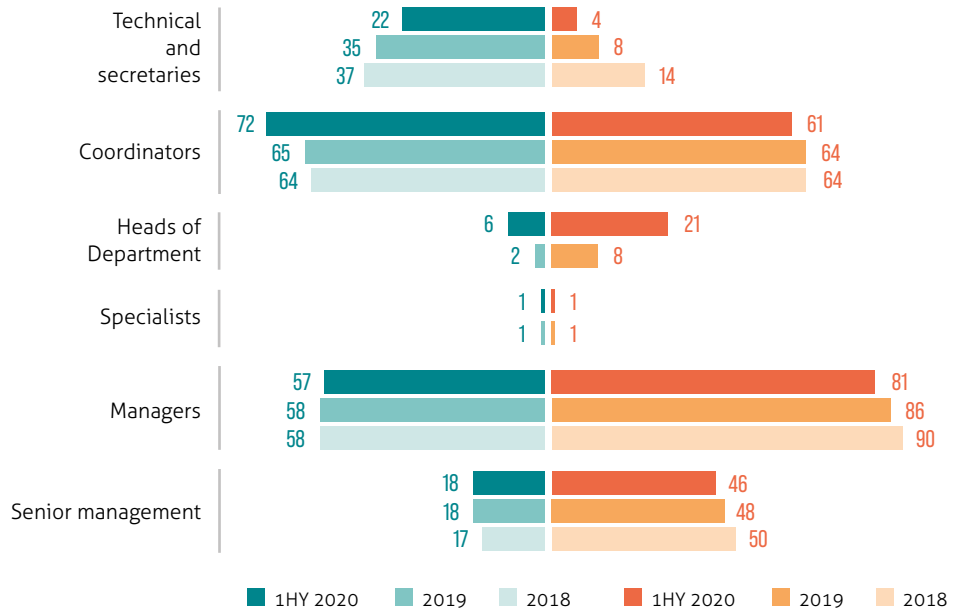
Sareb human capital

The conversion of the company balance sheet is accompanied by more specialised professionals in the real estate assets sector

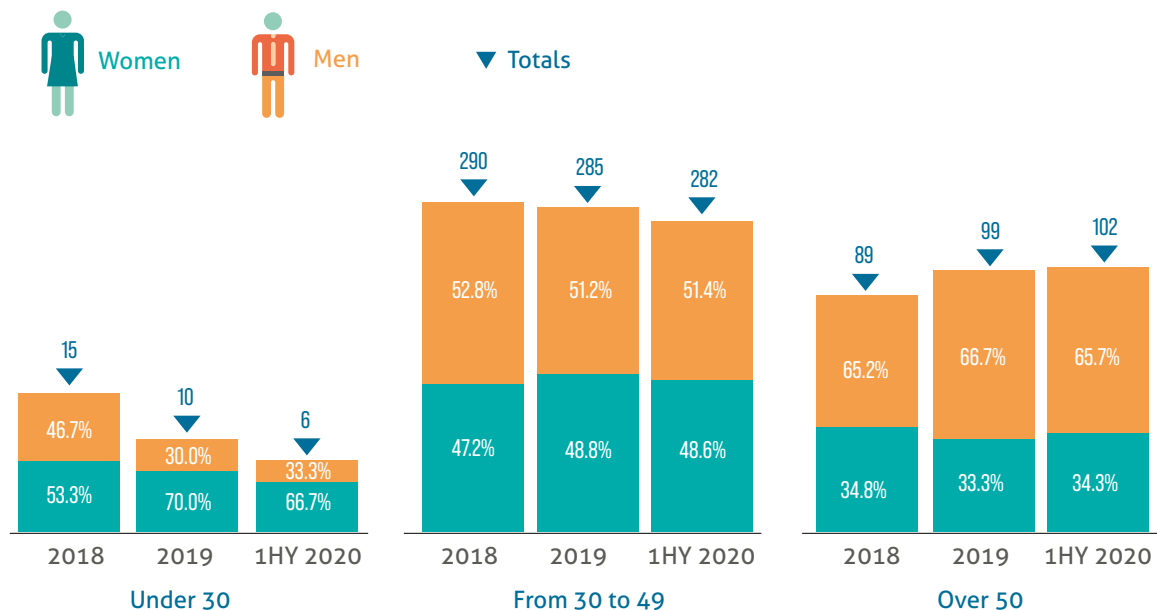
At the end of June of 2020, the number of Sareb employees totalled 390. Compared to 2019 year-end, this figure is slightly lower (-1%).

The company pays attention to the care and development of its professionals, as it is aware that their motivation and "know-how" enable Sareb to advance toward the fulfilment of its mandate.

3. Profile of Sareb workers (number per category and % of the total)⁴

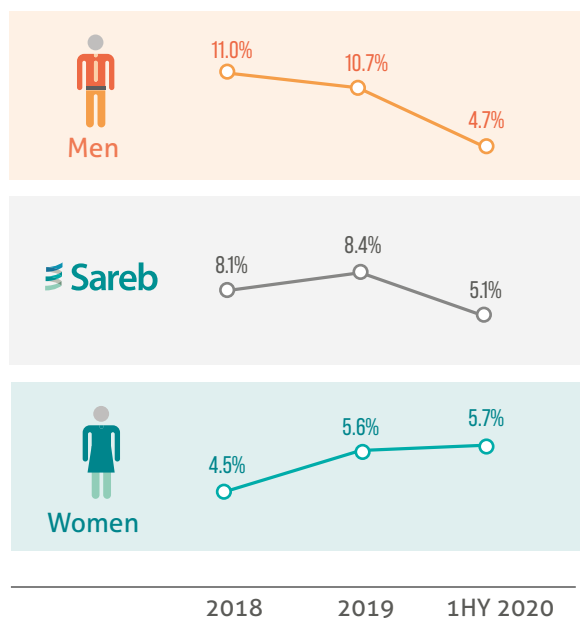


4. Breakdown of staff by age and gender (%)

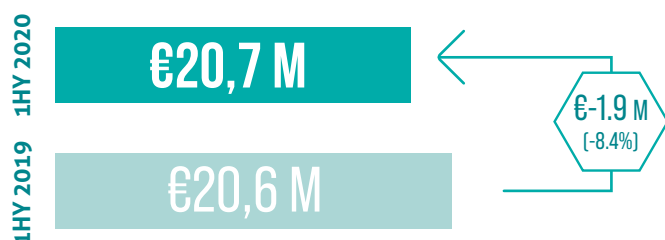


⁴ The categories of "Head of Department" and "Specialist" were created in 2019 and, therefore, there are no 2018 figures.

5. Turnover of employees per gender and average (%)



6. Staff expense (€M and %)



Sareb's contribution to the United Nations 2030 Agenda

The commitment of professional guarantee that Sareb offers its employees is a direct driving force of goal 8.5 of the United Nations 2030 Agenda, which seeks to **"achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value"**.



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

Social footprint

In this period Sareb expanded its pool of social housing to 10,000 units and launched a new plan for boosting collaboration with municipalities with housing problems.

Ongoing collaboration with Public Administrations to facilitate access to housing

Over and above the commitment assumed by Sareb for complying with its mandate of divestment, the company demonstrates its social vocation by responding to the housing needs of groups at risk of exclusion in different regions of Spain.

In the first half-year of 2020 the Board of Directors approved increasing the pool of social housing to 10,000 units. This is a commitment for continuing to provide access to housing by increasing the property pool created in 2013 with 2,000 assets and which was doubled to 4,000 in 2015.

This decision went hand-in-hand with a new plan that places the focus on reaching agreements with smaller-sized municipalities experiencing housing problems. With this strategy Sareb complements the intense activity of collaborating with regional governments and the larger local authorities as it has been doing since 2013.

In line with this plan, in the first half-year of 2020 the company has held conversations with nearly one hundred town councils and has executed agreements for the temporary assignment of properties for social use with the local governments of Torrent, Gandía, Sagunto, Calafell and Sant Feliu de Guíxols. A total of 133 properties were placed at their disposal.

At the end of June 2020, Sareb had entered into 12 agreements with autonomous regions and 17 with town councils. In numbers, this means the company had committed 2,419 properties to the administrations—from which over 9,500 people have benefited—, while 7,581 properties were still available for the same purposes.

Before the temporary assignment agreements expire, Sareb offers the Public Administrations the possibility of acquiring those properties so that they can become part of their pool of properties. In February 2020 the Basque Country became the first autonomous region to take part in this initiative through the purchase by the public rentals agency, Alokabide, of nine apartments that they were already using as beneficiaries. At the end of May, the Canary Island Government did the same, through the public entity Viviendas Sociales e Infraestructuras de Canarias (Visocan), purchasing 11 properties from Sareb.

In addition to these two regions is the Town Council of Badalona, which in 2019 became the first Administration to buy Sareb properties to include them in its social programmes.

Parallel to the initiatives of collaboration with public institutions, the company makes its own arrangements with families who are socially vulnerable.

Temporary assignment agreements, an avenue for the Public Administrations to acquire housing

Sareb's contribution to the United Nations 2030 Agenda

Sareb's assignment of real estate assets enables the company to respond to housing needs in Spain and demonstrates its voluntary commitment to targets 10.2 and 11.1 of the United Nations 2030 Agenda which aim to **"empower and promote the social, economic and political inclusion of all"** and **"ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums"**, respectively.



Social housing initiatives and their main results



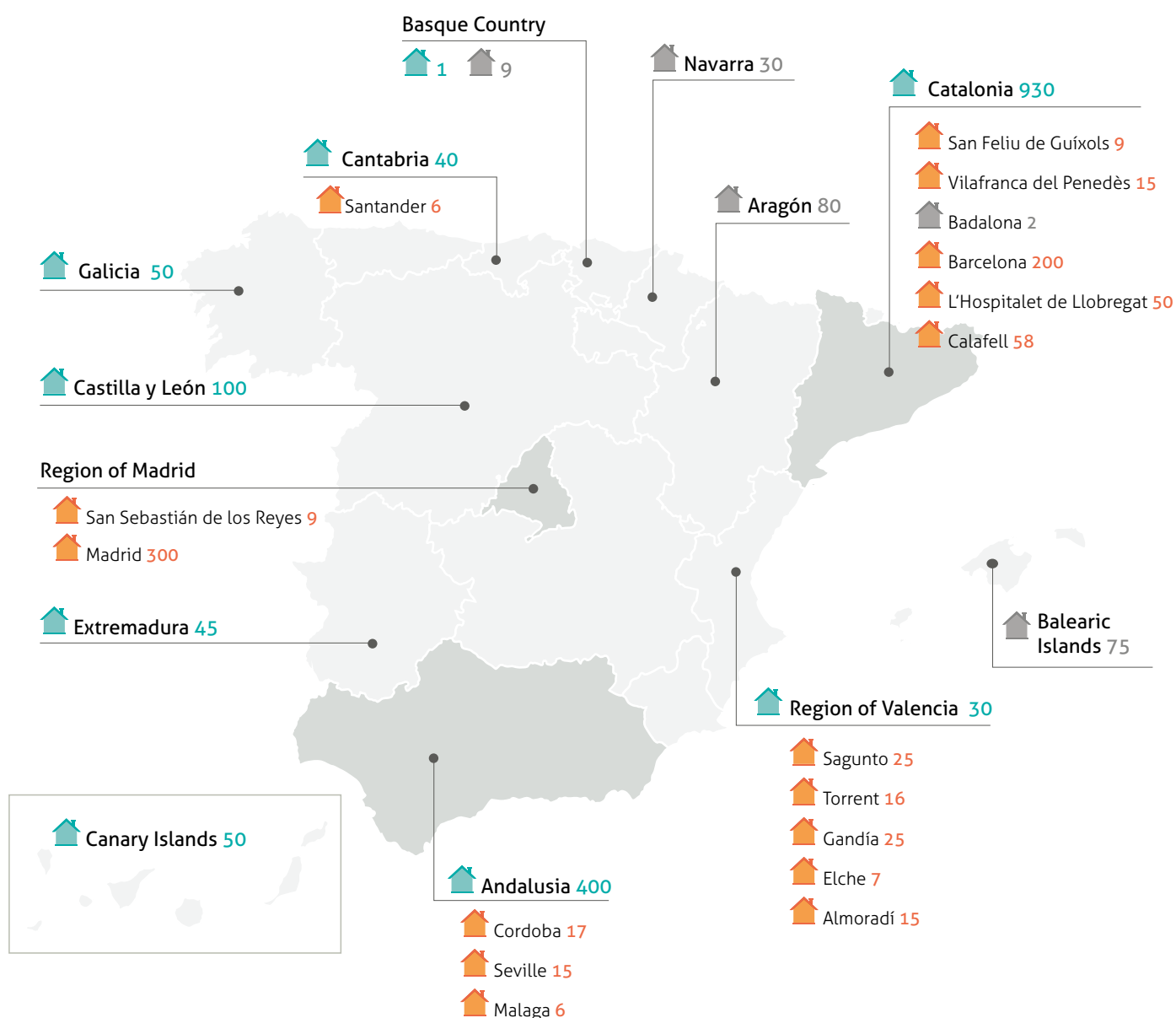
Picture: Housing development in A Coruña (Galicia).


⁵ Properties currently assigned. This does not include properties assigned under agreements already expired (Navarra (30), Aragón (80), Balearic Islands (75) and Badalona (2)). The agreement with the Government of the Basque Country is still in force, but nine of the ten properties included in the agreement have been sold, so only one is taken into account.


⁶ Estimate calculated for an average of four people per property.


⁷ Estimate calculated for an average of four people per property, taking into account a total of 465 applications approved since Sareb was created.

7. The historic map of social housing units assigned by Sareb



 Properties under agreements with Autonomous Regions still in force

 Properties under agreements with Town Councils still in force

 Properties under agreements already expired with Autonomous Regions or Town Councils

Illegally occupied properties

The phenomenon of illegally occupied properties is especially relevant in the stock of properties of the major real-estate holders, amongst which is Sareb

Since its creation, the company has a protocol for acting in the case of the illegal occupation of properties which aims, on the one hand, to take into consideration situations of vulnerability, and on the other, to fulfil its legal obligations as an owner by starting criminal proceedings to assure its liability toward third parties.

In this respect, the company collaborates with the social welfare departments of the Town Councils to evaluate whether a situation of vulnerability exists, and in this way to provide housing solutions for the occupants of the properties.

Sareb also coordinates closely with the police and security forces and the different authorities in order to put an end to problems of civil insecurity that might arise as a result of certain cases of occupations and, with this, to ensure the safety of other tenants and owners living lawfully in the neighbouring properties.

How Sareb acts when it finds that one of the properties in its portfolio has been illegally occupied, step-by-step

- A report is filed within 24/48 hours of detecting the occupation.
- A mediation process is started with the occupants of the property to assess their personal situation and evaluate whether a social rental contract can be signed in the same or in another property, if it meets the conditions for a property intended for this purpose, provided that a favourable report is obtained from the people in charge of the regional or local Social Services.
- Contact with the people in charge of Social Services and establishing whether a situation of vulnerability exists or not, after studying the documents received.

- If such a situation is considered to exist, the company would sign a social rental contract with the occupants or it would refer the case to the Council or Regional Authority if Sareb has an agreement for social rental contract with either of them.
- If it is decided that there is no case of vulnerability, Sareb would continue with the legal process for recovering possession. If this concludes with the eviction of the occupant, the company would regain possession of the property.

The implications of the illegal occupation of Sareb properties for its mandate to divest

In 2012 Sareb received the mandate from the European economic authorities to divest its entire asset portfolio in 15 years, both properties and loans. The illegal occupation of properties means that the company has to bear a number of expenses (legal, processing...) to recover possession of those properties.



Creation of jobs 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 quarter of 2020, in collaboration with the Integra Foundation, Sareb began implementing the third edition of the programme 'Building future: jobs with social value'. This programme makes available to people in a vulnerable situation who have a social rental contract in place with Sareb the social and employment tools that they need for being able to enter the employment market through sessions of technical and motivational training.

Due to the situation resulting from Covid-19 and the State of Emergency in Spain, the workshops planned for March and June were postponed.

'Sareb Ambassadors': transparency and raising awareness in the classrooms

This initiative was conceived with the aim of making younger people more aware of how the company operates and its *raison d'être*, its values and the commitments undertaken by Sareb for contributing to the growth of the financial and real estate assets sector in Spain.

To do so, the company has a group of employees who voluntarily give these talks in different education centres around Spain. These activities were also affected by Covid-19 and will be resumed as soon as possible.

'Building future: jobs with social value', in figures

30 PARTICIPANTS
in a situation of vulnerability will receive advice in this third edition

46 SAREB VOLUNTEERS
for holding workshops



Sareb's contribution to the United Nations 2030 Agenda

The training workshops given by Sareb volunteers at the Strengthening Schools and the programme 'Sareb Ambassadors' respond to target 4.4 of the United Nations 2030 Agenda, which aims to **"Substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship"**.

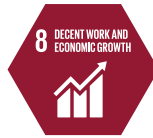
Figures for 'Sareb Ambassadors' in the last academic year

43 TALKS given by
30 WORKERS from Sareb

32 EDUCATION CENTRES
1,728 STUDENTS participated in the sessions



Picture: Signing the agreement for the temporary assignment of properties between Sareb and the Town Council of Sagunto (Region of Valencia) in the first quarter of 2020.



Sareb's contribution to the United Nations 2030 Agenda

Through the job creation programme "Building future: jobs with social value", the company aims to contribute to target 8.3 of the United Nations 2030 Agenda which seeks to **"Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services"**.



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 target 17.17 of the United Nations 2030 Agenda: **"Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships"**.



Picture: Interior of an Arqura Homes apartment in the centre of A Coruña (Galicia).



3 Our business in the first half year of 2020

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Evolution of the Business Plan

Every year Sareb reviews the targets and performance of its Business Plan

Sareb updates its Business Plan every year, with specific projections up to the end of its life, set for 2027. As time passes, Sareb gains a more fine-grained knowledge of its assets, and with this it can at the same time improve the financial projections made. In the first quarter of 2020, Sareb's Board of Directors approved the latest updating of the Business Plan which showed the use of shareholders' equity and subordinated debt over the course of the first half-year of 2021. In addition, the Plan included long-term financial projections in which, in some scenarios, it showed the impossibility of amortising the entire debt guaranteed.

The Business Plan approved in March, which revolves around the need to preserve the economic value of the asset portfolio, considers a slight slowdown in the real-estate business, both in terms of volume and price. These assumptions also take into account the importance of adapting the volumes of divestment in each of the different Sareb channels to actual market conditions.

These perspectives have inevitably been altered by the impacts associated to the Covid-19 crisis, which has set aside the forecasts made on the evolution of the real estate assets market in Spain, drawn up by Sareb for updating its Business Plan.

However, the essence of the Plan is maintained in spite of the circumstances, with the creation of value in assets being the basic principle and with the streamlining of expenditure as a target to be attained in the short term.

Fulfilment of the Business Plan in the first half year of 2020

In the framework of the health crisis we are living through, in March the company analysed the possible repercussions of the situation on the market for its main products: housing, land, commercial assets and NPL⁸. While those analyses were made in a context of uncertainty, the forecast was in very much in line with the events of the following months.

In accordance with the new market circumstances, the company has decided to not enter into any sales that it thinks could be carried out in better conditions in future years. In that context, Sareb has focussed on boosting the sale of residential properties, while reducing the sales pressure on the types of assets most affected by the circumstances, such as the NPL, land and commercial properties.

Regarding properties, during the period covered by the State of Alert, the conditions for the sale of this type of assets changed drastically, with a sharp fall in the number of units under transaction during the months of March, April and part of May, and the consequent effect on the achievement of the targets established in the Business Plan. Regarding property development and promotion, this segment has been affected to a lesser extent due to being classified among the essential activities during the period in which work was brought to a standstill, although development work did undergo certain delays due to the impact of the closure of other sectors.

As for the management and sale of loans, the company has continued applying its experience in anticipating the needs of each strategy, in line with the previous years. With this, in a context marked by the slowing of court procedures during the months of confinement, Sareb has assessed the advisability of placing a greater accent on datations in payment in order to offset this situation.

In the first six months of the year the company's income amounted to €540.6M, entailing budgetary compliance of 42%. Net margin stood at €144M. It should be mentioned here that while the annual budget provided for losses in the business line of financial assets, the lack of operations has had a positive effect on the overall performance of the margin.

Looking at the revenue in June –the first complete month after lifting the State of Emergency–, there is an improvement on May (€104M compared to €89M). The figures for that month therefore are at similar levels to those for January 2020 due to greater activity in the real-estate market, for both residential properties, and land and commercial assets.

⁸ NPL, non-performing-loans.

The composition of the income shows more relevance in the real estate assets line of business, with a figure of €283.4M and budgetary compliance of 49%. In the case of financial assets, income was €253.4M, 35% of the expected budget. In terms of net margin, however, financial assets have far exceeded the expectations for the reasons mentioned above, with €94M, as opposed to the €39M budgeted. On the other side of the coin are the real-estate assets, in which the net margin was lower, standing at €8M, compared to the €36M originally budgeted.

Conversion activity has also suffered the effects of Covid-19 and accounted for 46% of the budget between January and June, although the company expects to be able to come close to the original budget in the second half of the year, unless the conditions of the health crisis worsen drastically.

Lastly, the operating expenses stood at 74% of the budget due to less expenditure incurred in the portfolio conversion process, in refurbishment and in other items under the Efficiency Plan.



Picture: View of a Sareb residential building used for rentals in Pomaluengo (Cantabria).

Keys to the 2020-2027 Business Plan

The 2020-2027 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, maintaining the value of its assets and containing expenditure.



Reduction in volume of the portfolio

Search for alternatives and new management models 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 assets business. This strategy aims to maximise the value achieved with the sale of assets, in order to avoid the discounts demanded in transactions involving loans with institutional investors.
- Meanwhile, the first half-year of 2020 has been key in the implantation of the new model of relationships between Sareb and its *servicers* – Esparta Project–, which seeks to improve efficiency in the management of the Sareb portfolio and in the remuneration of the *servicers* and suppliers. This management approach is based on three basic premises: the flexibility and autonomy provided by the company's control of information; the need for the different activities within the chain of value to be carried out by providers specialising in those services– with individual contracts and incentives adapted to each activity–; and proximity to the geographical area and the assets. In this context, the geographical branch offices –set up by Sareb 2019 and at the beginning of 2020– are resulting in better knowledge of the portfolio and greater control over the activities in each geographical area.



Intensification of the conversion of the balance sheet

Acceleration of the process of converting loans into property in order to safeguard the value of the portfolio

In line with the maximisation of the recovery value of assets, the company has opted to avoid the divestment of NPL in the form of financial assets.

This decision enables Sareb to optimise the value of the assets and to obtain better margins later through the sale of properties appearing as collateral for the loans.



Investment and specialised management for the creation of value

Streamlining 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 Arqura Homes, a specialist vehicle in the field of residential property development intended to add value to the land and work under construction transferred by Sareb.
- Property developed directly by Sareb on some of its own land, completion of work in progress and investment in residential development on specific plots of land.



Efficiency and streamlining of costs

An effort oriented toward efficiency and streamlining of the costs structure

- In the first half-year of 2020 the company approved an Efficiency Plan to optimise its operating expenditure.



An effort oriented toward efficiency and streamlining of expenditure

The company's total expenditure (excluding finance costs) has decreased by 25% in the first half-year compared to the same period of 2019, mainly due to the reduced activity, although also due to the introduction of the first measures developed under the Efficiency Plan.

The new company strategy groups expenses together in four major items –business expenses, transformation expenses, portfolio management expenses and company expenses– with a common objective: to save on costs and increase efficiency in order to meet the terms established in the Business Plan and execute the mandate of divestment in the best possible way.

Portfolio management expenses

This comprises the items associated with the management and maintenance of assets.

Company expense

Arising from the day-to-day operations of Sareb as a company, for example, those related to wages and salaries, the premises where Sareb carries out its work, etc.

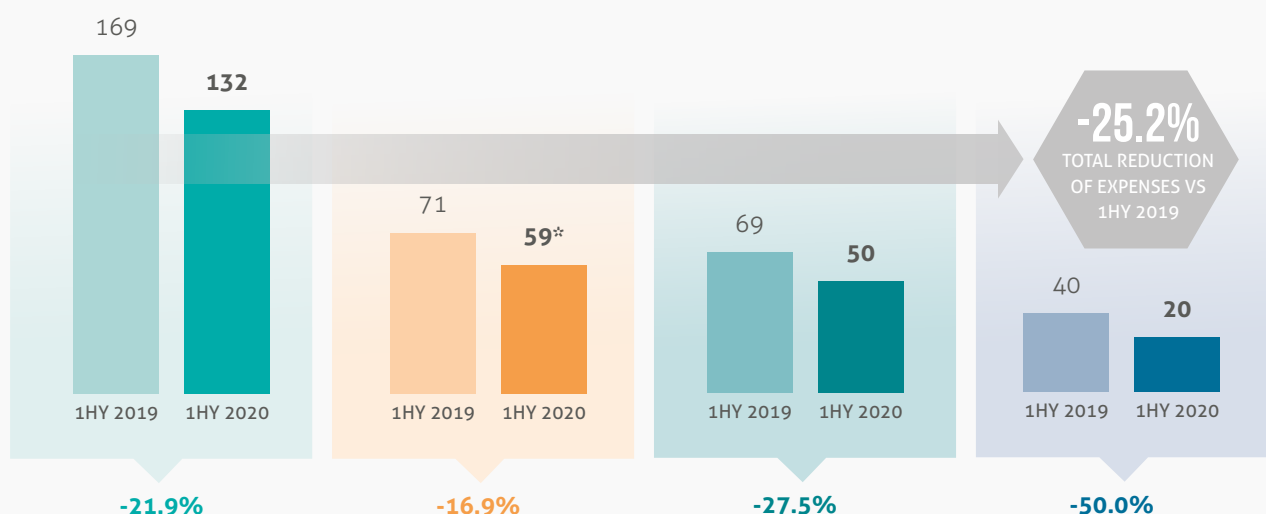
Conversion expense

This includes the expenses arising from the process of converting loans into property, for example Value Added Tax (VAT) that cannot be deducted from donations in payment and foreclosures.

Business expense

This includes the expenses for marketing the assets and paying the Tax on the Increased Value of Land (IIVTNU).

8. Breakdown of expenses per type (in €M and % of reduction compared to the 1HY 2019)



* Staff expenses are included in this item and amount to €20.7M in the first half-year of 2020, 8.4% less than in the same period last year.



Efficiency Plan

The Efficiency Plan put into effect by Sareb in 2020 is intended to streamline the company's expenditure through three channels which will be undertaken in different stages:

- The reorganisation of activities to ensure that Sareb places the focus on its activity as manager of loans and real estate assets, eliminates any duplication with the *servicers* and other suppliers and optimises the cost associated to the maintenance and management of its assets.
- The evolution of the Esparta Project and the company's main processes for generating synergies.
- The introduction of action policies segmented according to type of asset in order to streamline the costs arising from their management and conversion.

Forecasts for saving in 2020

The impact in terms of saving in 2020 as a result of implementing the first of the measures listed above is estimated at over €45 M and more than €70 M on an annualised basis.

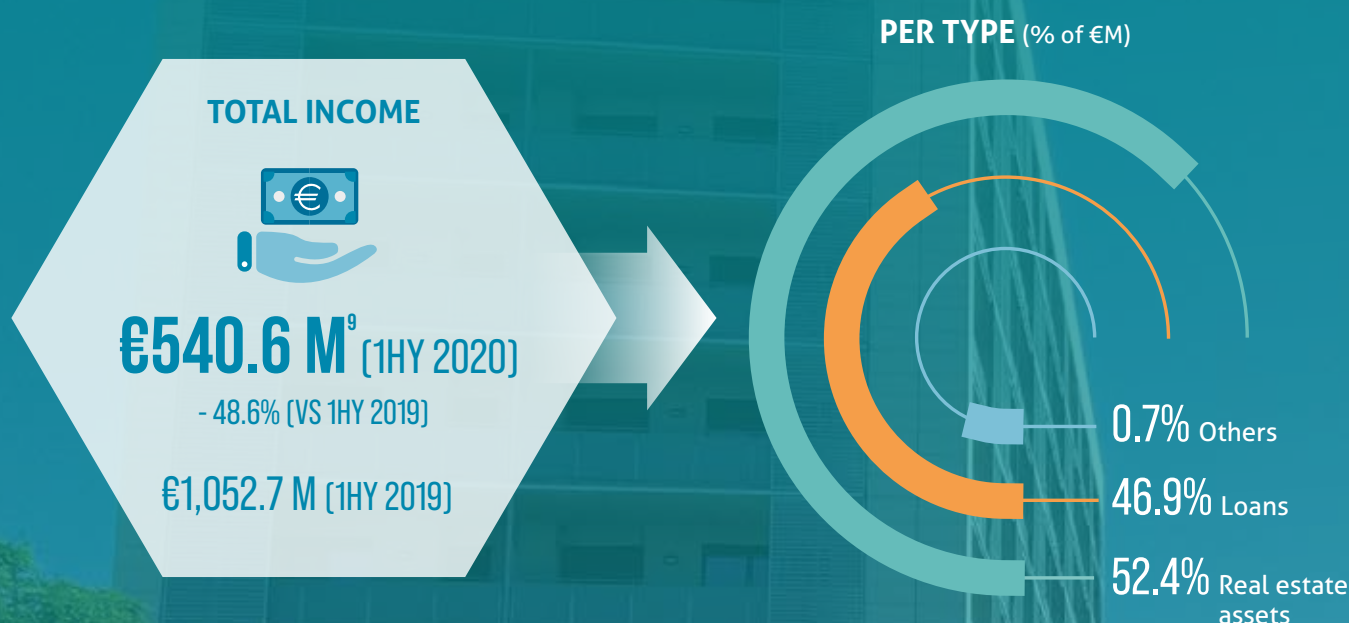
These forecasts were made on the total expenditure budget drawn up at the beginning of 2020, without taking into account the consequences arising from the Covid-19 pandemic.



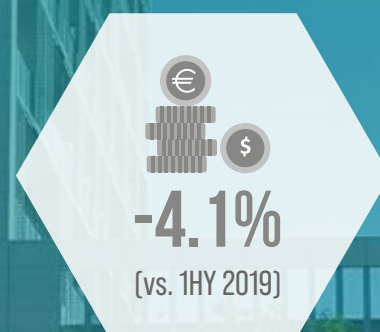
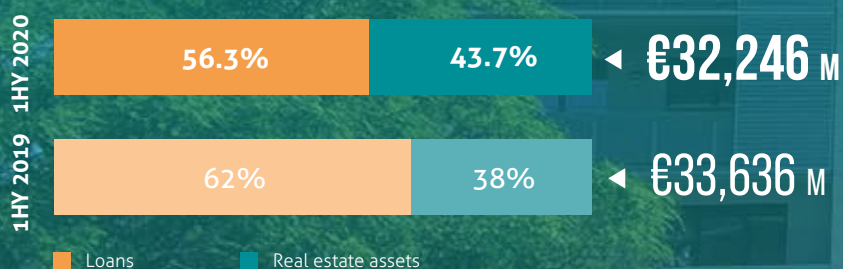
Picture: Interior of an Arqura Homes property under construction in Burgos (Castilla y León).

Main figures for the half-year period

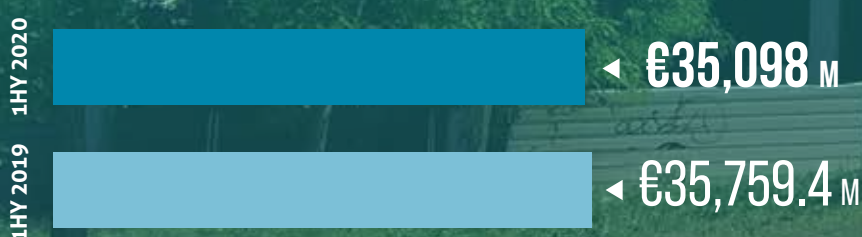
Advances for the fulfilment of our mandate



PORTFOLIO OF ASSETS



BALANCE OF OUTSTANDING DEBT



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

⁹ This figure includes the income from loans, properties and other income (€3.8M in the first half-year of 2020)

REAL ESTATE ASSETS

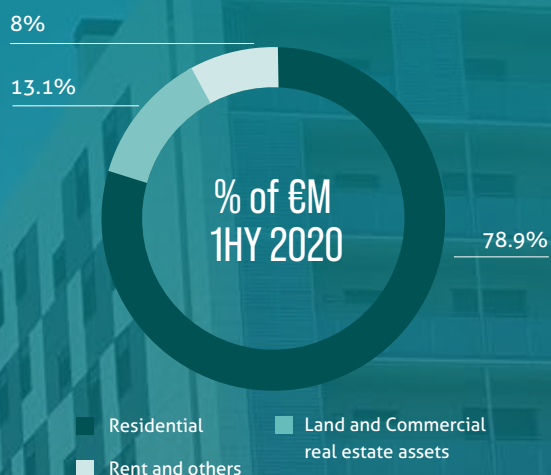
Income from real estate assets



€283.4 M (1HY 2020)

-44.7% VS. 1HY 2019)

€512.7 M (1HY 2019)



Properties sold (units)

1HY 2020 **3,533**

1HY 2019 9,063

1HY 2018 10,618

1HY 2017 9,744



Own sales
3,122
units

Sales agreements
with developers
411 units

LOANS

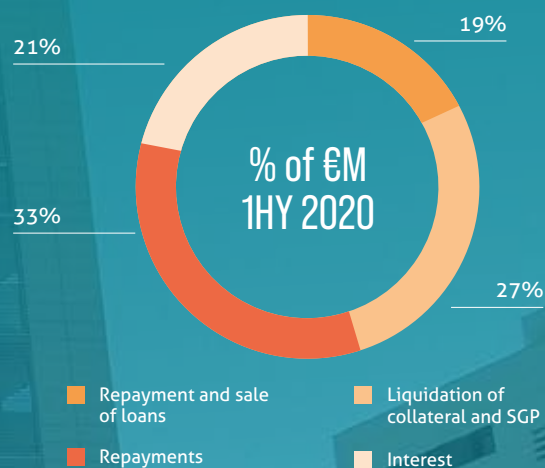
Income from loans



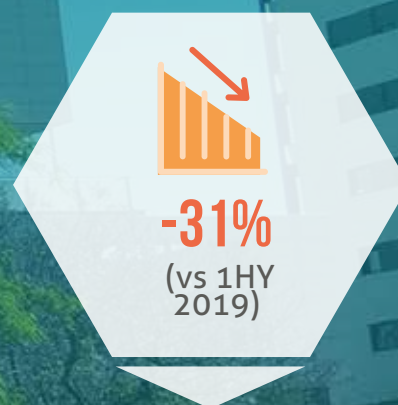
€253.4 M (1HY 2020)

- 53.1% (VS 1HY 2019)

€593.3 M (1HY 2019)



Conversion of the balance sheet



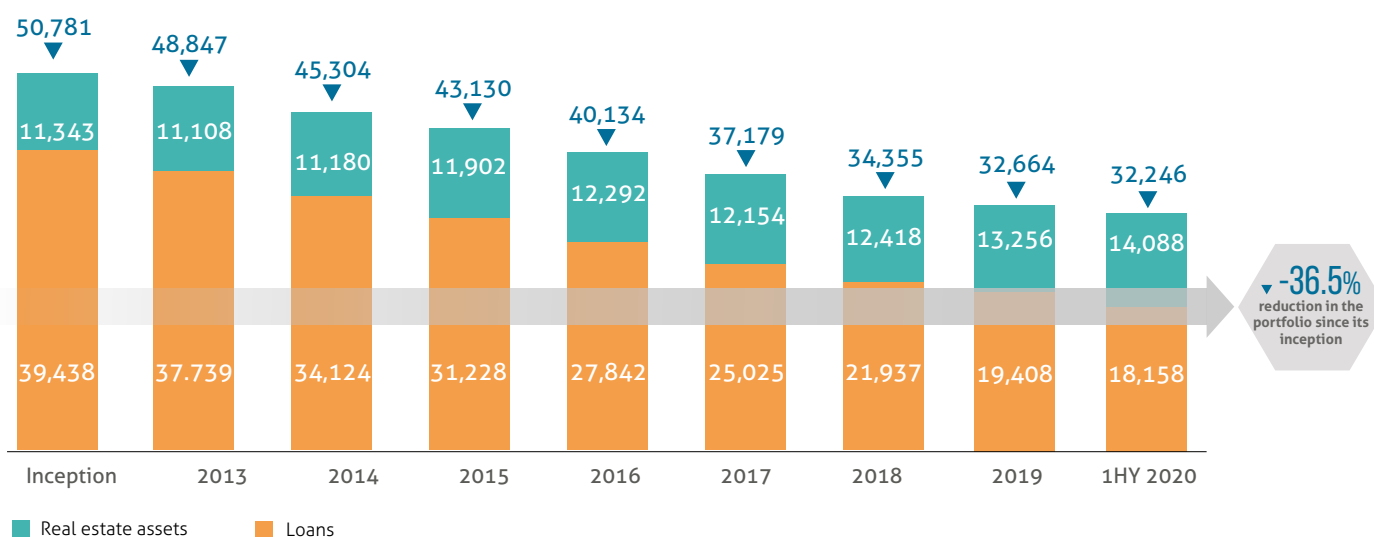
Sareb loans and real estate assets portfolio

Sareb's asset portfolio has decreased by 36.5% since its inception

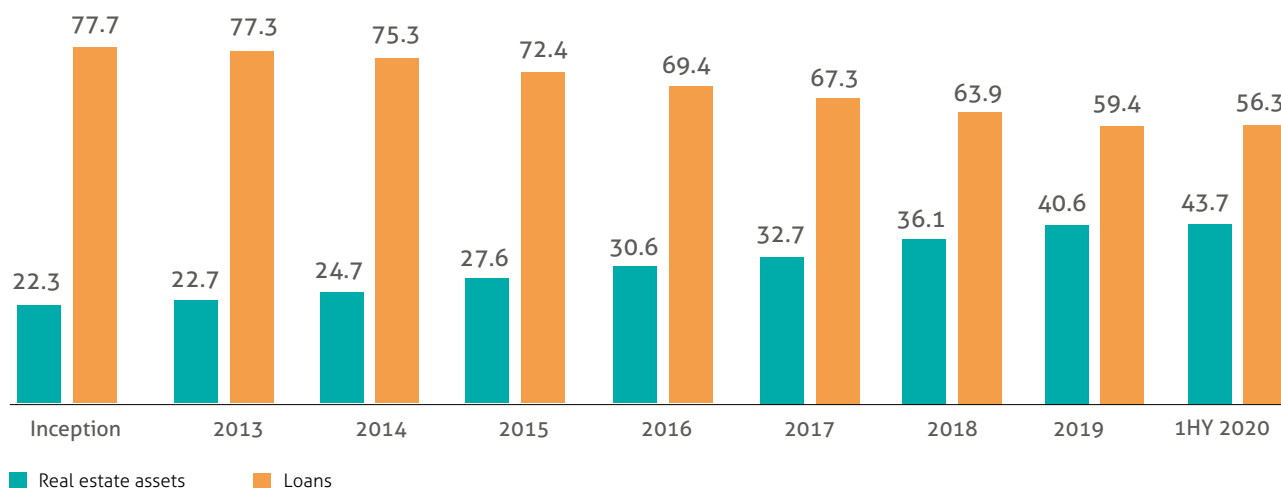
Sareb has continued advancing in the process of divesting its portfolio of assets, which in the first half year of 2020 went down by €418M now standing at €32,246M. Compared to the original starting portfolio of €50,781M, this figure represents a decrease of 36.5%.

Taking into account the item of real estate assets properties on the balance sheet –which at the end of the first half-year period of 2020 represented €14,088M – this figure has gone up compared to 2019 as a result of converting loans into property.

9. Evolution of the portfolio (€M) ¹⁰

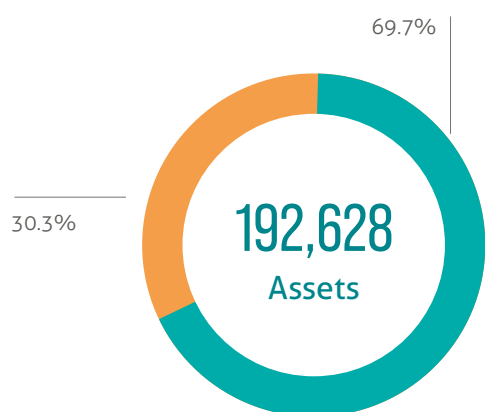


10. Composition of the portfolio (% of €M)



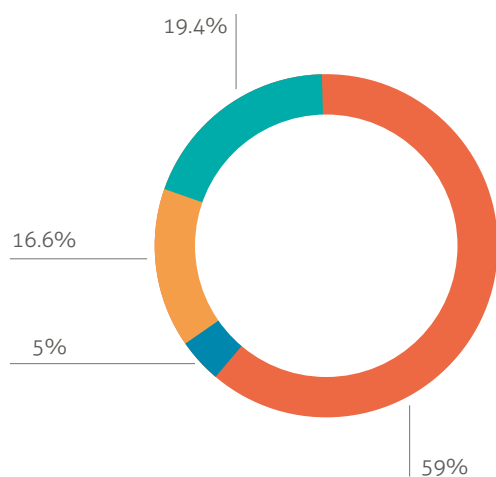
¹⁰ Not taking into account amortisation/depreciation or impairment.

11. Composition of the portfolio (% of number of assets)



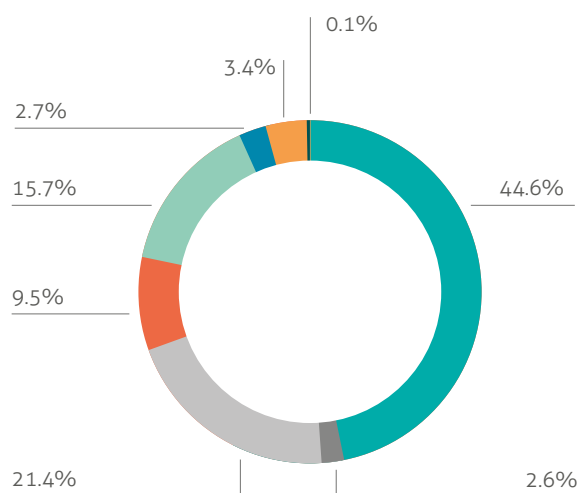
Loans
Real estate assets

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



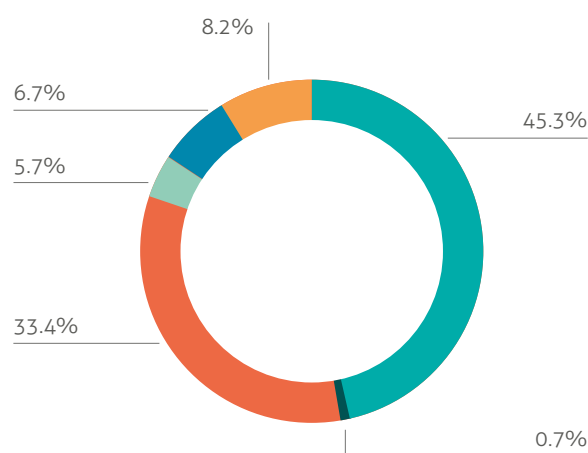
Loans
Residential
Commercial real estate assets
Land

12. Breakdown of real estate assets per type (% of €M - NBV¹¹)



Homes
Ancillary
Land under development
Commercial real estate assets
Serviced development land
Others
Industrial
Greenbelt land

14. Breakdown of financial assets per type of guarantee (% of €M - NBV¹¹)

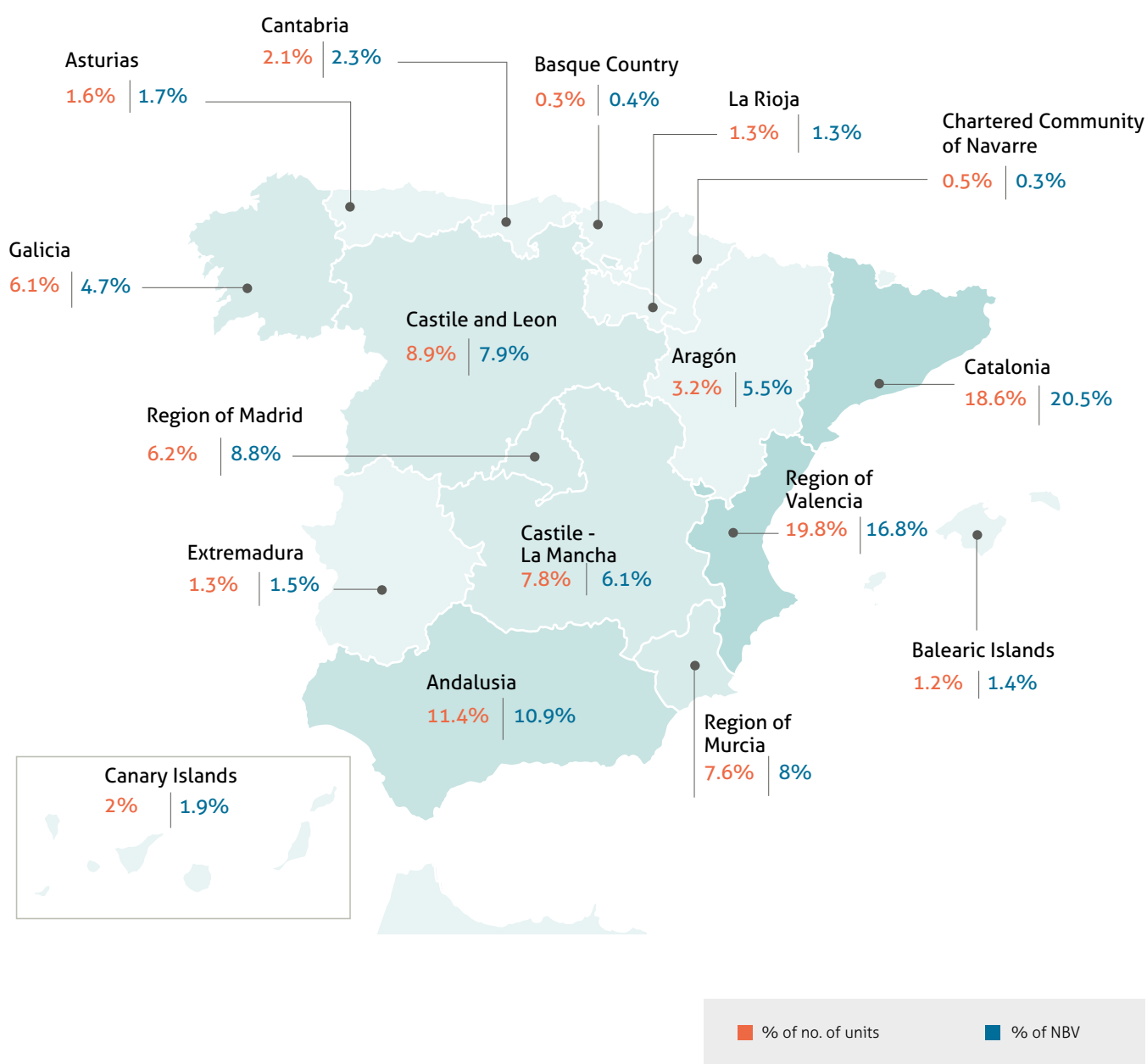


Residential
Land
Works in progress
Mixed guarantee
Unsecured
Commercial

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

15. Geographical breakdown of the real estate assets portfolio¹²

(% of units¹³ and NBV¹⁴)

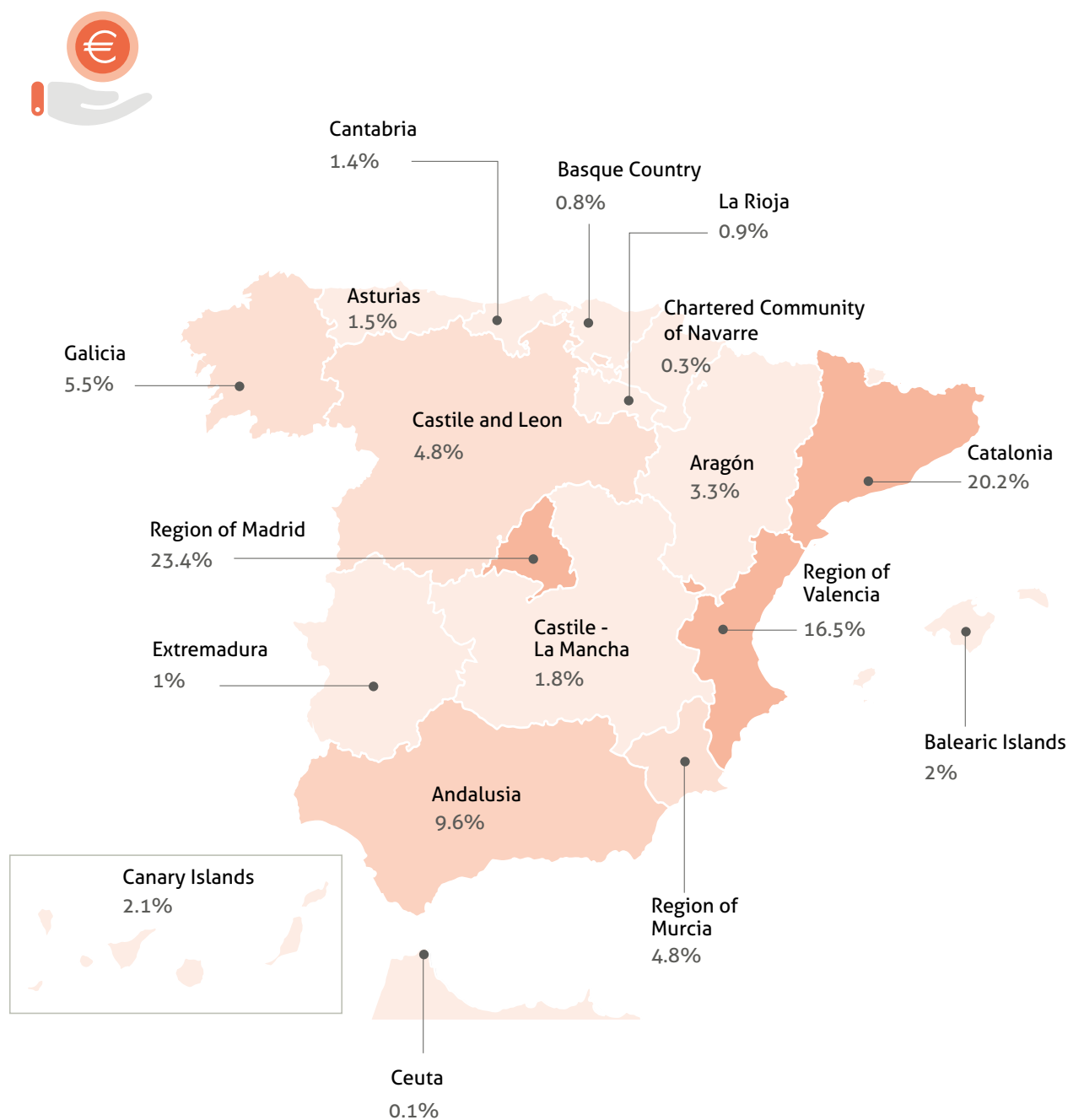


¹² Does not include works in progress.

¹³ Not reported: 0.08% of units and 0.02% of NBV.

¹⁴ Net Book Value. Not taking into account amortisation/depreciation or impairment.

16. Geographical breakdown of loan portfolio¹⁵ (% of €M based on NBV¹⁶)



¹⁵ 0.02% of loans are not assigned to a specific autonomous region.

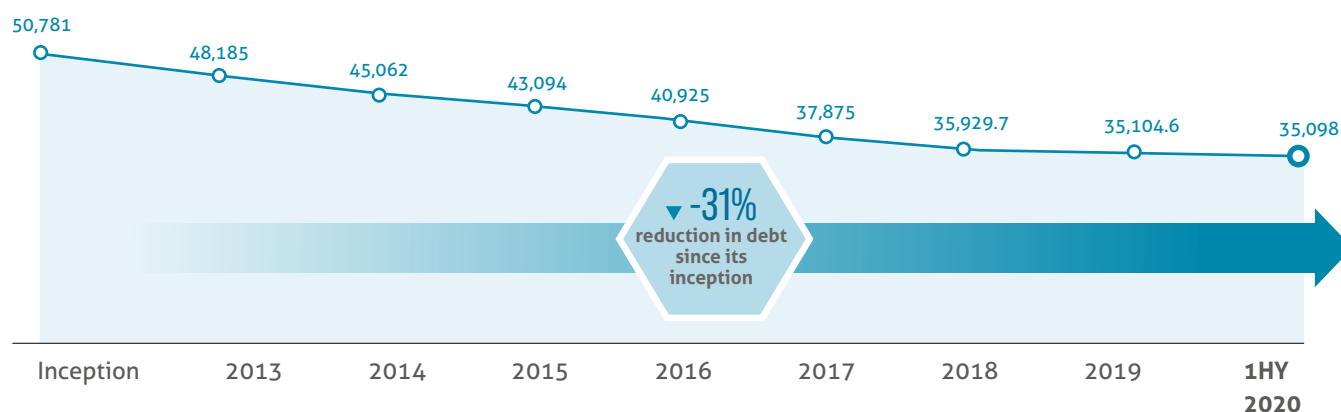
¹⁶ Net Book Value. Not taking into account amortisation/depreciation or impairment.

Repayment of Senior Debt

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. Since its creation, Sareb has reduced the amount of senior debt by €15,683M, 31% of the total.

A total of €15,683M of debt repaid since its inception

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



In February 2020 the company repaid a total of €293.3M from the cash generated last year, charged against 2019 while at the same time cancelling €10.7m –also charged against 2019– as a proportional part of the escrow account corresponding to previous years. Furthermore, in January 2020 Group 1 Bonds¹⁷ were remedied for a total of €6.6M.

Interest paid, associated to Sareb's debt since its inception, stood at €5,641.9M, of which €2,784.9M went to the banks which received public aid and assigned their assets to Sareb.

Reduction of debt in 2020

January

€6.6 M

Charged against 2020 following the rectification of an assets agreement¹⁸.

February

€293.3 M

Charged against 2019 from the cash generated that year, although repaid in February 2020¹⁹.

€10.7 M²⁰

Charged against 2019 as the proportional part of the escrow account corresponding to previous years, although repaid in February 2020.

¹⁷ Group 1: BFA-Bankia, Catalunya Banc, NCG Banco-Banco Gallego and Banco de Valencia.

¹⁸ Remedy with CaixaBank on 14 January 2020.

¹⁹ Corresponding to Group 2 bonds: Liberbank, BMN, CEISS and Caja 3.

²⁰ This amount corresponds to the proportional part of the repayment of €169M from the escrow account corresponding to 2018, repaid in 2020 and charged against 2019

Management and sale of properties

The income associated to the management and sale of properties accounted for 52.4% of the volume of business in the first half-year period of 2020

The Spanish real estate assets market has been affected in the first six-month period by the Covid-19 health crisis and by the inactivity during the State of Alert, in addition to which is the uncertainty regarding the future of the sector in the months to come. This situation has resulted in the company making adjustments in its strategy for the management and sale of properties and has had significant effects on this line of business, for which revenue dropped by 44.7%, to € 283.4M.

Property sales

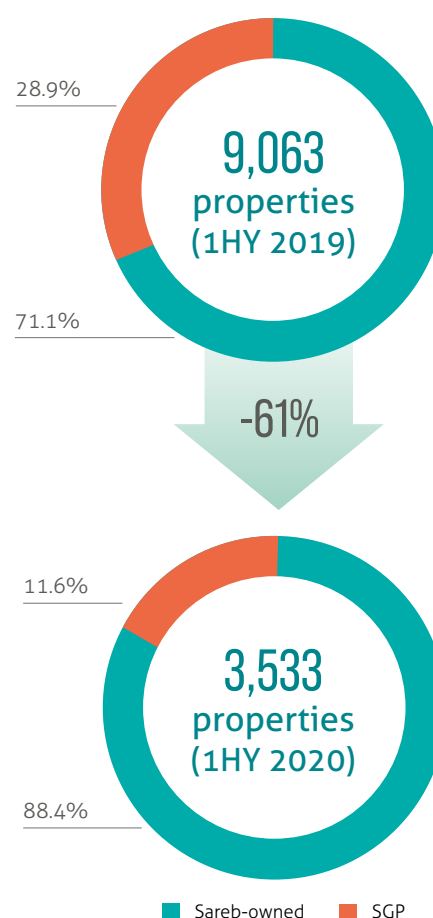
Between January and June 2020, Sareb sold 3,533 properties, 61% less than in the first half-year period of 2019. Of these, 3,122 were own properties, which represents a 52% decrease on the same period in 2019, basically due to the slowdown in activity in March, April and May, while 411, 82.4% less in one year, 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.

The present and future growth of the Sareb property portfolio as a result of the conversion process means that the real-estate line of the business takes on even greater importance. Conversion is, therefore, a tool for transferring value between two types of assets held by Sareb and is intended to increase revenue and margins.

In terms of declared price, income from sales of its own properties reached €223.7 M in this half-year period, as opposed to the 492.6 M for the same period last year.

In overall volume of units, and without differentiating between asset types, the autonomous regions where most property sales took place in the first half-year of 2020 were the Region of Valencia, Galicia, Catalonia and Andalusia.

18. Sale of real estate assets (% of the total units sold)



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





Residential

In the first half-year of 2020 Sareb sold a total of 3,228 residential properties, 61% less than in the same period in 2019, largely due to activity coming to a standstill during the confinement. Sales of its own properties of this type accounted for 89.2% of the total, compared to 71.9% at the end of June of the previous year, in line with the company's business strategy.

Since May, business has gradually been resumed, with viewing and reservations taking place, leading to the first homes being purchased. The normalisation of the situation has gained strength since July, although it must be taken into account that the economic and employment

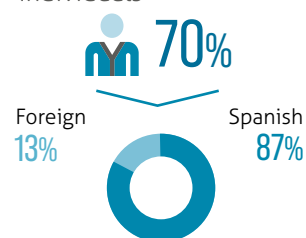
circumstances of the country have led to a drop in people's purchasing power.

In terms of declared price, sales of Sareb-owned residential real estate assets went down by 50.8% compared to the same six months of the previous year, to €188 M.

In units, the highest volume for Sareb-owned residential real estate asset sales was concentrated in the Region of Valencia, Galicia and Catalonia, which account for 48.6% of the total Sareb-owned properties of this type.

Profile of the buyer of an own residential property (1HY 2020)

Individuals



Companies



Land

Land sales stood at a total of 147 units during this half-year period, of which 111 are Sareb-owned assets, 71.9% less than in the same period of 2019.

In terms of declared price, the volume of income obtained from marketing its own land went down to €20.1M, from €60M of the previous year, in line with the company's decision to contain sales in this segment, greatly affected by Covid-19.

The regions where the highest number of plots were sold were Region of Valencia, Region of Murcia, Catalonia and Castilla y León. The sale of a plot of land in Vinaroz (Castellón) for €3.8M is worthy of mention.



Commercial real estate assets

Between January and June of 2020, Sareb sold 158 commercial assets, which is a 41.7% drop compared to the same period of the previous year. Of the total of properties sold, 84.2% relates to Sareb-owned assets.

The declared value of its own commercial assets sold amounted to €15.7 M, 68.9% less than the first six months of 2019, due to concentrating on selling assets such as industrial warehouses and commercial premises.

As this type of property is attractive, from a leasing aspect, Sareb opted to implement a strategy oriented towards this use which would make it possible to improve the return on this type of assets and optimise their sale in the medium term.

In terms of volume of sales of its own commercial properties per geographical area, the Canary Islands, Region of Valencia, Galicia and Castilla y León accounted for the highest number of units, with 82 assets of this type. In this segment it is worth mentioning the sale of a shopping centre in Granadilla de Abona (Tenerife) and an aparthotel in Manacor (Mallorca), which jointly totalled € 6.8M.

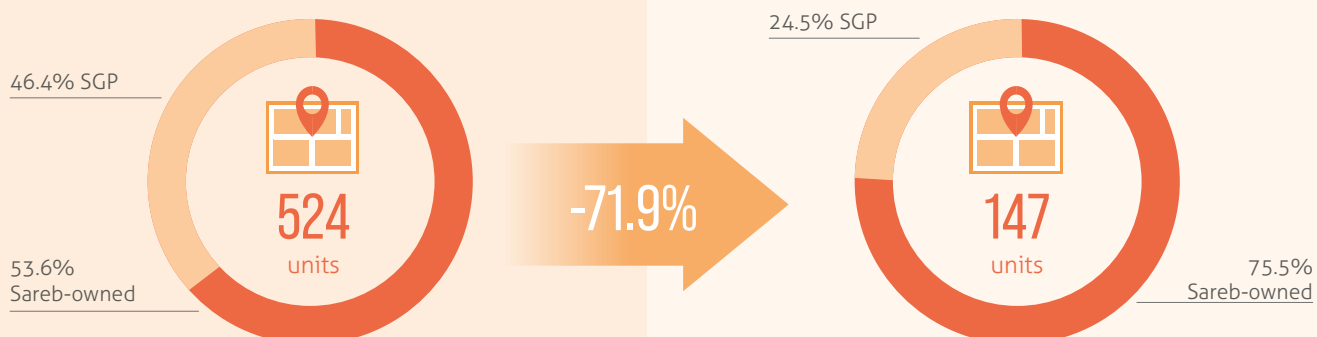
1HY 2019

1HY 2020

20. Sales of residential real estate assets (% of units)

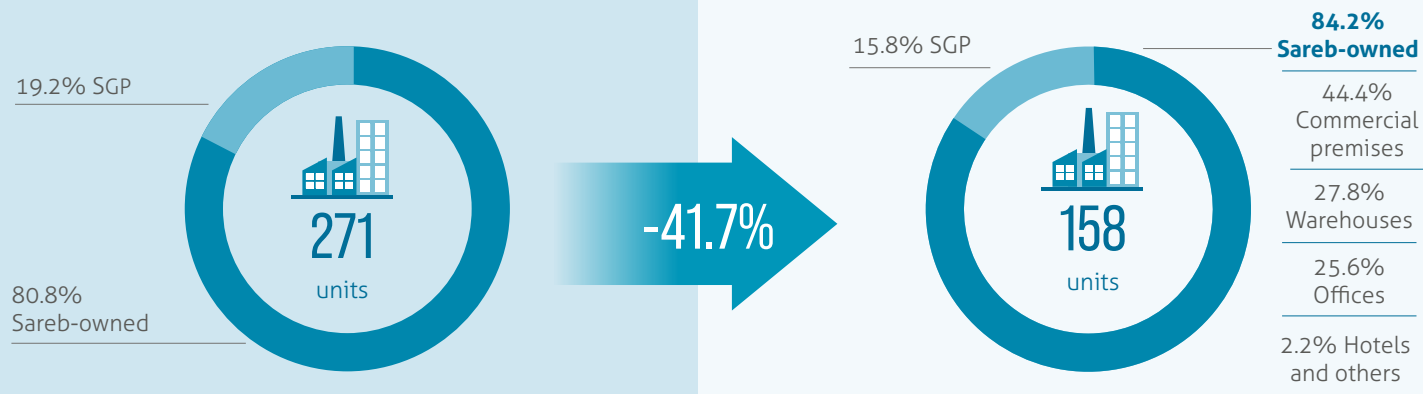
1HY 2019

1HY 2020

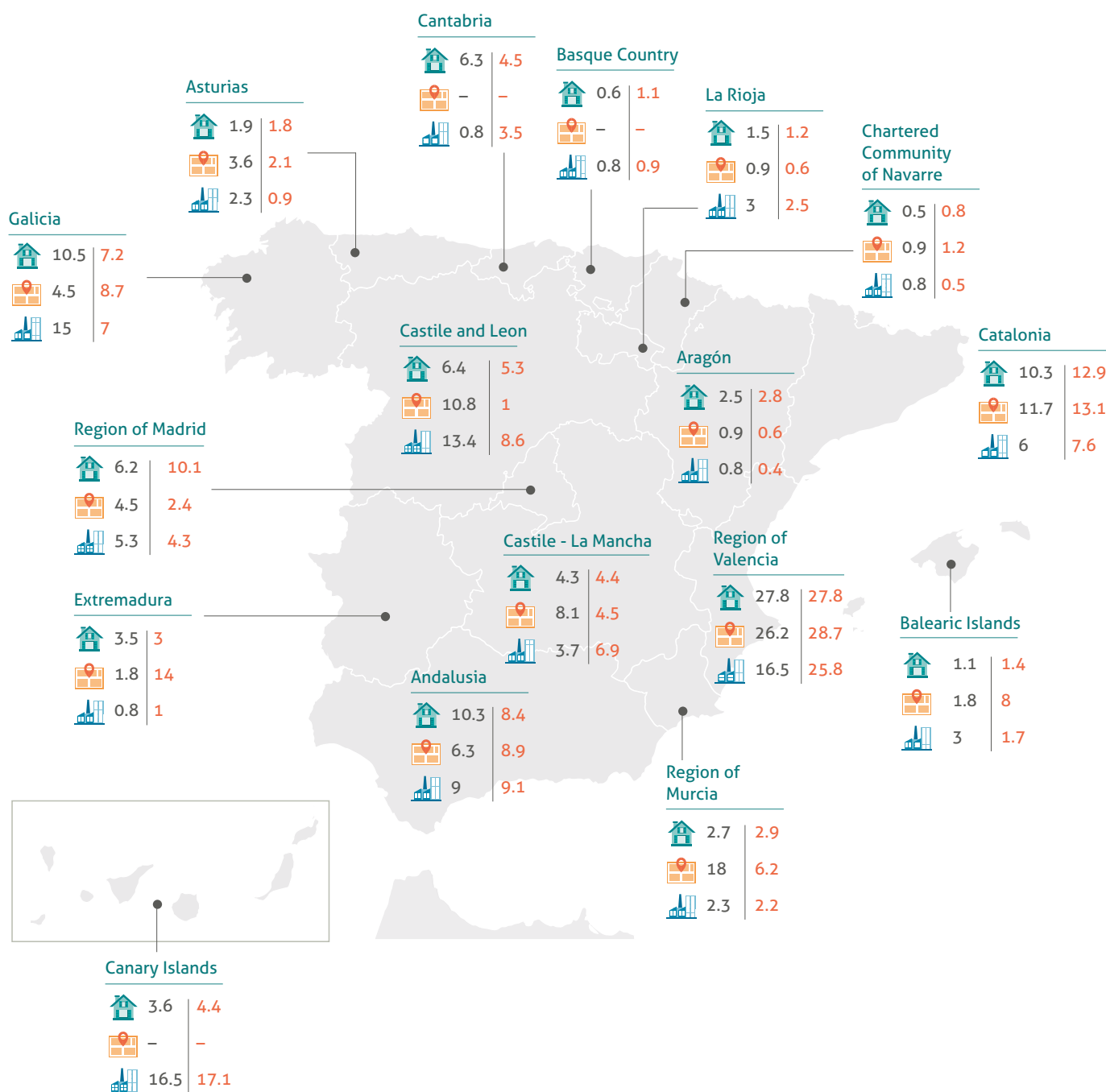
21. Land sales (% of units)

1HY 2019

1HY 2020

22. Sales of commercial real estate assets (% of units)

23. Geographical breakdown of sales of Sareb-owned real estate assets ²¹



Residential



Land

Commercial
real estate assets

% of units sold

% of volume of declared price

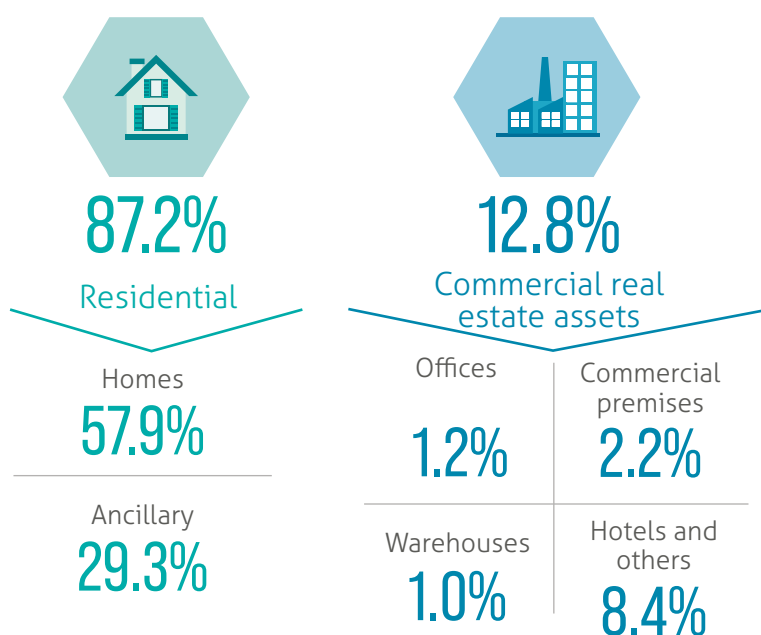
²¹ Includes works in progress.

Rentals

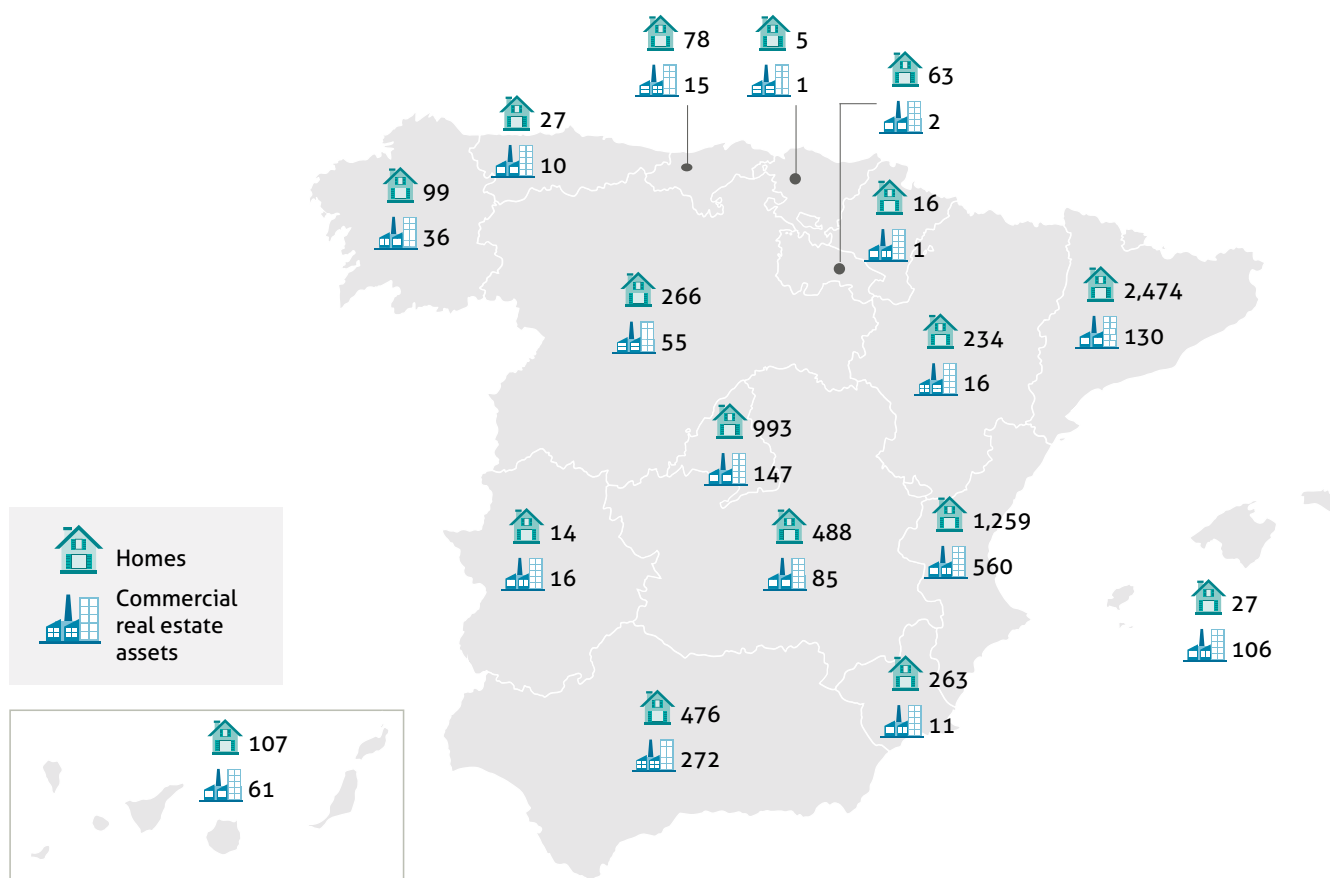
The rental business enables Sareb to optimise the value of the properties making up its real estate assets portfolio, at the same time as providing income that helps to cover the maintenance expenses.

At the end of the first half-year period of 2020, Sareb's rental portfolio amounted to 11,889 properties²², of which 87.2% are residential assets and 12.8% are commercial assets.

24. Portfolio of real estate assets for rental per type of asset (% of the total of units)



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



²² The figure does not include the assets transferred by Sareb to the REIT Tempore Properties or the properties assigned through agreements with Autonomous Regions and Town Councils.

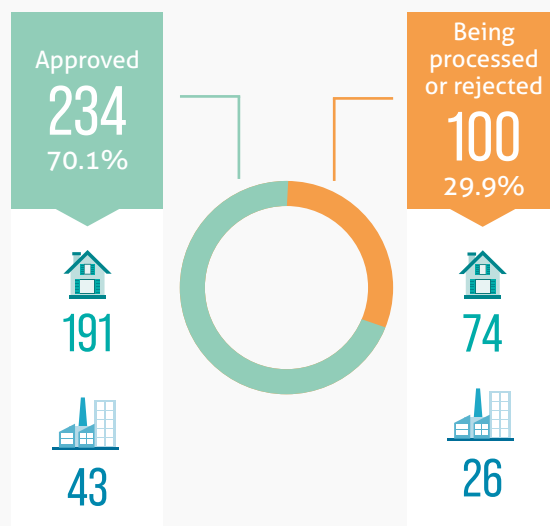
RENT

Impact of Covid-19 on rental activity

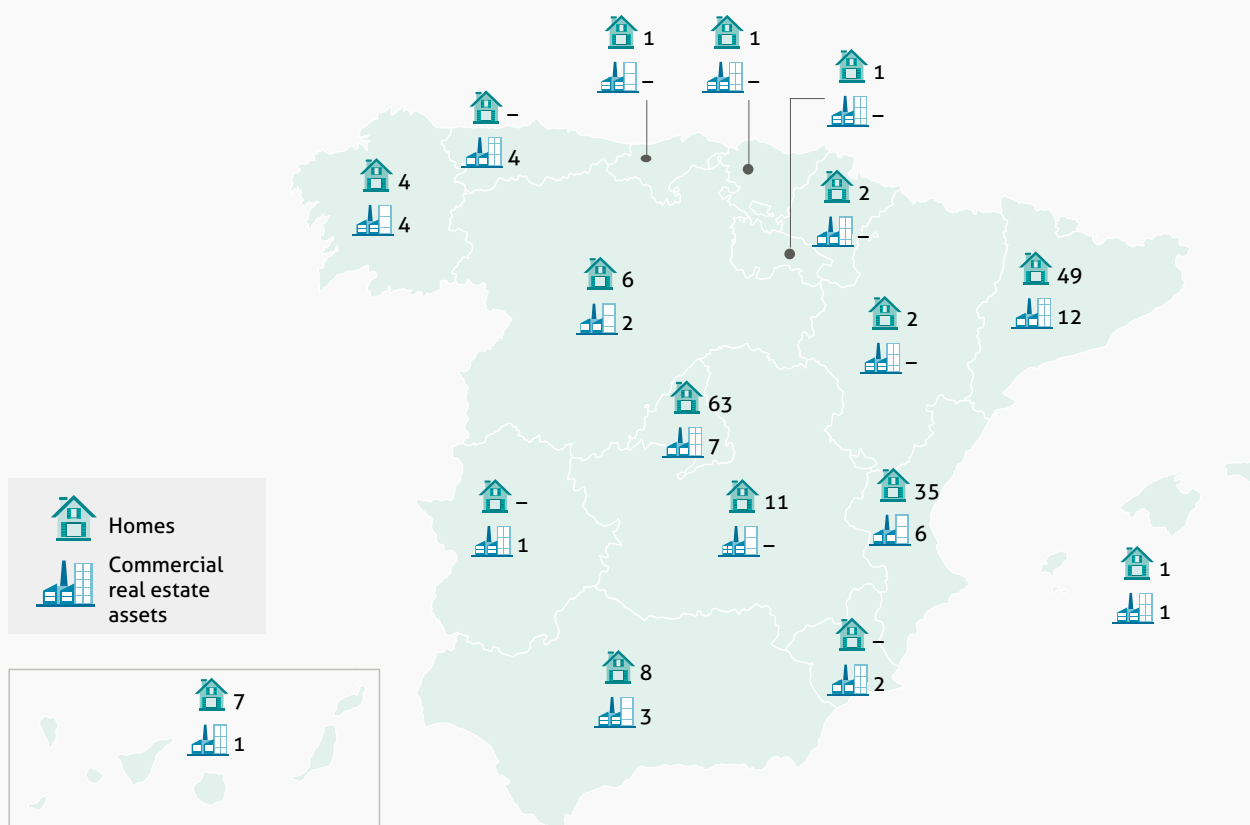
As a result of Covid-19 and in line with the measures approved for protecting tenants, Sareb has granted moratoriums on rent payment in 191 residential properties and 43 commercial properties throughout Spain

The health crisis and the lack of business during the first half-year of 2020 has led to a reduction of new rental contracts for housing and commercial properties, and has shown the importance of being flexible with rent payments for tenants in need. In that context, Sareb granted moratoriums for rent payments from some of its tenants, in line with the guidelines approved by the Spanish Government, which also promoted financial aid to tenants and subsidies for social rentals.

26. Moratoriums in the rent payment managed by Sareb in the first half-year of 2020 (number and %)



27. Breakdown per geographical area of moratoriums in rent payment approved by Sareb in the first half-year of 2020 (units)



Témpore Properties



In 2017, Sareb promoted the creation of a REIT specialising in the rental of residential real estate assets, 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. Since April of this year, the REIT is listed on the Alternative Stock Market (MAB).

By the end of 2018, the company had already transferred 2,249 homes to Témpore Properties, and was immersed in a competitive process with which it put its stake in the REIT on the market. In 2019 Sareb concluded the sale of 75% of its shares in Témpore to the American fund TPG Real estate assets Partners (TREP), in terms that were more favourable than those it would have obtained from the sale of individual properties.

i More information under the heading [Sareb and its efforts to adapt to Covid-19 and on the website of Témpore Properties](#)



Picture: Sareb rental properties in Pomaluengo (Cantabria).

Property development and promotion

Arqura Homes has invested €156.6M since it began operating in June 2019

Property development has been affected by the situation created by Covid-19, although Sareb and Arqura Homes have implemented measures to respond in this context and mitigate the possible effects on the fulfilment of the Business Plan.

The company has decided to opt for development projects -to be carried out in the medium term, envisaging delivery of homes between 2021 and 2024-, with a moderation of the pace of investment particularly in sectors such as holiday homes for foreign buyers.

Arqura Homes property development

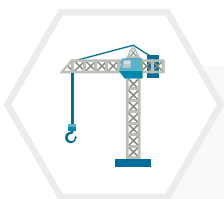
Since it was created in 2019, Arqura Homes has played a prominent role in the development and promotion of Sareb properties. This is a Bank Assets Fund (FAB) through which the company carries out the management and development of part of its portfolio of residential projects

When it was set up, Sareb transferred assets valued at €811 M to Arqura Homes, amongst which some were developments that had been halted and others under construction, and also land. Through this Bank Assets Fund the company forecasts investing almost €2,480 M by 2027 in developing 17,368 properties distributed throughout Spain, mainly in Andalusia, Catalonia, the Region of Madrid and Region of Valencia - which account for 67.1% of the real estate assets to be built-



Management of the assets of Arqura Homes was entrusted to Aelca, one of the leading development companies in the sector, which makes it possible to have a first-hand knowledge on the local markets and adapt products to the demand in each area, while at the same time helping to optimise the costs associated with project development and increase margins coming from the marketing and sale of the properties.

In 2020 the National Commission on Markets and Competition (CNMC) authorised Värde Partners to acquire joint control over Arqura Homes, becoming a non-controlling shareholder with a 10% stake in the shares issued by the FAB, which Sareb holding the other 90%.



Impact of Covid-19 on Arqura Homes activity

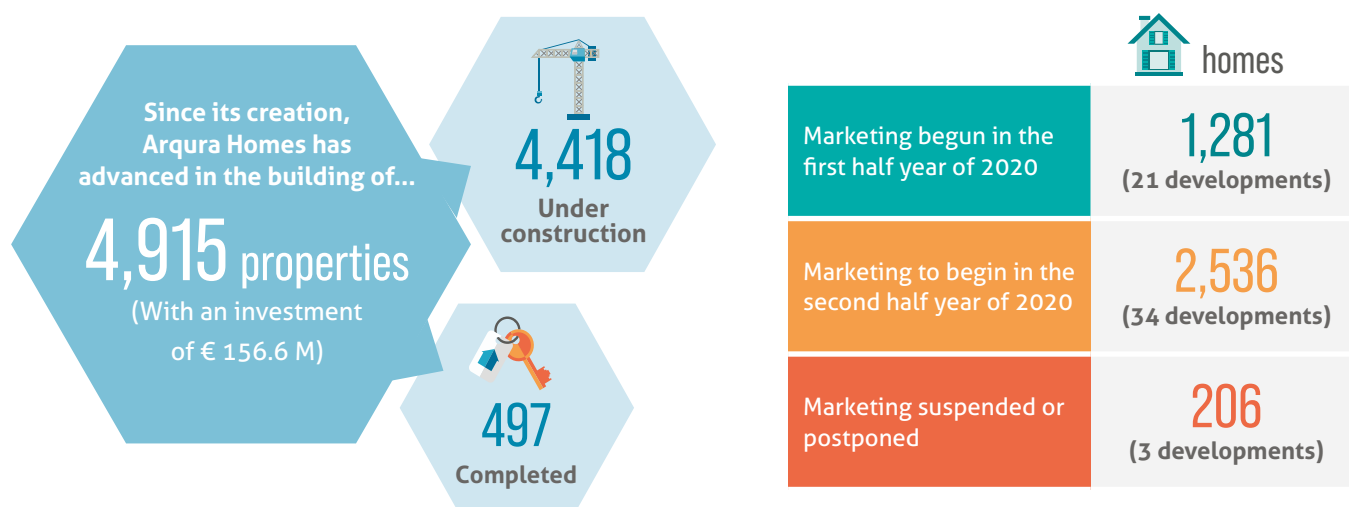
With the declaration of the State of Alert in Spain and the establishment of safety measures in the workplace, building work was brought to a standstill, all points of sale were closed, and clients or applicants were dealt with online.

In general, the evolution of Arqura Homes is enabling it to meet the forecasts established before the pandemic began in a business segment less affected by the economic slowdown.

However, Arqura Homes has assessed the direct and indirect effects of the health crisis on its operations, amongst which are the slowdown in approving investment proposals, or even the halting of building work for several days. The subsequent reactivation

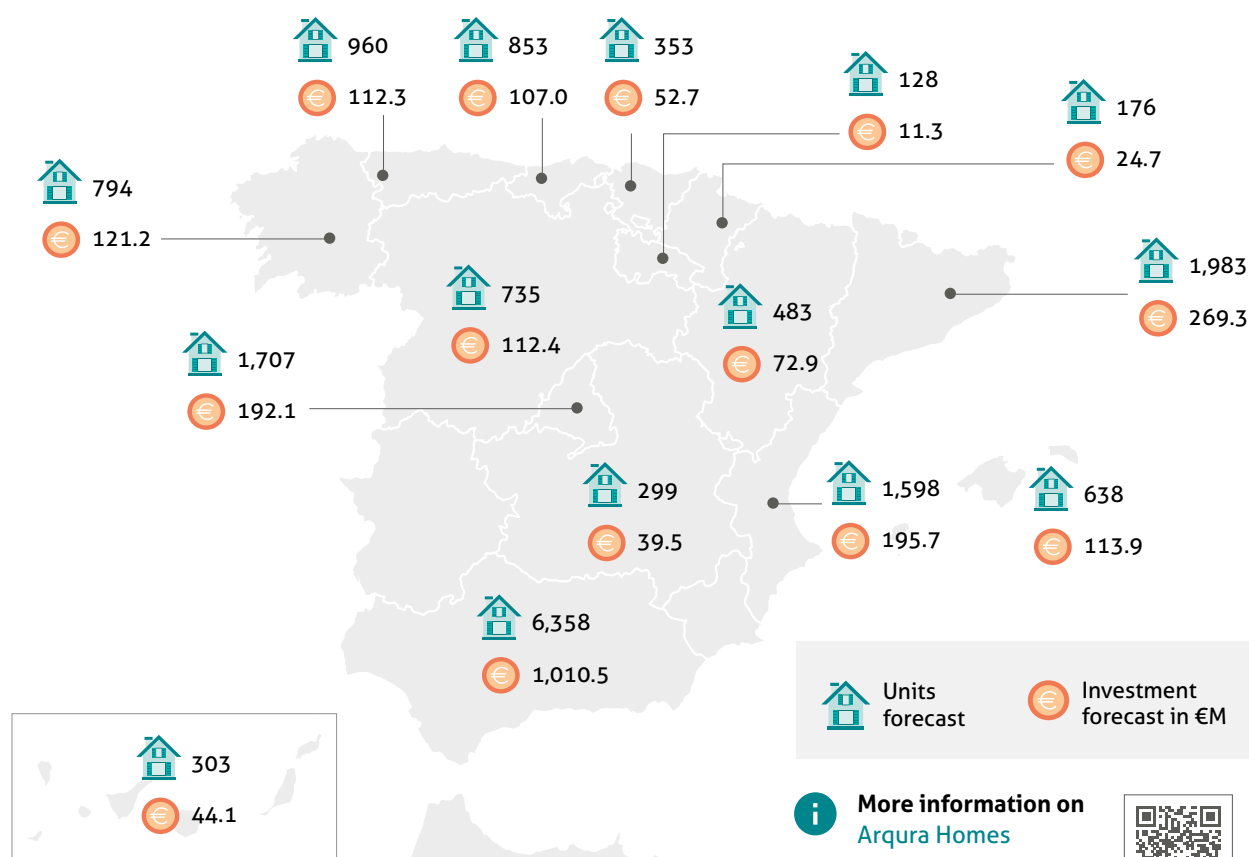
was marked by the lack of supplies, equipment and suppliers on building sites, the deceleration of sales activity, discontinuation of signing sales deeds and reassessment of the strategy in different residential developments to adapt to the new market demand. In that context, the FAB has carried out a thorough monitoring of its assets and has defined contingency plans for all of its land projects and developments with proposals for investment.

28. Development and promotion through Arqura Homes (units and €M)²³



The activities suspended or postponed as a result of Covid-19 relate to developments of second residences destined for international buyers.

29. Properties and investment projected until 2027 by Arqura Homes (units and €M)²⁴



²³ This includes developments with investment proposals approved and four developments brought to the FAB as credit claims (Río Escalona, Campello, Torredembarra and Alcalá de Henares - Vía Complutense).

²⁴ The volume of investment also includes OPEX (previously only the CAPEX was taken into account).



Infrastructure project approved for the park to be located on land decontaminated by Sareb in 2019 in collaboration with the Malaga Town Council

The future property development will contribute to the revitalisation of the area, which could become the driving force for the surrounding neighbourhoods, some of the most heavily populated in the city.

For some months Sareb and the Malaga Town Council are working on recovering land in its possession that was affected by hydrocarbons after having housed a number of fuel storage facilities for a multinational oil company in the past. The infrastructure project for this area, which goes hand-in-hand with the building of a large-scale park, has been given initial approval from the local Corporation, although there are still some formalities pending for work to begin.

Arqura Homes will be the developer in charge of the infrastructure project for this land –with an area of 177,548 m²–, in coordination with the Planning Department of the Malaga Council. The work includes infrastructure for the sector and exterior building work, creating the park and the construction of an underground carpark for 687 cars.

Final approval is expected to be obtained within one year and the infrastructure work is estimated to be concluded within 24 months from then.

i More information under the heading [Sareb and its efforts to adapt to Covid-19](#) and on the website of [Arqura Homes](#)



Sareb property development

Apart from the projects managed by Arqura Homes, Sareb anticipates the direct development of 4,050 homes by 2027, by developing real estate assets projects on Sareb-owned land or by completing unfinished construction works.

Of that total number of properties, 2,517 are already finished, while the rest is still under construction.



Picture: Arqura Homes building under construction in Torrent (Region of Valencia).

30. Sareb property development in figures²⁵ (units)

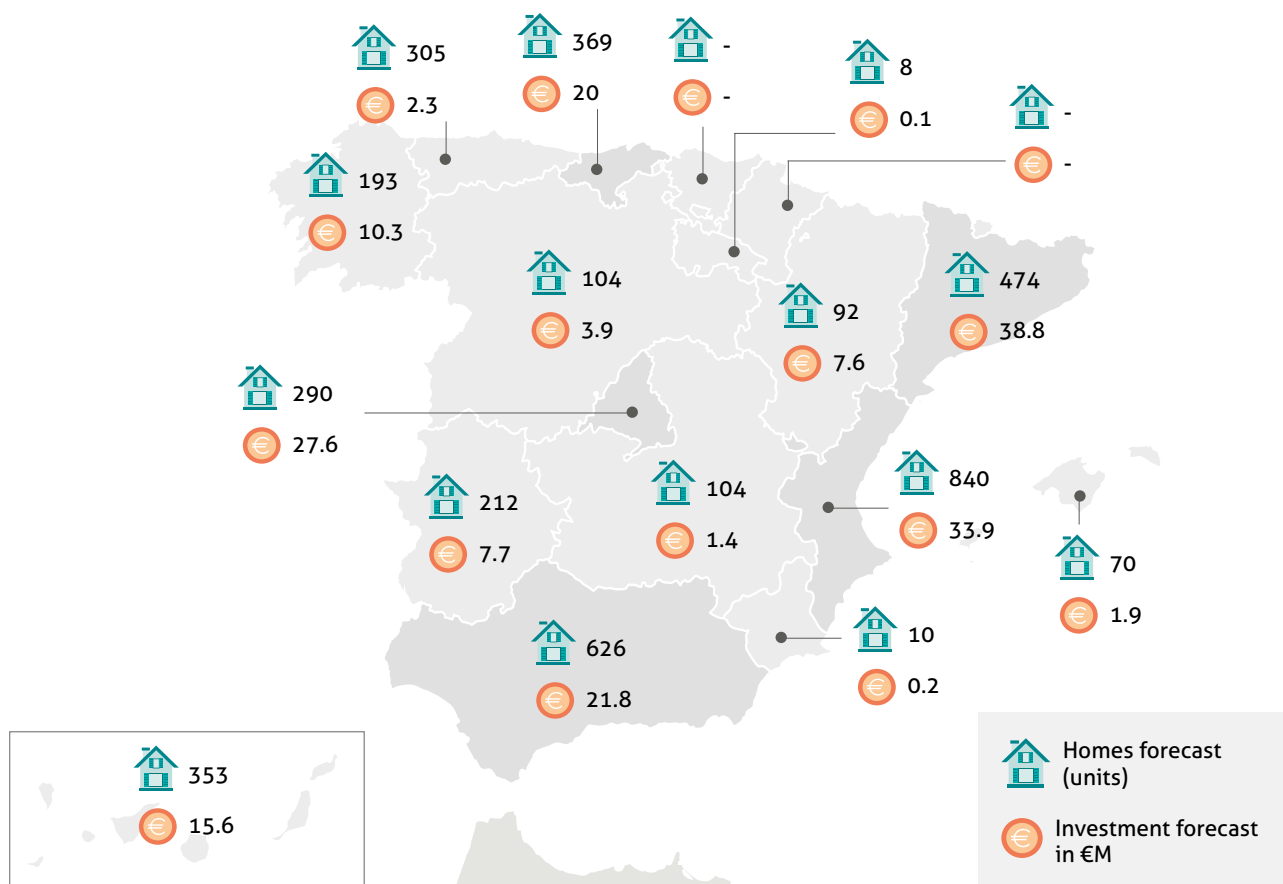


²⁵ Not including the promotion and development projects transferred from Sareb to Arqura Homes.

²⁶ This figure is slightly lower than that published in the Annual Activity Report for 2019 due to adjustments in building projects.

²⁷ In addition to the units with deeds signed, it also includes 663 available properties.

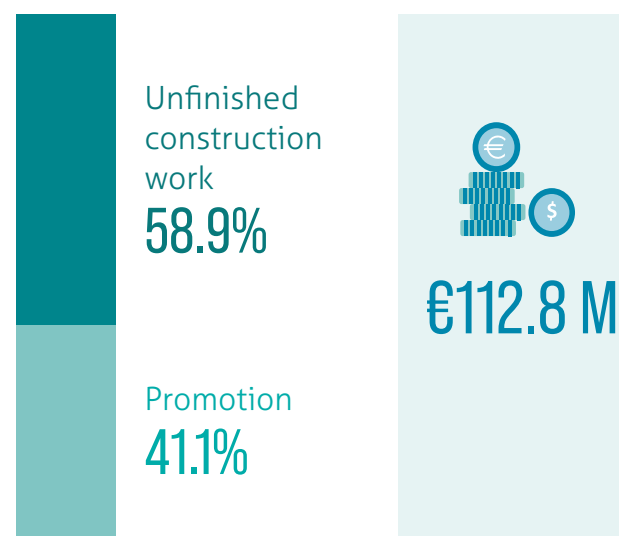
31. Geographical breakdown of Sareb residential property development (units and €M)



As a consequence of Covid-19 and the situation of inactivity provoked by the State of Alert, work on a building site in Almuñécar was halted; it was subsequently resumed and the development process continues. The sales activity within the scope of the assets for promotion and development is configured as follows:

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

	homes
Marketing started in the first half year of 2020	134
Marketing to begin in the second half year of 2020	87
Marketing suspended or postponed	7





Implementation of emblematic projects in different cities in Spain

Through its development and promotion activity, Sareb has started work on some singular projects in Seville, Pontevedra and Granada, amongst other locations

Development of the Buenaire district in Seville

Within the framework of the Partial Plan for the Buenaire sector of development land, in Seville, the Town Council has given planning permission for the development of the area, of which Sareb holds around 10%.

To be specific, 2,330 properties will be built –770 as subsidised housing– and there will be 42,200 m² for industrial use and 247,700 m² for commercial use, plus amenities and open spaces. The Council is currently at the stage of the formalities for putting it into operation.

Preserving heritage in a development in (Pontevedra)

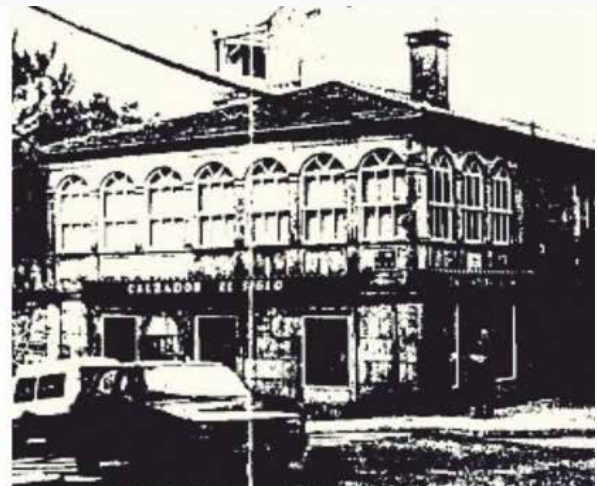
This is a building with 19 units situated in the centre of Lalín (Pontevedra) which had particular difficulties due to the need to finish the building work respecting the stone façade which contains unique artistic elements included in the Catalogue of Protected Sites of the Galicia Regional Government.

The marketing of the properties began in July and 15 have already been reserved.

Refurbishment of a building in the centre of Granada

During the first half-year of 2020 Sareb finished the refurbishment of a building of eight apartments located in the Granada city centre. The project has respected the façade, patios and staircase of the building, which falls under the protection and preservation of Heritage. It also required the intervention of archaeologists.

These undertakings contribute to revitalising areas through property development and at the same time allow Sareb to optimise the value of its assets. The Granada building is an example of a property that has increased its attraction following the improvements introduced, which were necessary given the little commercial interest it was receiving in the state in which Sareb added it to its portfolio.



Picture: Before and after photos of the façade of the building refurbished by Sareb in Lalín (Pontevedra).

Urban land management

Sareb holds more than 168.5M of m² of land

The Sareb portfolio of land is segmented into three types of land: land under development serviced development land, and greenbelt land.

On the total of land, the company is doing development work on 250 grouped plots, with a value of € 920M.

Sareb is implementing different initiatives for enhancing the value of this type of assets before they are sold, amongst which drawing up individualised strategies for sale or lease, adapted to the circumstances of each asset and its potential demand. Sareb estimates that the maturity period for land until it is sold is four years.

At the same time, the company is looking into prefabrication as an alternative for speeding up the promotion and development of properties on land located on the outskirts of large metropolitan areas. Sareb is also exploring the option of **build to rent** as an alternative to complement promoting its own properties in markets where there is a high concentration of retail sales, in scenarios of tight returns and on serviced development land.

33. Breakdown of the Sareb land portfolio²⁸

	Total area
Under development	81.6 M m ²
Serviced development land	14.8 M m ²
Greenbelt land	72.1 M m ²



Picture: Interior of a Sareb rental property in Pomaluengo (Cantabria).

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"**.



Sareb's contribution to the United Nations 2030 Agenda

Through their property promotion and development, Sareb and Arqura Homes stimulate the growth of the regions where they operate, 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: **"ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums"**.



²⁸ As a result of changes in the information gathering systems, the details for the land portfolio correspond to September of 2020.

Real estate assets management and property maintenance

Once the properties are included in the books, and until they are sold, Sareb assumes the costs of their management and maintenance and carries out any necessary conservation work

The company allocates funds for keeping up to date with the payments and correct maintenance for all of the real estate assets that were transferred to it, within the framework of a comprehensive maintenance model. Since 2018 Sareb has a Technical Real estate assets Management system with ISO 9001 standard certification.

In addition, the company has also developed and implemented a computer assisted management system –Computer-Aided Maintenance Management (Camm)– which allows status reports to be made in real time. In the first half-year of 2020 the modules for technical

conditioning work and follow-through of action taken have been included in this platform.

The territorial operating structure has brought about improvements in property management and maintenance, as a result of being more familiar with the portfolio due to closer contact. For example, Sareb can supervise even more closely the evolution of the conditioning work with the support of the geographical branch offices, which contributes to saving costs, optimising time scales and avoiding deviations.



Impact of Covid-19 on the activities of maintenance and conditioning of properties

Generally speaking, activities involving personal interaction in the management and maintenance of the properties have been limited

Because of the crisis generated by Covid-19, during the two weeks in which all non-essential activities were halted, the conditioning work was interrupted and non-urgent maintenance was rescheduled.

In cases in which the maintenance work could not be postponed, Sareb issued statements of responsibility for its principal maintenance providers so they could carry out the maintenance work repair urgent breakdowns -authorised under sub-section 18 of the Annex of Royal Decree-Law 10/2020²⁹- in order to avoid irreparable damage.

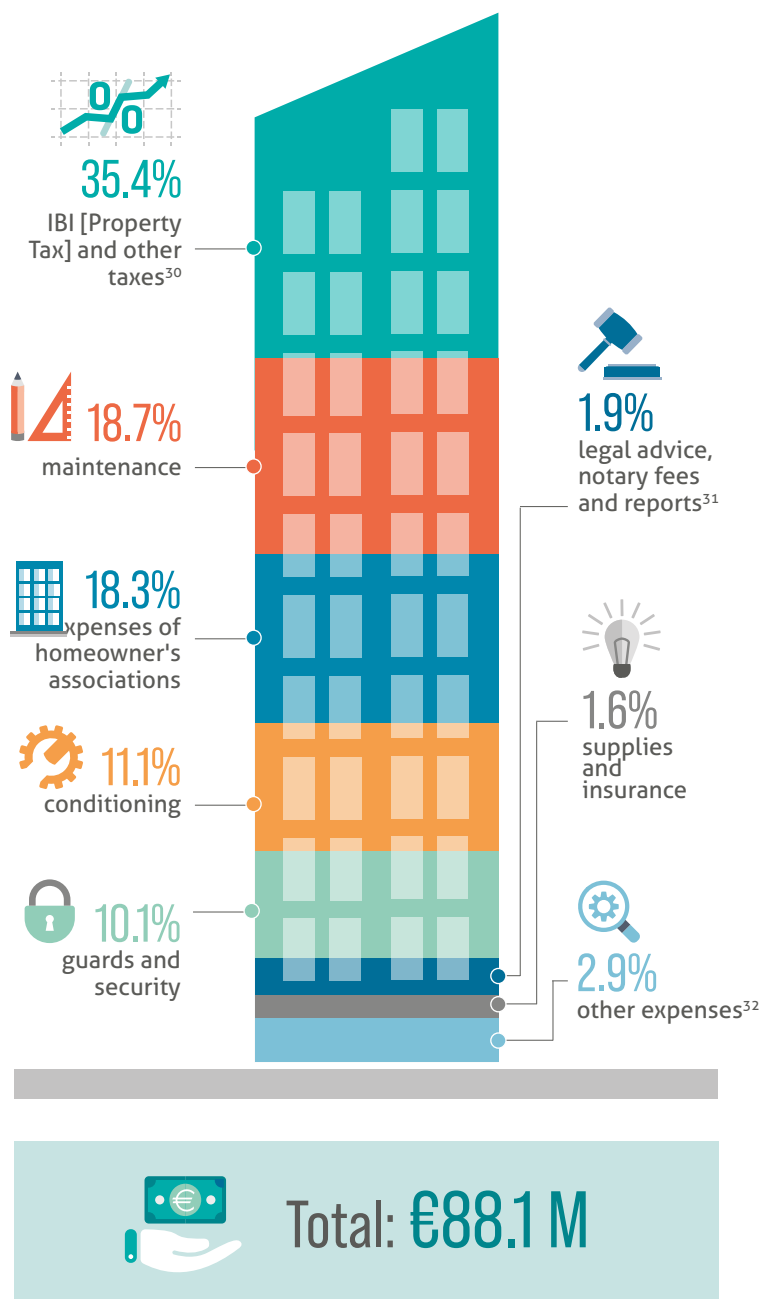


Picture: Building promoted by Arqura Homes in Valencia (Region of Valencia).

²⁹ Royal Decree-Law 10/2020, of 29 March, which regulates a recoverable period of paid leave for employed workers who do not provide essential services, in order to reduce people's mobility in the context of the fight against COVID-19.

Between January and June 2020 the expenses associated to property management and maintenance amounted to €88.1M. Over one third of this amount related to the payment of Property Tax (IBI) and other taxes (€31.2M).

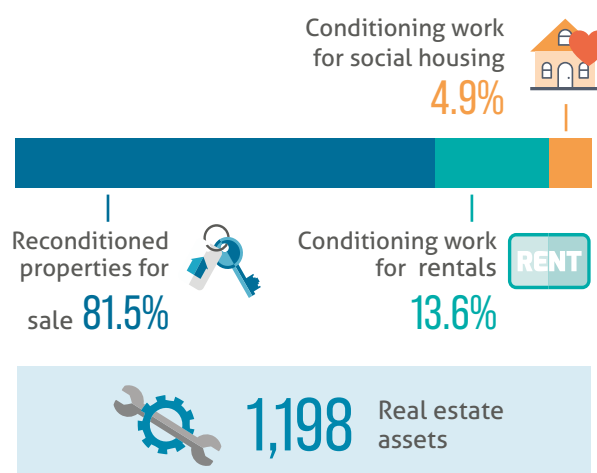
34. Expenses for management and maintenance of real estate assets (% of €M)



Real estate assets conditioning

In the first half year of 2020 conditioning work was completed on 1,198 properties, amounting to €9.74 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.

35. Properties conditioned in the 1HY 2020 (% of the total number of items of completed conditioning work)



Picture: Façade of a Sareb apartment building used for rentals in Puebla de Segur (Catalonia).

³⁰ "IBI [Property Tax] and other taxes" also includes licence/permit costs.

³¹ "Legal advice, notaries and reports" comprises expenses for lawyers, court representatives and the fees for preparing technical reports.

³² "Other expenses" includes marketing costs, infrastructure costs, demolition of building in progress and other maintenance expenses



A changing balance sheet

In 2013 the transfer of assets by the assigning banks to Sareb was completed. However the company's balance sheet is undergoing constant evolution.

Conversion consists of converting loans –which are less liquid for selling– into real estate assets, using foreclosure or dation in payment procedures which, once concluded, enable properties which previously were collateral for financial assets to be added to the Sareb portfolio.

Although this process means having to assume lengthier time periods for liquidation, it is essential for preserving the value of the Sareb's assets and avoids having to sell loans in the wholesale market at significant discounts. At the same time it makes it possible to increase and diversify the company's real estate assets offer.

The conversion of loans is adapted to the specific situation of each one –depending on the willingness of the debtor to collaborate or the legal process involved– and it takes place under three instruments: dation in payment, insolvency and foreclosure proceedings.

The lack of activity brought about by the State of Alert as a result of Covid-19, in which court procedures came to a standstill, has had an impact on the strategy of converting Sareb's balance sheet. In that context, the company has intensified its efforts

for coming to out-of-court agreements in the scope of loans involved in legal procedures, whether under insolvency proceedings or in mortgage foreclosures already filed. With this we have advanced with a number of dations in payment in the process of execution which will be concluded in the second half of the year. As for insolvencies, Royal Decree-Law 16/2020³³ establishes a number of measures for speeding up the evolution of the insolvency proceedings, which has helped Sareb to accelerate the pace of conversion using this channel, which is expected to continue recovering after months of delays.

Between January and June 2020 the company added 7,452 properties to its books, valued at €585.8M, 31.1% less than the €850.8M in the first half-year of 2019.

In addition, during the first half of 2020 Sareb reviewed the entire process for transformation of the balance sheet and defined a set of measures that will result in greater efficiency and shorter times between the different milestones in each of the three instruments.

Between 2020 and 2022 the company forecasts that the conversion processes will enable it to add 97,647 properties³⁴ to its portfolio, which 79,4% will be residential assets, 14,6% will be land and the remaining 6% commercial properties.

	Dation in payment	Insolvency proceedings	Foreclosure proceedings
	A process of collaboration with debtors, with agreements in place for repaying their debt in exchange for handing over their assets.	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.	If collaboration is not possible, the debt will be claimed through legal action.
Conversion per type of method in 1HY 2020	€226.1M/38.6% of the total	€133.4M/22.8% of the total	€226.3M /38.6% of the total

i Further information on the conversion of the balance sheet in [Business Model](#) and [An effort of adapting to Covid-19](#)

³³ Royal Decree-Law 16/2020, of 28 April, on procedural and organisational measures for dealing with Covid-19 in the field of the Administration of Justice.

³⁴ The company has updated the forecasts published in the Annual Activity Report for 2019.

Management and sale of loans

Income coming from the management and sale of loans accounted for 46.9% of the total volume of business turnover in the first half-year period

In the first half year of 2020 the income from the management and sale of loans stood at €253.4 M, 53.1% less than in the same period in 2019.

This evolution was marked by the slow-down of business as a result of the standstill caused by the Covid-19 pandemic and by the decision to reduce sales activity in the segment of NPL. However, in recent years we have been observing a gradual decrease in the weight of loan-based income following Sareb's strategy of promoting the conversion of financial assets into real estate assets.



Picture: Façade of a building promoted by Arqura Homes in A Coruña (Galicia).

36. Strategies for the management and sale of loans



Debt recovery

Continued collection of non-performing loans within the deadlines established.



Loan repayment

Paying off debt positions by the agents involved in the loan.



Liquidation of collateral and Sales Growth Plans (SGP)

Sale of real estate assets collateral associated to loans from the developers' books for cancellation of debt. The intention is to make the loans liquid and to reduce or cancel the entire debt with Sareb.



Dation in payment

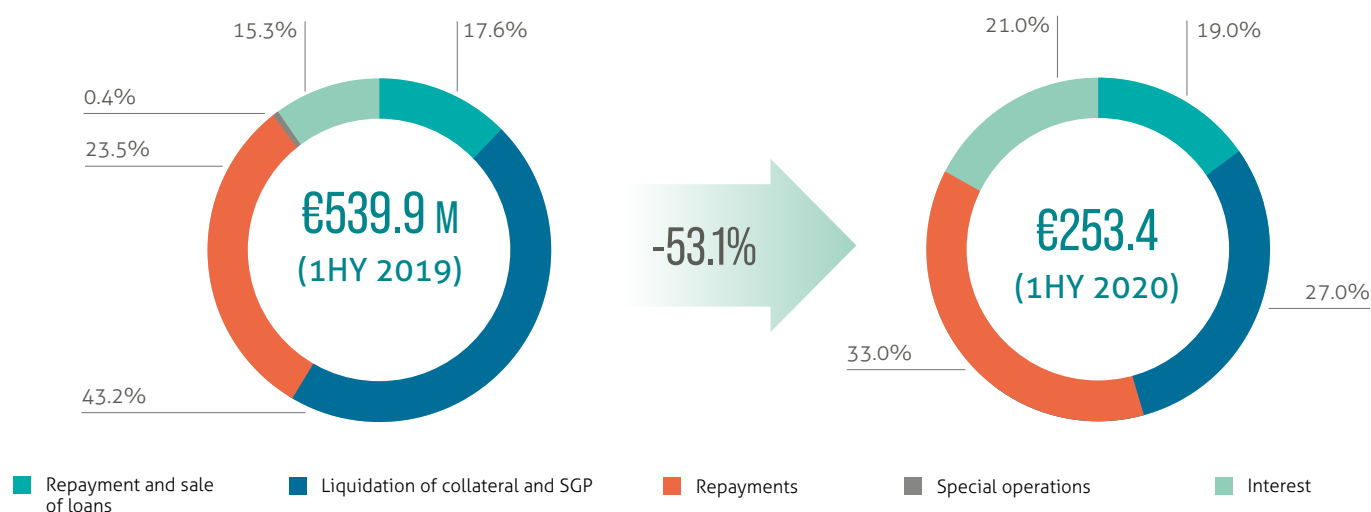
Paying off debt by handing over the property held as collateral.



Sale of debt

Sale of debt positions to third parties.

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



Between January and June the line of cancellation and sale of loans has remained stable in respect of the same period last year, accounting for 19% of the total as opposed to 17.6% at the end of June 2019. 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 accounted for 33% of the total income for loans for the first half year of 2020 and they are consolidated as the main strategies for the period.

Selling through SGP and liquidation of collateral properties continues to lose prominence as the lifetime of Sareb advances. This trend is explained by two main motives: the reduction in the scope of assets that meet the characteristics for signing an agreement of this type -in terms of cooperation with the debtor, the type and state of the property appearing as collateral and the lack of encumbrances, amongst others- and the company's progress using legal channels for the conversion of its non-performing financial asset portfolio in order to include the associated properties in the balance sheet and then sell them.

In the first half-year of 2020 the income from this line accounted for 27% of the total of the loans business, 16,2 points less than the previous year. In number of properties, between January and June, 411 units were sold using this formula, which is an 84.2% drop compared to the same period of 2019.



Picture: Sareb office building rented in the centre of A Coruña (Galicia).

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 non-performing 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: Interior of a Sareb building used for rentals in Pomaluengo (Cantabria).



A boost to the conversion of the balance sheet

The litigation process contributes to speeding up debt recovery and is applied to those cases in which no repayment agreement was concluded.

This channel occasionally makes it possible to resume negotiations with the debtors, reaching an agreement to reduce or repay the loan before the collateral properties are awarded.

The company continuously monitors the procedural milestones of the operations involved in legal action in order to adapt to the scope of action and to improve the effectiveness of its commercial activities. Currently, most of Sareb's portfolio is undergoing litigation or insolvency proceedings, although the commencement of a mortgage foreclosure does not mean abandoning other ways of managing loans that could lead to an award, either with the debtors themselves or with a third party interested in the associated collateral properties who agrees to purchase the assets undergoing conversion.

Nevertheless, in a context of the legal channels being at a standstill as a result of Covid-19 the company has encouraged other alternatives, such as signing dations in payment. Under this premise, during the months of confinement Sareb reviewed its loans portfolio to increase the scope of convertible loans using this formula and in this way to offset the delays that were arising in the awards through mortgage foreclosure and insolvency proceedings.



More information under the headings
An effort to adapt to Covid-19 and
Conversion of the balance sheet



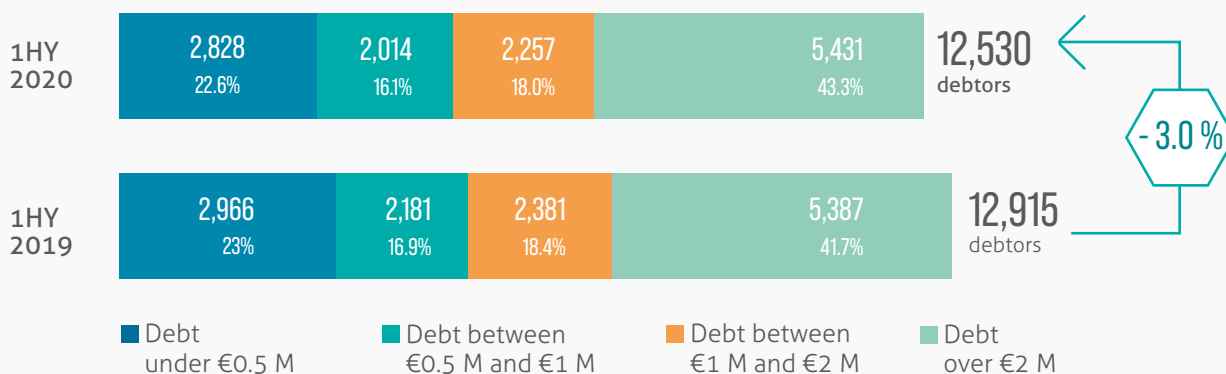
Type of debtors

56.7% of borrowers are subject to exposure of less than two million euros and 38.6% to exposure of less than one million euros.

At the end of the first half year of 2020, Sareb's financial asset portfolio was composed of 12,530 debtors, 3% less than for the first half year of 2019.

The distribution per volume of debt is similar to that in June 2019, as 80% of the debt is concentrated in 35.1% of debtors.

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



Picture: Sareb residential complex used for rentals in Torrepacheco (Murcia).

Financial information

In the first half-year of 2020 the health crisis had a negative impact on the main variables of the real estate assets market, as is reflected in the evolution of the number of transactions and the prices of the sector during these months.

Since the beginning of the pandemic, Sareb has adopted a cautious sales strategy, trying to avoid having to make discounts that would affect the value of the portfolio. In contrast, Sareb has opted to focus sales on the segments of assets less affected by the situation, such as the sale of residential properties to individuals, and to hold back on the sale of more difficult assets such as non-performing loans, land and commercial assets.

As a result of this, the information on management relating to the first half-year reflects the impact of the drop in business, with decreased income of approximately 50% and the margin falling to around 14% compared to the same period of the previous year. Nevertheless, the pre-tax losses have gone down compared to 2019, due to Sareb having lower operating and financial expenses and which partly offset the fall in the business margin.

Key management indicators³⁵ (in €M)

	1HY 2020	1HY 2019	Variation (%)
Income	540.6	1,054 ³⁶	(49)
Net business margin	144	169	(14)
Operating expenses	(242)	(309)	(22)
EBITDA	(97)	(140)	31
Amortisations and provisions	(38)	(36)	6
EBIT	(135)	(177)	23
Financial profit/loss	(264)	(326)	19
Profit/(Loss) before taxes	(399)	(502)	21

Since it was created, every year Sareb has been paying off the debt it had issued for acquiring its portfolio, with Treasury backing. In its seven and a half years of life the company has paid off a total of €15,683M, and to this end it has used the cash generated by its business (revenue obtained less expenses incurred).

However, in the first half-year of 2020 the difficulty in maintaining this pace of cash flow generation has been made evident. As a consequence of the sharp fall in income registered this year, the best estimations currently available to the company indicate that during this year Sareb will not be able to generate sufficient cash to make any further repayments of senior debt in this financial period.

³⁵ The figures are taken from management information i.e. it is not information taken from audited accounts.

³⁶ The figure for revenue differs slightly from that published in the activity report for the first half-year of 2019 (€1,052.7M) due to making adjustments.

Evolution of unrealised losses on the Sareb portfolio

In accordance with its own accounting regulations (Bank of Spain Circular) at each year-end closing Sareb assesses the value of its portfolio, linking it to the evolution of a series of variables with which its Business Plan is prepared.

The fluctuation in impairment is a result of the variation in its scope (sales and conversion), any modifications to appraisals that were renewed, and the temporary cutback in the parameters arising from the Business Plan. In this respect, the parameters of that plan will not be updated until the new year.

With these limitations, impairment at the end of June showed the following figures (in €M):

Sareb Portfolio:	June 2020	Dec 2019	Difference
Financial assets	6,898	6,323	575
Real estate assets	533	496	37
Total	7,431	6,819	612

It should be pointed out that this estimate does not consider any effect of the pandemic situation current because the updated appraisals do not yet recognise its effects or because the parameters were not updated with a view to the future with the new Business Plan. In this respect, it is possible that by introducing this effect (uncertain as to the intensity and the length of time) into the close of 2020, the figures for impairment will be significantly higher.



Picture: Arqura Homes building under construction in Santander (Cantabria).

Evolution of own resources and equity

Sareb traditionally records losses in its annual accounts, as the business margin generated (revenue from assets less their acquisition cost) is insufficient to cover all the expenses it has to incur to carry out its activity (mainly commission on sales of assets, finance expenses, management fees, maintenance expenses, conversion expenses and structural expenditure).

At 30 June 2020 the company shareholder's equity was a negative figure of €169M compared to a positive figure of €230M at the end of 2019. This difference is due to the results recorded for the first half-year, a negative figure of €399M. Therefore, the losses for previous years and the current year have used up all of the company shareholders' equity.

The shareholders' equity plus the subordinated debt (convertible to capital in the event of insufficient equity) amount to €1,261M. Current forecasts envisage that the losses will consume the company's entire shareholders' equity and subordinated debt during the first half of 2021.

However, following the passing of Royal Decree-Law 6/2020, of 10 March, this negative equity situation will not mean the company being subject to grounds of dissolution, but it will be able to continue carrying out its activity as normal.

From the management results at the end of June 2020, together with the estimate of the amount of impairment mentioned in the previous point, the following figures can be ascertained:

Item	June 2020	Dec 2019	Difference
Shareholders' equity	-169	230	-399
• Capital and reserves	230	1,177	-
• Profit (loss) for the period	-399	-947	-
Subordinated debt	1,430	1,430	-
Own resources (with subordinated)	1,261	1,660	-399
Equity adjustments	-8,196	-7,741	-455
• Derivatives	-766	-922	156 ³⁷
• Impairment	-7,431	-6,819	-612
Equity with subordinated	- 6,935	- 6,081	- 854

³⁷ The change in value between the two dates is the net outcome of two effects: on the one hand the effect of settling interest on the swap, which then ceases to be considered in the valuation and, on the other hand, the effect of the decline and flattening of the interest rate curve for June compared to December due to the uncertainty present in the financial markets because of the effect of the pandemic.

4 Good governance

The composition of the Board of Directors
and its functioning

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Governance model

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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 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.

Updates on committees and appointments in the first half-year de 2020

At the end of January 2020 the Board of Directors decided to suppress the Executive Committee, as the company's new business strategy gives priority to retail transactions over large-scale transactions; approving it was one of the responsibilities of that committee.

In February the Board of Directors of Sareb also approved the incorporation of Javier García del Río as managing director of the company

His appointment as executive director was subsequently submitted to the Shareholders General Meeting for approval, on 28 October 2020. The appointment of García del Río as CEO of Sareb³⁸ was, also submitted to the Board of Directors for approval.

Variable Remuneration

As an exercise in responsibility in view of the situation created by the Covid-19 crisis, Jaime Echegoyen and the other members of the executive management of Sareb decided to waive receiving the variable remuneration for 2019, and also the amount they might receive in 2020.

In February the Board of Directors approved the incorporation of Javier García del Río as Managing director of the company

i More information under the heading **New organisation for boosting business and in the sub-section on the Sareb website on corporate governance**



Picture: Interior of the Sareb headquarters, located in a building belonging to the company in the Mirasierra district in Madrid.

³⁸ The proposal to bring Javier García del Río to the Board of Directors coincides with other developments that became known on the date planned for approving this report and which will be explained in greater detail in the Annual Activity Report for 2020:

- The Board Meeting held on 23 September was as a result of the resignations of Francisca Ortega Hernández-Agero and Joaquín Vilar as proprietary directors, both with effect as from 1 October. In addition, Pedro Antonio Merino -an independent director- had left after completing the maximum five-year period of mandate, with effect as from the Shareholders General Meeting of 28 October.
- Prior to holding the Board Meeting on 28 October, the Agenda for the Shareholders General Meeting held on that same date included the proposal to modify the composition of the Board of Directors as follows: re-election of the FROB and of Enric Rovira Masachs as proprietary directors; and appointment of Javier Torres Riesco as proprietary director at the proposal of the FROB, of Javier García del Río as executive director and of Alberto Valdivielso Cañas as independent director.

Governance model

The company develops its activity while meeting the specific requirements for good 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 demanding 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.
- Royal Decree-Law 6/2020, of 10 March, on adopting certain urgent financial measures.

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 and public-interest institutions.

Composition of capital

54.1%

Private Capital

45.9%

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

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 accountable"** and **"Increase global macroeconomic stability including through policy coordination and coherence"**.



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.

Supervisory bodies for ensuring compliance with the corporate targets



Bank of Spain

The Bank of Spain Executive Committee issues its yearly report on Sareb based on the work carried out throughout the year by the monitoring team. It occasionally includes requests or recommendations on the activity and management of the company. The company follows these indications and informs the supervisory authority of the measures it implements to fulfil them.

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



CNMV

Issue of fixed income and registration authority for Bank Assets Funds (FAB)



Monitoring Committee

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

- Ministry for Economic Affairs and Digital Transformation (General Secretariat for Public Treasury and International Financing)
- Ministry of Finance
- Bank of Spain
- CNMV

Board of Directors³⁹

100% attendance of directors at all meetings

15 directors



9 Meetings in the 1HY 2020

Audit Committee

8 directors



> 7 Meetings in the 1HY 2020

Remuneration and Appointments Committee

8 directors



> 7 Meetings in the 1HY 2020

Management Committee

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

> 62⁴⁰ Meetings in the 1HY 2020

- Independent Director
- Executive Director
- Proprietary Director

Internal control systems and mechanisms for risk management

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

³⁹ In its meeting of 29 January 2020, the Board of Directors decided to proceed with the suppression of the Executive Committee.

⁴⁰ During the period of the State of Alert the Management Committee met daily to assess the situation.

Profile of Sareb directors at 30 June 2020

<p>Jaime Echegoyen Enríquez de la Orden 05/03/14 30/04/2019</p> <p>Executive</p> <p>€ House Bar Scales Bank Earth</p>	<p>FROB (represented by Jaime Ponce Huerta) 14/04/2015</p> <p>(D) FROB</p> <p>€ House Bar Scales Bank Earth</p>	<p>Francisca Ortega Hernández-Agero 10/06/2015</p> <p>(D) Banco Santander</p> <p>€ House Bar Scales Bank Earth</p>
<p>Pedro Antonio Merino García 10/06/2015</p> <p>Independent</p> <p>€ House Bar Scales Bank Earth</p>	<p>Enric Rovira Masachs 25/11/2015</p> <p>(D) Banco Sabadell</p> <p>€ House Bar Scales Bank Earth</p>	<p>Javier García-Carranza Benjumea 05/05/2016</p> <p>(D) Banco Santander</p> <p>€ House Bar Scales Bank Earth</p>
<p>Iñaki Goikoetxea González 28/11/2016</p> <p>Independent</p> <p>€ House Bar Scales Bank Earth</p>	<p>Javier Bartolomé Delicado 28/11/2016</p> <p>Independent</p> <p>€ House Bar Scales Bank Earth</p>	<p>Jaime Rodríguez Andrade 13/12/2017</p> <p>(D) Banco Santander</p> <p>€ House Bar Scales Bank Earth</p>
<p>Jorge Mondéjar López 13/12/2017</p> <p>(D) CaixaBank</p> <p>€ House Bar Scales Bank Earth</p>	<p>Eduardo Aguilar Fernández-Hontoria 13/12/2017</p> <p>(D) FROB</p> <p>€ House Bar Scales Bank Earth</p>	<p>Juan Ignacio Ruiz de Alda 17/05/2018</p> <p>(D) FROB</p> <p>€ House Bar Scales Bank Earth</p>
<p>Idoya Arteagabeitia González 30/04/2019</p> <p>Independent</p> <p>€ House Bar Scales Bank Earth</p>	<p>Carmen Motellón García 30/04/2019</p> <p>Independent</p> <p>€ House Bar Scales Bank Earth</p>	<p>Joaquín Vilar Barrabeig 30/04/2019</p> <p>(D) CaixaBank</p> <p>€ House Bar Scales Bank Earth</p>

Date
of first appointment
XX/XX/XX

Date or re-election
XX/XX/XX

Committees to which they belong

A Audit Committee
R Remuneration and Appointments Committee
○ Chairman of the Committee

Nature

(D) Proprietary
Independent

Profile and competences

€ Finance House Real estate assets Sector Bar Business management
Scales Legal Bank Public Administrations Earth International

Governing 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 Audit Committee, the Remuneration and Appointments Committee and the Management Committee.

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

It is the body holding the representation, administration, management and control of the company.

Audit 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.

Management Committee



- Since 2019 the functions of the Management Committee include those previously performed by the Support Committees, in compliance with the provisions of Royal Decree 1559/2012⁴¹ and Sareb's Articles of Association. Furthermore, bringing them together in a single body gave rise to the creation of the Shareholder Forum, intended to improve the functioning and effectiveness of the activities that were carried out by the Support Committees and provide quality information to all shareholders -regardless of their stake in the company.
- The Management Committee's activity focuses on support and assistance to the Board of Directors and other powers delegated by it.



Further information on the [The nature, functions and scope of action of the governing bodies:](#)
Board of Directors

[Remuneration and Appointments Committee and Auditing Committee](#)



⁴¹ Royal Decree 1559/2012, of 15 November, which establishes the legal system governing asset management companies.

5 Stakeholders and relevant issues

Materiality Assessment: what is relevant

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Closeness and communication with stakeholders

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Materiality Assessment: what is relevant

Matters relevant to Sareb and its stakeholders

The materiality assessment carried out by Sareb has identified 18 relevant issues for the company and has made it possible to prioritise them through a series of quantitative assessments (both internal and external). As a result, the issues are represented taking into account three thresholds: level one relevance, level two relevance and level three relevance.

i More information on the methods used for identifying and prioritising relevant issues



LEVEL ONE RELEVANCE

- 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

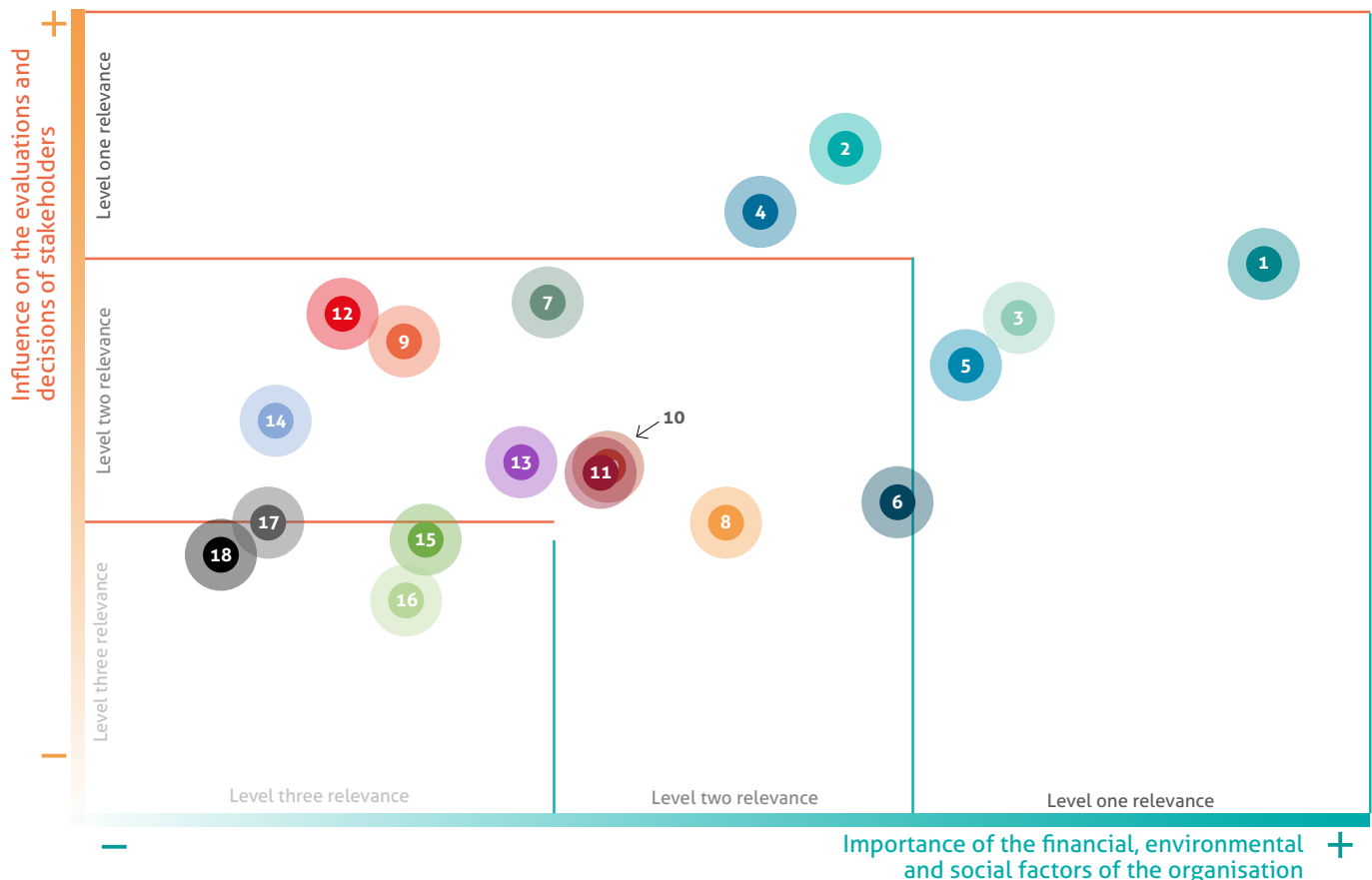
LEVEL TWO RELEVANCE

- 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 Administrations, 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 assets sector
- 14 Closeness and communication with stakeholders

LEVEL THREE RELEVANCE

- 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



Closeness and communication with stakeholders

Sareb identifies its stakeholders on the basis of their influence and impact of the company's activity in the short, medium and long term. Taking these criteria into account, and bearing in mind the assumption that this

year is an ongoing process, Sareb's main stakeholders are its employees, its shareholders, the supervisory body and Public Administrations, its customers, its suppliers and society in general.

Mechanisms for closeness and communication with stakeholders

Transparency is one of Sareb's values, which assumes the commitment to keeping open communications on its activity, policies and procedures, aware that it acts under the watchful eye of its stakeholders.

With this in mind, the company has various online and face-to-face mechanisms which ensure the availability of information in time and form adapted to each group, in order to manage the relationship

between the parties and facilitate decision-making in relation to the organisation.

Sareb has also created bidirectional listening and communication channels, designed to promote a deeper understanding and awareness of the perceptions and expectations of the most important stakeholder groups.

Channels and initiatives

Employees



- Sareb conducts staff surveys to identify employees' concerns and possible improvements. The company then develops action plans to respond to the issues raised.
- The Sareb intranet functions as an interactive platform where employees receive information about company initiatives and achievements, and share their own thoughts on the subject.
- In the first half-year of 2020, as a result of Covid-19, Sareb has established an ongoing dialogue with its employees in order to be aware at all times of their state of health, frame of mind, and their concerns, and to keep them informed of the company's operations. Different surveys have been carried out to this end and the use of the platform 'Teams' has been promoted as a tool for adapting to the method of teleworking –holding training *webinars* to explain how it works–. During these months, a daily average was recorded of 297 meetings, 14,000 messages and 500 calls.

Shareholders



- Shareholders receive invitations to participate in meetings and video conferences on the evolution of the company.
- Since 2019, the company has a Shareholder Forum to facilitate access to information for all shareholders –regardless of their stake in Sareb– to reinforce transparency and bring dynamism to the relations and communications with them.

The Sareb website (www.sareb.es) is the main point of information on the company. It is also active on the social networks, through its profiles in Twitter (@Sareb) and Facebook (@Sareb_Oficial), which complement Sareb's activity on its LinkedIn account. Since 2018 Sareb has a space for reflection on social changes and its relationship with the real estate assets sector: its blog '[Huellas](#)'.

In the first half-year period of 2020, the company received an award in the third edition of the Ramón del Corral Dircom Awards, promoted by the Association of Communications Directors (Dircom). These awards acknowledge the best examples of communication and public relations in Spain and in this edition over 200 projects were submitted in the 23 categories, covering campaigns, events, publications, multimedia, digital and strategy.

To be specific, Sareb received acknowledgement for the best social networks campaign for "Dialogue with our stakeholders". The strategy comprised:

- Network intelligence and listening to meet the challenge of hyper transparency and to manage the reputation of the entity.
- Preparing general interest content to gain a higher profile in an information-saturated environment.
- Attracting ambassadors to humanise communication and empower individuals.

i More information on [Huellas](#) and [Sareb's social network campaigns](#)



Supervisory body and Public Administrations



- Sareb maintains fluid and transparent communication with the supervisory body and Public Administrations, meeting on a regular basis to share information about the evolution of the company and the fulfilment of its objectives.
- Also, through the different departments –such as Institutional Relations, Sustainability, Communication and the geographical branch offices– Sareb works closely with the Central Administration, the autonomous regions and different Town Councils.

Customers



- The Sareb Response channel allows the company to address any questions or concerns that may arise from potential customers and buyers.

Suppliers



- Sareb establishes stable relationships with suppliers, based on proactive communication designed to ensure continuous improvement and mutual benefit.

Company



- In addition to the Sareb Response channel, the company conducts regular surveys to gain a deeper understanding and awareness of the general public's perceptions and expectations in relation to the organisation.
- Sareb also maintains bidirectional communication with the media, in order to provide society with useful and reliable information about the evolution of the company.

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CALLE COSTA BRAVA, 12
28034 MADRID

www.sareb.es