

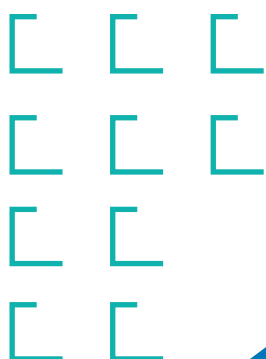


*Sociedad de Gestión de Activos
Procedentes de la Reestructuración
Bancaria, S.A.*

ACTIVITY REPORT

2018

FIRST HALF



Sareb presents its Activity Report corresponding to the first half-year of 2018.

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

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



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EXECUTIVE
SUMMARY

Picture: Costa Brava office block, located in north Madrid.

Sareb's activity generated €1,576.6 million of revenue during the first half-year period of 2018

The first half year of 2018 passed in a favourable economic environment, based on growth and employment figures that remained positive. Even so, a more precise diagnosis of the situation cannot ignore some signs of a slight slowdown in the second quarter of the year.

Where the property market is concerned, new signs of consolidation can be seen, as Sareb stated in its previous Activity Report, although this recovery is geographically very unequal. This asymmetry is a challenge for a company with a portfolio as extensive and dispersed as that of Sareb, present in practically all the autonomous regions.

At the close of the first half-year period of 2018, this portfolio stood at €36,128 million, 28.9% less compared to the volume of assets originally received, of which 66% corresponds to financial assets and 34% to properties.

Between January and June, the company's activity generated €1,576.6 million of revenue, slightly less than for the first half-year period of 2017. This decrease is partly due to a lower volume of business in the management and sale of loans as a result of the company's own divestment profile, meaning that it holds increasingly less loans and more properties. Added to this is the concentration of operations concluded for the sale of loans in the second half-year period of the year. In any case, its activity during these first months of year has been continually dynamic.

The consolidation of the financial assets management model has resulted in a 50.4% increase in the number of proposals managed during the first months of 2018 compared to the same period of the previous year, with a total of 8,033 cases processed. Most of the proposals managed relate to dations and foreclosures, in line with the company's objective of speeding up the process of transforming loans into properties, which have greater liquidity in the divestment market. Since its inception, Sareb has managed more than

59,000 procedures with developers and has reduced the number of debtors by 17.5%.

It is also worth noting the activity through the online loan sales channel, which contributes to the divestment of this type of assets. In this half-year period, the second stage of this pioneer showcase in the selling of non-performing loans (NPLs) was concluded and work started on launching a new perimeter for selling debt in the second half-year period for a nominal value of €1,800 million. This channel has also broadened its client basis by opening up to intermediaries and smaller investors.

The management and sale of properties continues showing positive results as a result of the growth undergone in the sector and the boost in sales activity from the company which, during the half-year period launched eight new marketing campaigns in which visibility was given to more than 15,000 assets. With this, the figure for revenue between January and June went up by 10.9% compared to the same period of the previous year and stands at €593.3 million.

These figures are the result of the sale of 10,618 properties –8.9% more than in the first half year of 2017–, of which 86.2% correspond to the sale of residential properties, consistent with the favourable evolution seen in the property market. The sale of commercial properties has also been boosted by an improvement in production activity.

Out of the 10,618 properties sold, 5,926 corresponded to assets belonging to Sareb, 6.6% more compared to the first half-year period of 2017. These were mainly located in the autonomous regions of Madrid, Valencia, Andalusia, Catalonia and Castile and Leon.

The rest of the assets sold come from liquidating properties held as security and the Sales Growth Plans (SGP), through which Sareb collaborates with the debtors for them to sell their properties, obtain liquidity and pay off their debt to the company.

The sale of properties has increased by 8.9% compared to the same period of the previous year

Despite the increase in the number of transactions and the upward trend in the variation of prices in the market, it is important to return to the initial reflection on recovery, concentrated mainly in the urban centres of just a few provinces. In this respect, a large part of Sareb's asset are in peripheral areas outside of those cities and, therefore, its sales activity progresses at a slower pace.

In that context, Sareb has in this first half-year period advanced toward shaping a new geographical structure that allows it to have deeper knowledge of its portfolio and adapt the offer to the demand of the local markets. At the close of the half-year period, the branch offices in the Regions of

Valencia, Murcia, Catalonia, Aragón and Balearic Islands are fully operative, along with the offices for Madrid Centre-Canary Islands, launched in 2016. In the coming months the branch offices of Andalusia

and north-west Spain will also start operating, to boost sales in those regions and speed up divestment of the portfolio.

It is also worth mentioning the progress in property development and promotion for enhancing the value of Sareb's assets when they are put on sale. With this, the company has so far invested €99.4 million in finishing uncompleted building work and developing its own land, which as a whole represents the construction of 6,446 properties, of which 908 have already been handed over.

With regard to rentals, the results obtained between January and June show that renting is an effective channel for accelerating the rate of divestment. In fact, during these first six months many assets have been sold that were previously being rented. The stock of rental properties has remained stable compared to the same period of the previous year, with 7,846 rental properties.

Also during this period we would mention that the REIT, Témproe Properties, promoted by Sareb and specialising in residential rentals, was listed on the Alternative Equity Market (MAB) in April. Six months



Picture: Apartment building in Gijón (Asturias).

In these first six months of the year, Sareb has continued with its commitment to a professionalised business that is strongly segmented

after it began operating in November 2017, its portfolio of assets is seen to be evolving positively with an occupation rate that has gone up from the initial 84% to 89%, and a half-point drop in the level of unpaid rent, down to 5%. These results place the company on the right path towards attaining its objectives by 2020.

Special mention should be made of starting with the renting of residential and commercial properties in the Hacienda del Álamo holiday complex, in Murcia, after the Adh Hotel Group was awarded the operating contract. The resort, which will operate under the Sheraton brand name, has a wide selection of leisure amenities, mainly a major golf course and other amenities for sport and personal relaxation.

In short, in the first six months of 2018 Sareb has continued with its commitment to a professionalised business that is strongly segmented. The initiatives under way are alternative ways of divestment for the company and help to increase the value of its assets, which, ultimately, will enable Sareb to carry out its mandate to divest as efficiently as possible.

However, we should not close the chapter of reviewing the activity over these past months without mentioning that, side-by-side with its divestment mission, the company aspires to leaving a legacy and contributing to the consolidation of the sector by revitalising it and the impetus of new tools that transform and modernise the market within a framework of good governance, innovation and sustainability. Amongst its initiatives, we would highlight the social housing programme with its stock of 4,000 properties that Sareb has placed at the disposal of the autonomous regions and town councils. So far, agreements have been signed with ten autonomous regions and six town councils, which have benefitted almost 6,000 people at risk of exclusion.



Picture: Homes in Mijas (Malaga).

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GET TO KNOW US

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Picture: Homes in Sagunto (Valencia).

Who are we?

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

The agreement established that a management company would be set up to which the properties awarded and developer loans would be transferred from banks undergoing difficulties due to their excessive exposure in the real-estate sector, so that they could liquidate their assets in an orderly manner over a 15-year period, until November 2027.

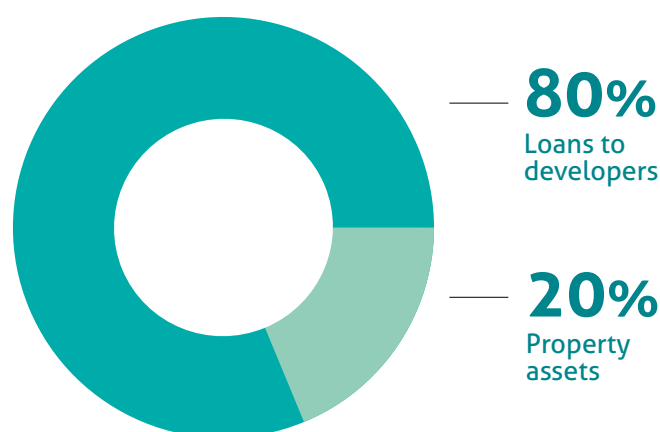
Sareb received

200,000
ASSETS

valued at

€50,781m

of which...



A key instrument for the recovery of the financial and real-estate sector in Spain



Mission

Divesting assets over a maximum of 15 years, optimising their value. Sareb 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.



Vision

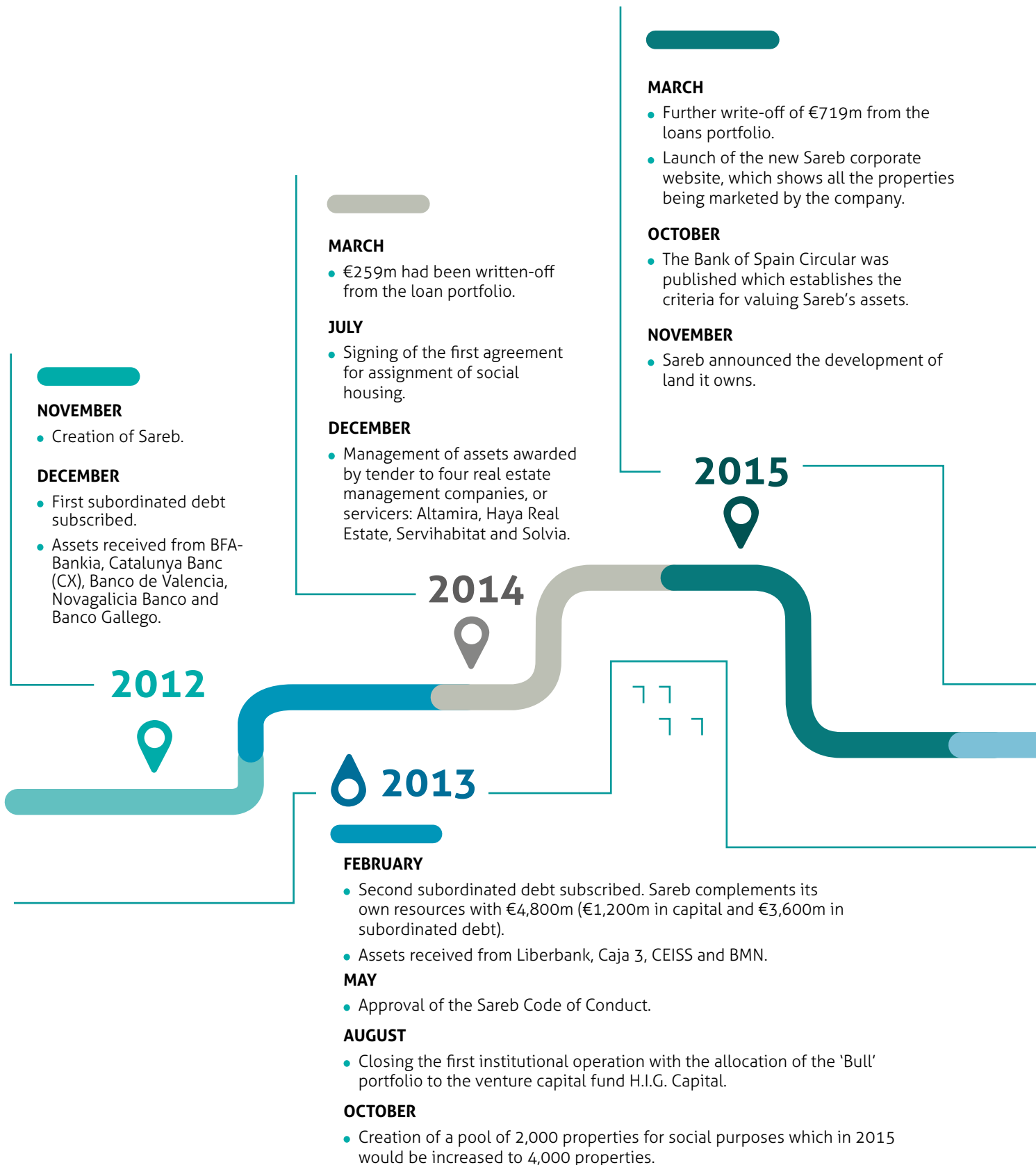
Sareb is a private undertaking committed to fulfilling the public mandate that it has been entrusted with, contributing to the recovery of the financial sector and the Spanish economy. In this process the professional qualifications and ethics of its employees are crucial.



More information on [What is Sareb?](https://www.sareb.es/en_US/about-us/who-we-are/about-us)

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

A tour through our history



MARCH

- Further write-off in the Sareb portfolio with €2,044m in provisions.¹

MAY

- Capitalisation of €2,170m of subordinated debt to cover write-offs in the portfolio.

SEPTEMBER

- Sareb joined forces with developers in the real-estate sector for developing land for residential use under a system of co-investment and swaps.

DECEMBER

- Changes introduced into the accounting legislation governing Sareb making it possible to reflect impairment against equity instead of charging it to profit/(loss).
- Closing the largest institutional transaction, the sale of the 'Eloise' portfolio, for a nominal value of €553m.

FEBRUARY

- Sareb sold its holding in Parque Corredor to the joint venture of Redevco and Ares Management.

MARCH

- ADH Hoteles was awarded the Hacienda del Álamo resort, in Murcia, which will operate under the Sheraton brand name.

APRIL

- The REIT Témopore Properties made its debut on the Alternative Equity Market (MAB).

JUNE

- Sareb advanced toward a territorial structure for easier management and divestment of assets.

 **2016**
 **1HY 2018**
 **2017**
APRIL

- Creation of the area for Development, Promotion and Investment (DPI).

JUNE

- Launching of the online channel for the sale of loans.

NOVEMBER

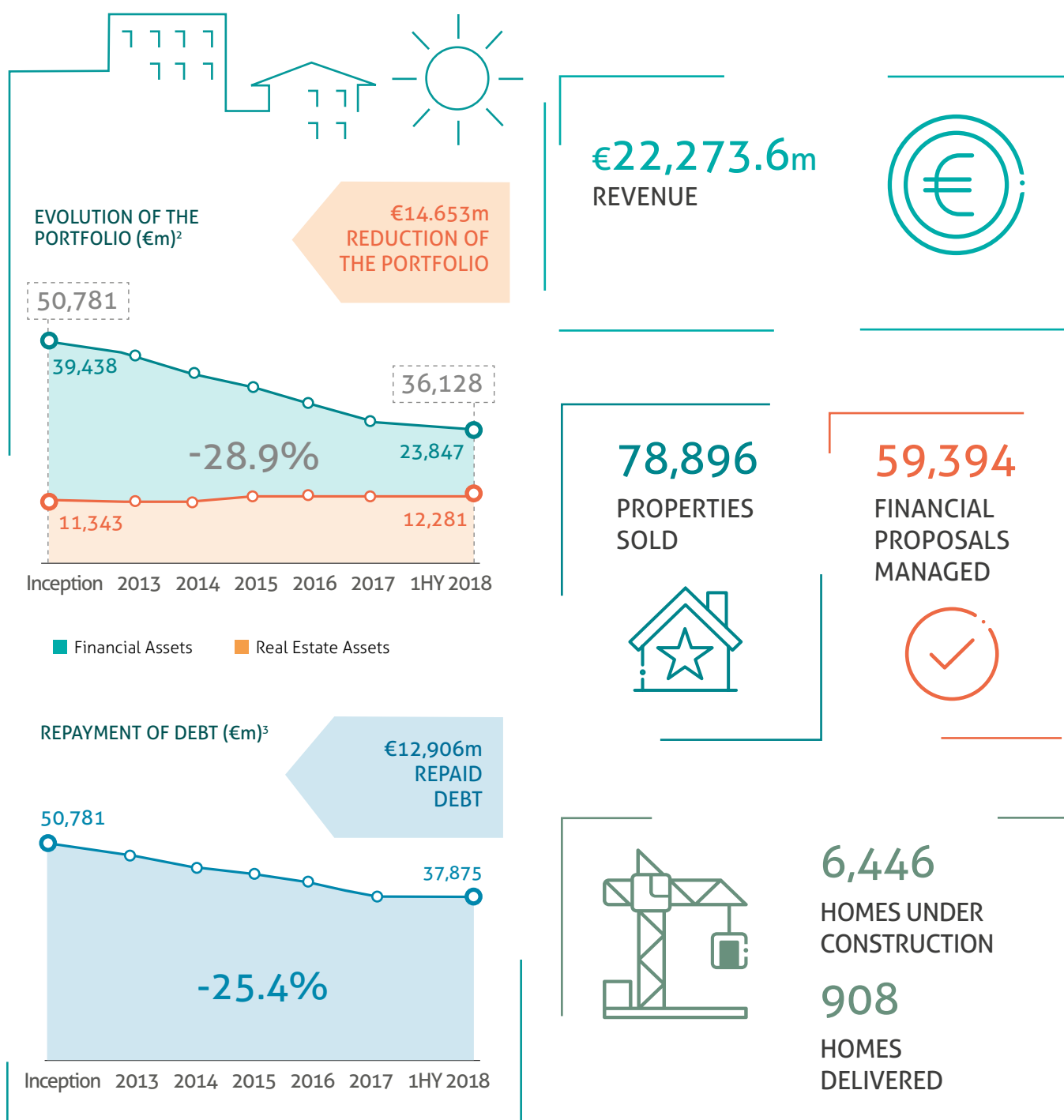
- Creation of the REIT, Témopore Properties, with a portfolio of 1,554 assets transferred by Sareb for the value of €175m.

DECEMBER

- Annual record in property sales, with a total of 18,925 units, 86% residential.

¹ From application of the 2015 Bank of Spain Circular which establishes the criteria for valuing Sareb's assets and requires it to capitalise €2,171m of the Company's subordinated debt.

Attaining our objectives: What have we achieved so far?



² Not including accumulated amortisation/depreciation or impairment.

³ Includes amortisation/depreciation of €889m made in 2018 and charged against 2017 and €604.8m repaid in February 2018 and charged against 2017.

Beyond our mandate: our legacy

Sareb's activity is not limited exclusively to carrying out its mandate, but it also aspires to leaving a positive mark on the sector, the economy and Society in general

Innovation as a driving force in revitalising the sector

Since it was created in 2012, Sareb has worked to provide an impetus to the recovery of the property market. To achieve this, the company has placed innovation at the centre of its strategy and has developed new management models, which has helped to give impetus to a sector that had been paralysed by the recession.

This novel approach has contributed to defining a new playing field in which new players are consolidated –such as real estate management companies or servicers– and new products and break-through services are developed, at the same time as fostering open collaboration with start-ups and other firms in the sector with a strong innovative component linked to Real Estate Tech.

Examples of innovation since 2013



Ibero Project

Under this project the Sareb portfolio is allocated to four servicers, companies specialising in the management and sale of properties and loans:

- Altamira Asset Management
- Haya Real Estate
- Servihabitat
- Solvia



Online channel for the sale of loans

An online channel for selling debt which is an alternative method of divestment for Sareb.

With this initiative the company provides visibility for its loans portfolio and enhances transparency in the market for selling non-performing loans (NPLs).



Tépore Properties

Creation of a REIT for attracting a higher number of investors and speeding up the pace of divestment of Sareb's property portfolio through assets to be used for renting.



Visita.Me

An innovative solution at its pilot stage, which enables anyone interested in Sareb assets to organise their visit to the properties independently and easily through a mobile application.



Sales Growth Plans (SGP)

Joint collaboration initiatives with Sareb debtors for them to sell properties which are set up as collateral for their loans and in this way obtain the liquidity that will enable them to reduce their debt to the company.

Impetus to the social fingerprint

Since it was created, Sareb has signed agreements for assigning social housing with ten autonomous regions and six town councils

Sareb's social vocation is a part of its own creation, as it was set up with the public commitment of paying off debt endorsed by the Spanish Public Treasury.

That vocation is evident in how it works and, as is to be expected, contributes to palliating the housing needs of groups at risk of exclusion.

The stock used for these purposes consists of 4,000 properties, of which 2,360 have already been committed, benefiting around 5,876 people⁴. In addition to the agreements with autonomous regions and town councils, Sareb assigns properties through its own agreements made with families who are socially vulnerable. At the close of the half-year period some 692 people⁵ have benefited from this initiative.



Picture: Hotel in Ávila.

⁴ Estimate based on the average size of homes according to the National Institute of Statistics (INE) (2.49 people in 2017) (considering committed properties).

⁵ Own estimate calculated for an average of 4 people per unit in properties assigned through agreements signed with Sareb itself.

Initiatives in social housing

Affordable Homes Aid

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

Aid to groups in a situation of social emergency

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

Alternative Affordable Rentals

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



4,000

Stock of homes intended for social purposes

2,360

properties used for rented social housing



5,876

People who have benefited from these social housing programmes



692

People benefiting from agreements with Sareb itself for assignment of properties

Agreements for assignment of social housing



10

AUTONOMOUS REGIONS



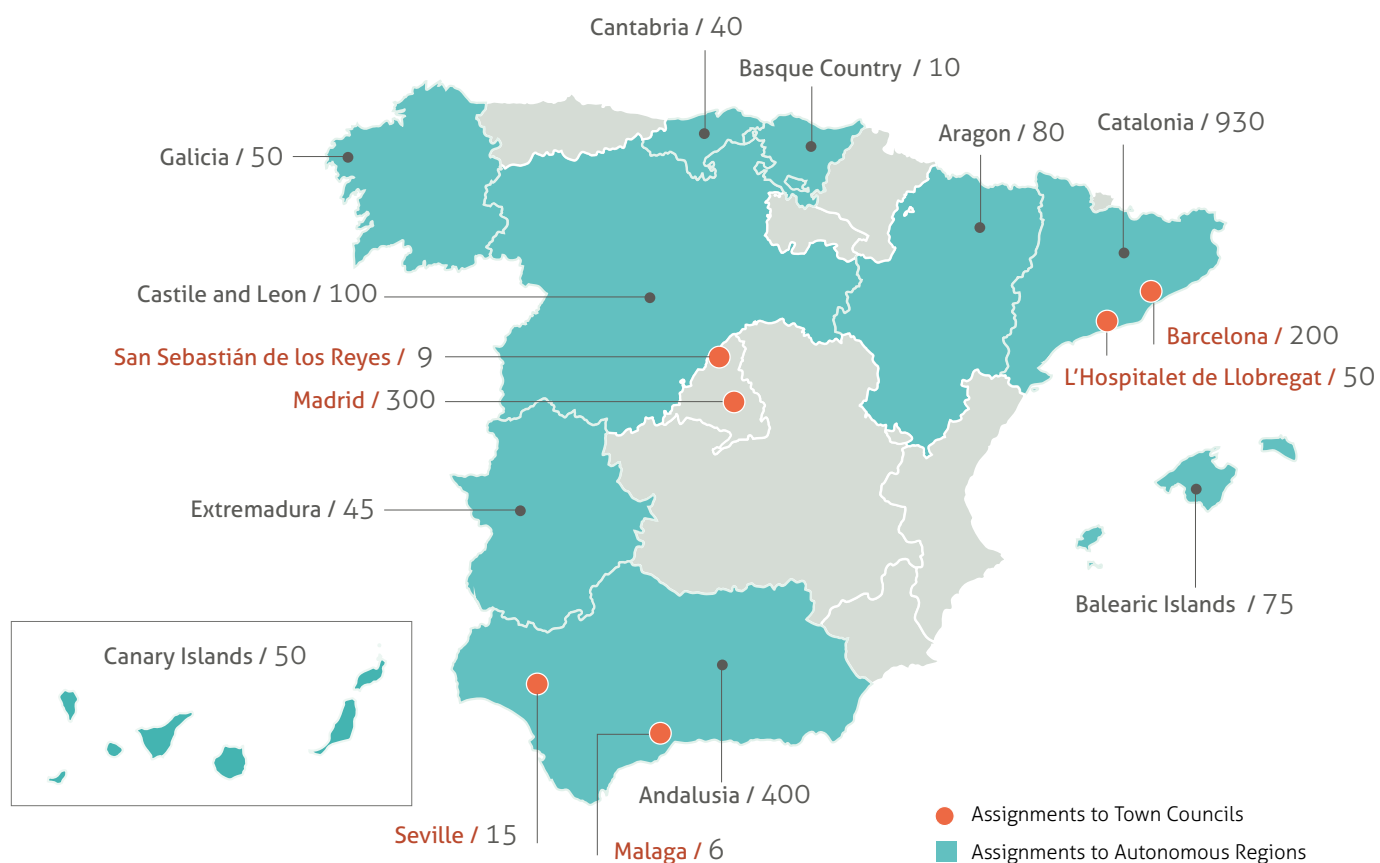
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TOWN COUNCILS



Picture: Apartment building in Arganda del Rey (Madrid).

1. Agreements with autonomous regions and town councils for assignment of social housing (No. of properties assigned)



Picture: Homes in Velilla de San Antonio (Madrid).

Sareb also demonstrates its commitment to other social purposes such as improving the employability of people living in the company's social rental properties. Along these lines, in the first months of 2018 it launched the programme 'Building future: jobs with social value', which it implements in collaboration with the Integra Foundation.

Furthermore, since 2016, within the framework of the initiative Sareb Ambassadors, some volunteer employees share and disseminate Sareb's values and activities with the educational community.



Building future: jobs with social value

This initiative was set up to help people at risk of social exclusion holding a social rental contract in a Sareb property

The programme makes available to people in a vulnerable situation the social and employment tools that they need for being able to enter the employment market. Training workshops are given by volunteer employees of Sareb and take place in the Strengthening School of the Integra Foundation.

With the implementation of this project, Sareb becomes a member of Commitment Integra, a network of companies and organisations committed to creating social value through socially responsible employment support, implemented by the Integra Foundation in 2015.



Consolidated international positioning

Since it was created, the Sareb business model has become an example to be followed in other countries which are currently looking for formulas similar to the one applied in Spain for restoring the health of their financial systems.

This interest in the company's activity has also transcended as far as countries like Mongolia, whose growing volume of non-performing loans (NPLs) leads to, amongst other alternatives, the need to create a company for managing these assets.

Early in the year, members of the Parliamentary Standing Economic Committee and the Central Bank of Mongolia met with Sareb representatives; they showed particular interest in getting to know the capital structure of the company, its process for acquiring assets and the composition of its portfolio, plus matters related to good governance and transparency.

More recently, Sareb also participated in a work session in Kazakhstan, during which the Chairman of the company, Jaime Echegoyen, spoke of the Spanish experience in managing non-performing loans. The encounter took place as part of a series of meetings promoted by the World Bank for delving more deeply into the role that the financial sector could play in revitalising the Kazakh economy.

Since its creation Sareb has met with national institutions interested in getting to know its experience, such as the case of Slovenia and the BAMC⁶, the country's bank asset management company.



Picture: From left to right, Manuel Gómez Gilabert, general director of Control and Risk at Sareb; Iker Beraza deputy director for Sareb Strategy, Prices and Information; Miriam Goicoechea, manager for Portfolio and Market Analysis at Sareb; and Jaime Echegoyen, Chairman of Sareb, after the meeting at the company offices with a delegation from Mongolia composed of members of the Parliamentary Standing Economic Committee and the Central Bank of Mongolia.

⁶ Slovenia's Bank Asset Management Company (BAMC).

2. National asset management companies in Europe

1. SWEDEN

Retriva and Securum

- Created in: 1992
- Perimeter: Real Estate Assets
- Nominal Value: €5,800m

2. GERMANY

FMS (Munich)

- Created in: 2010
- Perimeter: All Kinds
- Nominal Value: €175.7m

EAA (Düsseldorf)

- Created in: 2009
- Perimeter: Structured assets
- Nominal Value: €77,500m

3. DENMARK

Finansiell Stabilitet

- Created in: 2008
- Perimeter: Mostly Sponsored Loans
- Nominal Value: €2,280m

4. SWITZERLAND

SNB StabFun

- Created in: 2008
- Perimeter: Subprime mortgages, CREE and securitised loans
- Nominal Value: €30,000m

5. UNITED KINGDOM

UKAR

- Created in: 2008
- Perimeter: Mortgages
- Nominal Value: £17.2m

Source: Own compilation from corporate websites of the entities (all nominal values correspond to the inception date).

6. IRELAND

NAMA

- Created in: 2009
- Perimeter: CRE, land and real estate developments
- Nominal Value: €74,000m

7. SLOVENIA

BAMC

- Created in: 2012
- Perimeter: Non-Performing Loans (NPLs) and Sponsored Loans
- Nominal Value: €4,900m

8. SPAIN

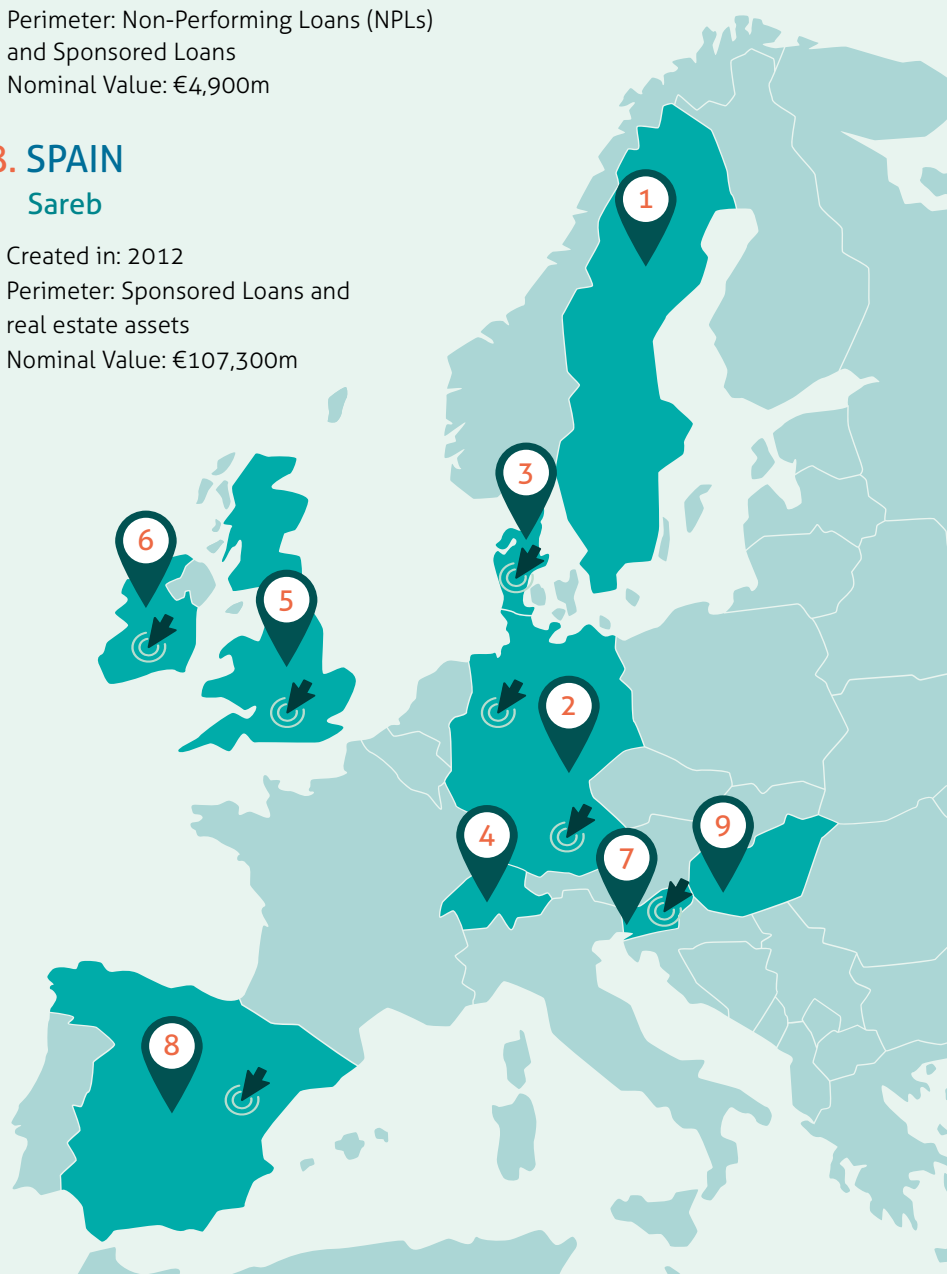
Sareb

- Created in: 2012
- Perimeter: Sponsored Loans and real estate assets
- Nominal Value: €107,300m

9. HUNGARY

MARK

- Created in: 2015
- Perimeter: Real Estate Assets
- Nominal Value: \$362m



Click on this icon to see more information on each country.



WHAT ARE THEY SAYING ABOUT SAREB?

The European Commission has made reference on several occasions to the important role of Sareb in the resolution of the financial crisis in Spain, thanks to being rapidly created and put into operation, which has contributed to the recovery and reactivation of the housing market⁷.

During the first six months of 2018, which saw the publication of the second progress report on the reduction of NPLs⁸ in Europe, the European Commission highlighted, amongst other aspects, Sareb's management in this respect and the company's role in developing the servicing industry in Spain.

For its part, after its last visit to Spain in April 2018⁹ the European Commission and the European Central Bank (ECB) also highlighted the company's increased gross margins, while also indicating the existence of areas of improvement in financial results.

In addition, Sareb, along with other European asset management companies, participated actively in working groups for defining the common criteria to be employed by future asset management companies that are created in the Eurozone based on the agreements reached in the Economic and Financial Affairs Council of the UE. These concern issues such as the type of assets to be included in the perimeter, the most suitable capital structure and the criteria for good governance that are to govern companies of this kind.



Picture: Hacienda del Álamo Resort, in Fuente Álamo (Murcia).

⁷ Evaluation of the Financial Sector Assistance Programme. Spain 2012-2014 and What makes a good 'bad bank'? The Irish, Spanish and German Experience.

⁸ Second Progress Report on the Reduction of Non-Performing Loans in Europe.

⁹ Statement by the staff of the European Commission and the European Central Bank following the ninth post-programme surveillance visit to Spain.

3

CORPORATE GOVERNANCE

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Picture: Sareb headquarters, in Madrid.

Governance model

The supervision, structure and operating rules of Sareb guarantee the transparency and integrity of its actions

Sareb meets the specific requirements for sound governance required under applicable legislation and acts under strict rules of ethics that safeguard its integrity at all times as well as its transparency and commercial and professional reputation. The special features of its corporate purpose and the public interest associated to its activity mean it is also subject to supervision by the Bank of Spain and the Spanish National Securities Market Commission (CNMV). In addition, the Monitoring Committee, formed by the Bank of Spain, the Ministry of Economy and Business, the Ministry of Finance and the CNMV, analyses Sareb's compliance with the general objectives.



SUPERVISION

National and international



Bank of Spain

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



CNMV

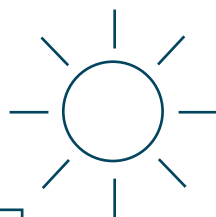
Issuer of fixed income and registration authority for Banking Asset Funds (FABs)



Monitoring Committee

Fulfilment of general targets:

- Bank of Spain
- Ministry of Economy and Business
- Ministry of Finance
- CNMV



More information on **Corporate Governance**
https://www.sareb.es/en_US/about-us/corporate-governance



GOVERNANCE



COMPLIANCE AND REGULATION

Monitoring of the best governance practices applicable to listed companies

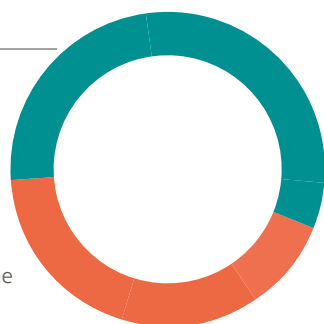
Composition of capital

54.1%

Private Capital

45.9%

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



Board of Directors

15 directors



▶ Executive Committee

6



▶ Auditing Committee

8



▶ Remuneration and Appointments Committee

8



▶ Support committees

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



Independent Director

Strict regulatory regime: which helps to ensure that the business is carried out according to legislation, with integrity and ethics, in order to uphold its reputation



Internal control system

Strategic processes and government (SCEG¹⁰)

- Strategy and reputation

▶ Ethical standards (SCISNE¹¹)

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

▶ Risk management (SCIR¹²)

- Credit
- Property price
- Liquidity
- Operating
- Interest rate

▶ Financial Information (SCIIF¹³)

- Risk of reliability of financial reporting



¹⁰ Internal control system for governance and strategy process (SCEG).

¹¹ Internal control system for Ethical Standards (SCISNE).

¹² Internal control system on Processes for Managing Business Risks (SCIR).

¹³ Internal control system on financial information (SCIIF).

The composition of the Board of Directors and its functioning

Sareb's Board of Directors has a balanced composition with an ample majority of non-executive directors

At the beginning of 2018 the Board of Directors of Sareb was composed of 14 members, of which one third were independent, in compliance with the provisions of Royal Decree 1559/2012, which establishes the legal system governing asset management companies.

However, during the first half-year period of 2018 the Board of Directors changed to 15 members following

the appointment of Juan Ignacio Ruiz de Alda as a new Sareb director, representing the Fund for the Orderly Bank Restructuring (FROB).






































































































































Ruiz de Alda was appointed for five years following the criteria established for the purpose in applicable legislation, in the Articles of Association and the Board Regulations, with special value given to the skills, knowledge and experiences required for the Board, as well as the dedication necessary for performing his duties and the availability and existence of any possible incompatibility of the candidate. He was appointed to replace Lucía Calvo, who resigned as director of Sareb on 1 January.


Responsibilities and functions of the Board of Directors and its Committees¹⁴

BOARD OF DIRECTORS The body holding the representation, administration, management and control of the company	Auditing Committee	Responsibility for internal control systems, requisite financial information, and associated non-financial information, auditors or auditing firm, and conflict of interests and related transactions.
	Remuneration and Appointments Committee	Amongst its functions are the duty to inform, propose and assess the suitability of the Sareb directors, and to inform on the general policy on remunerations and incentives, amongst others.
	Executive Committee	Created in March 2017, its activity focusses on the approval of business transactions and other powers delegated by the Board of Directors.
	Support committees	Formed by representatives of the management team and representatives of the shareholders of the Company.


¹⁴ The nature, composition, functions and scope of action of the Board, Auditing Committee and Remuneration and Appointments Committee are implemented within its own Regulations, which are available on the Sareb corporate website.

Profile of Sareb directors

First appointment	Director	Nature	Committees to which they belong	Profile and competences
05/03/14	Jaime Echegoyen Enríquez de la Orden	Executive	  	     
27/11/13	José Poveda Díaz	Independent	  	     
27/11/13	Isidoro Lora-Tamayo Rodríguez	Independent	  	     
14/04/15	FROB (Representado por Jaime Ponce Huerta)	(D) FROB	  	     
10/06/15	Francisca Ortega Hernández-Agero	(D) Banco Santander	  	     
10/06/15	Pedro Antonio Merino García	Independent	  	     
25/11/15	Enric Rovira Masachs	(D) Banco Sabadell	  	     
05/05/16	Javier García-Carranza Benjumea	(D) Banco Santander	  	     
28/11/16	Iñaki Goikoetxea González	Independent	  	     
28/11/16	Javier Bartolomé Delicado	Independent	  	     
13/12/17	Jaime Rodríguez Andrade	(D) Banco Popular ¹⁵	  	     
13/12/17	Jordi Mondéjar López	(D) Caixabank	  	     
13/12/17	Eduardo Aguilar Fernández-Hontoria	(D) FROB	  	     
13/12/17	Antonio Cayuela Gil	(D) Caixabank	  	     
17/05/18	Juan Ignacio Ruiz de Alda	(D) FROB	  	     

 Executive committee Remuneration and Appointments Committee Finance Legal Auditing Committee Chairman of the committee Real Estate Sector Public Authorities

(D) Proprietary

 Business management International

More information on Board of Directors

https://www.sareb.es/en_US/about-us/corporate-governance/board-of-directors¹⁵ Banco Popular is wholly owned by Banco Santander.

4

BUSINESS MODEL

DIVESTMENT MODEL



387
EMPLOYEES



4 SERVICERS

ALTAMIRA



Servihabitat

Solvia

601
SUPPLIERS



SHAREHOLDERS



BALANCE SHEET PERFORMANCE

2012
€50,781m

1HY 2018 –

€23,847m

€36,128 m

€12,281m

DIVESTMENT SINCE
2012 (-28.9%)

LOANS (66%)

PROPERTIES (34%)

STRATEGIC GUIDELINES TO THE 2018-2027 BUSINESS PLAN

ALTERNATIVE CHANNELS FOR DIVESTMENT





Picture: Hotel Hacienda del Álamo, in Fuente Álamo (Murcia).



**NEW OPERATIONAL
MANAGEMENT MODEL**

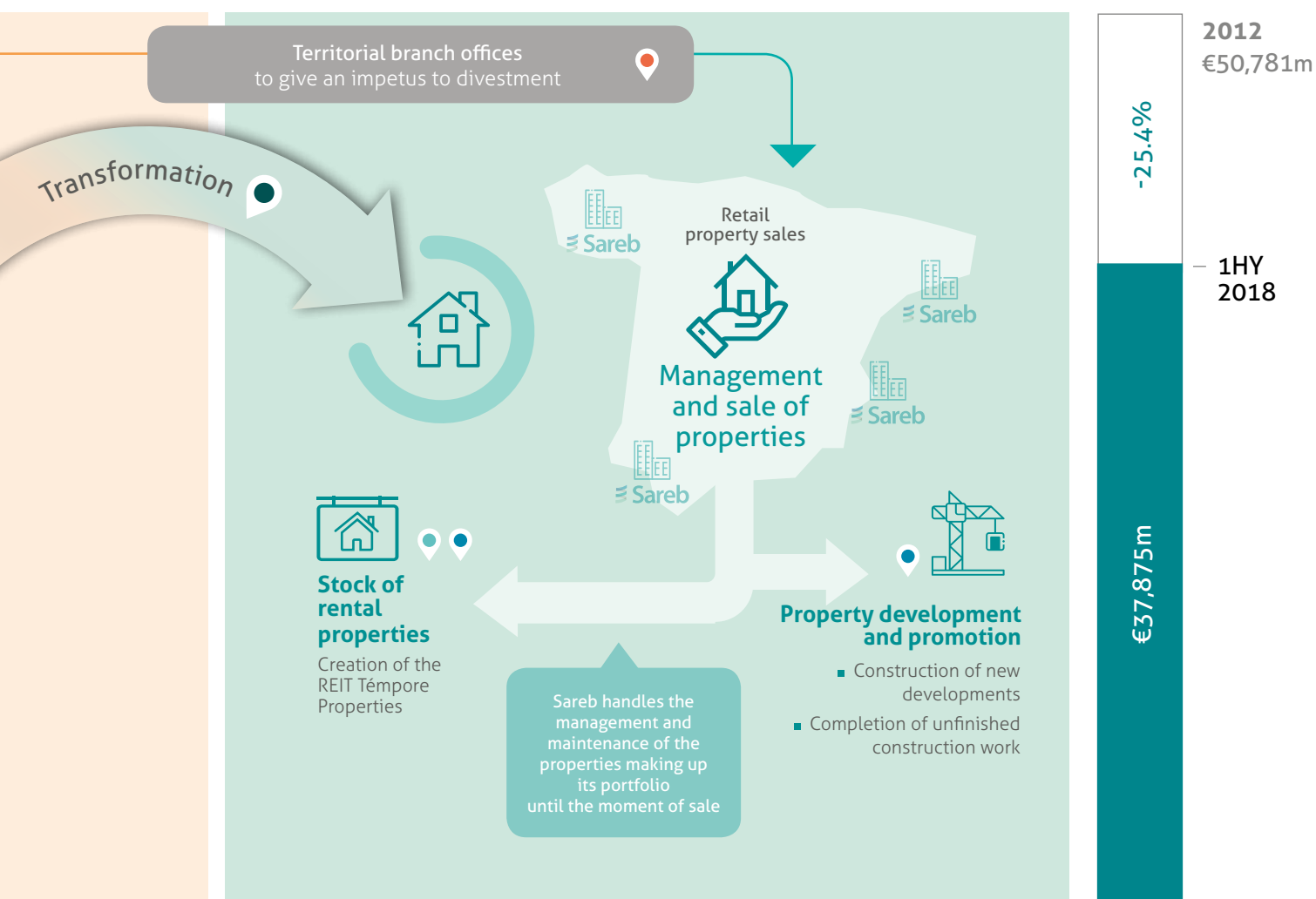


**INTENSIFICATION OF THE
TRANSFORMATION OF THE
BALANCE SHEET**



**FOCUS ON
CREATING VALUE**

**REPAYMENT
OF SENIOR
DEBT**



5

FIRST HALF-YEAR
MILESTONES

Significant Events	29
Main figures for the half-year period	31



Picture: Hotel Playa Roca, in Lanzarote.

Significant Events

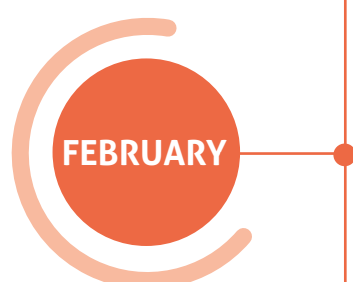


A protocol for expediting insolvency proceedings

Sareb signed a collaboration agreement with the Register of Experts in Forensic Economics (REFOR) to streamline the insolvency proceedings of borrowers whose assets are affected.

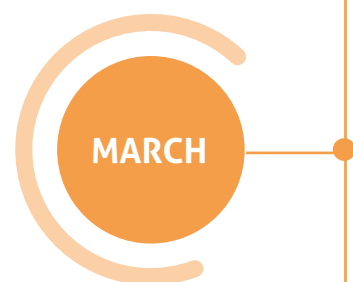
The joint venture of Redevco and Ares Management acquires Sareb's interest in Parque Corredor

The participation of Sareb in Parque Corredor, the main shopping centre in the East of Madrid (Corredor del Henares) was a 40% holding. The sale, classified as a highly complex transaction given the fragmentation of the centre, took place for a figure close to €140 million.



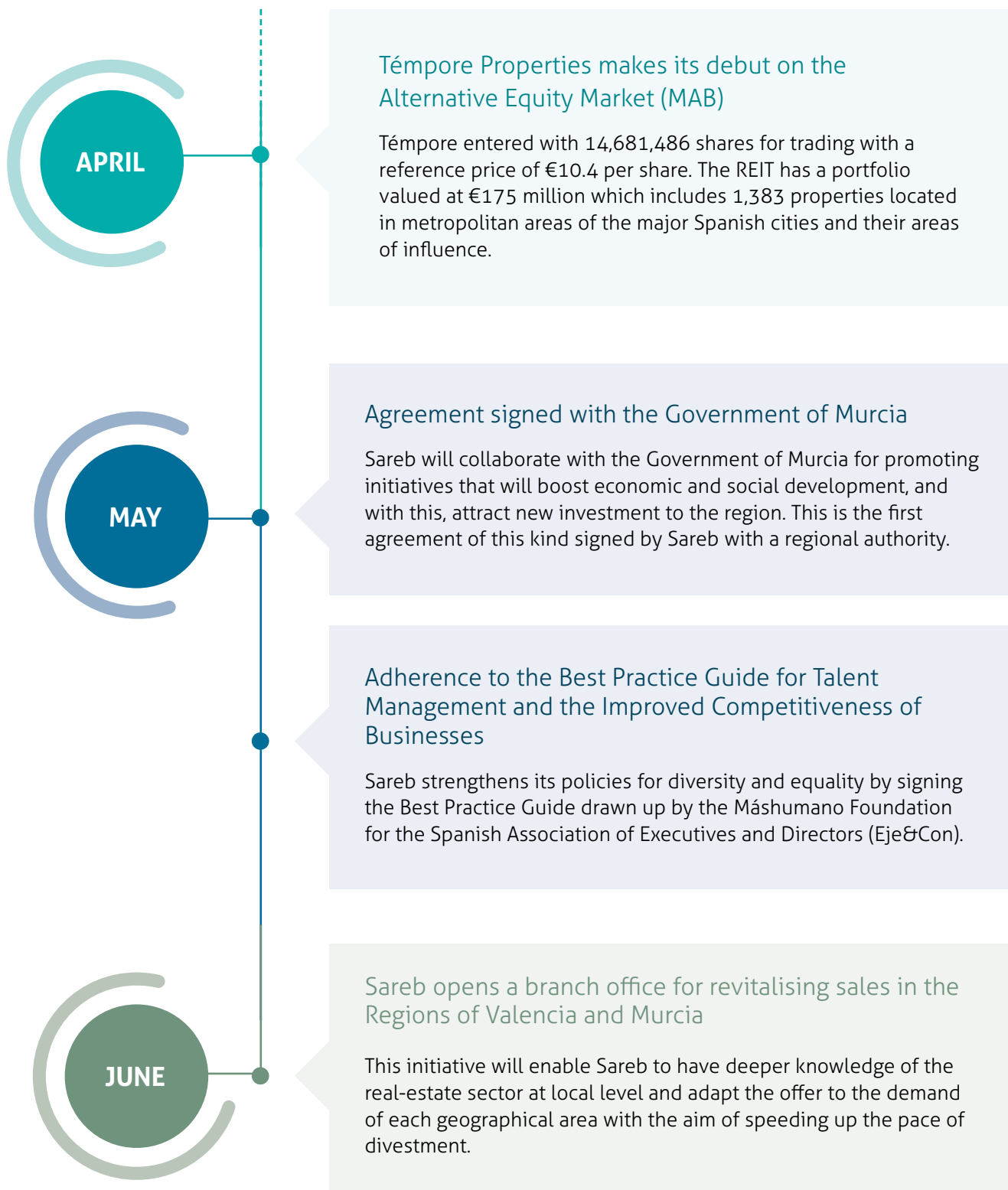
New online search engine for electronic auctions

In its wager for greater transparency in its portfolio, Sareb launched a search engine for judicial auctions on its website, from amongst those published in the Official State Gazette (BOE), featuring properties that appear as collateral for some of the Sareb loans.



Sareb assigns the operating of the Hacienda del Álamo resort, in Murcia

An agreement was signed with Adh Hoteles (Avintia Group), which, in association with Marriott International, in 2018 will inaugurate the hotel Hacienda del Álamo Golf & Spa Resort, in Murcia, under the Sheraton international brand name. The hotel concession will create 120 direct jobs.



More information in **Sareb News**

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

Main figures for the half-year period

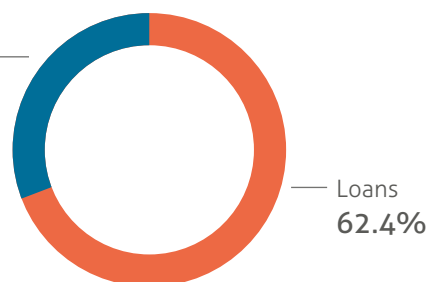
REVENUE

Total Income (€m)



Per type (€m)

Properties
37.6%



LOANS

Income (€m)



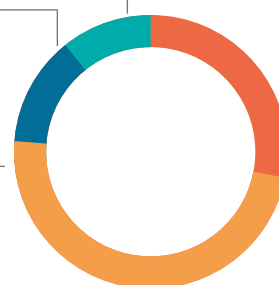
Per type (€m)

Amortisations
and repayments
162.5

SGP/
Sales from
the developers'
books
447

Interest
104.7

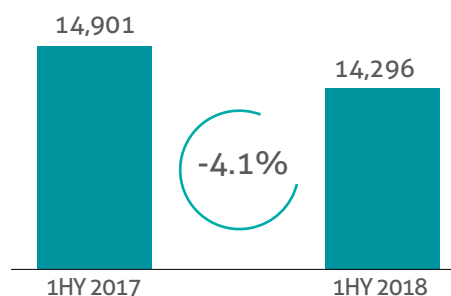
Repayment
and sale
of loans
269.1



Managed
financial proposals (No.)



Borrowers¹⁸



¹⁶ Includes other revenue for the amount of €12.1m.

¹⁷ The figures for the half-year period of 2017 were re-drafted in accordance with the change in criteria defined when extracting the information pertaining to the proposals managed.

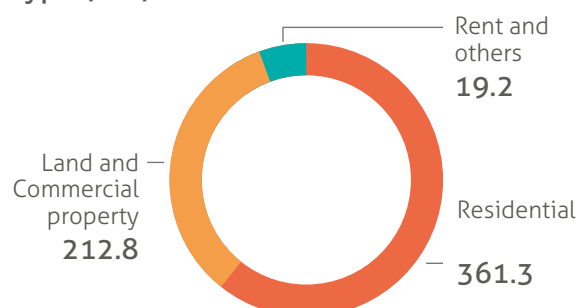
¹⁸ The figures for the first half-year period of 2017 were re-drafted in accordance with the change in criteria defined for the number of borrowers.

PROPERTIES

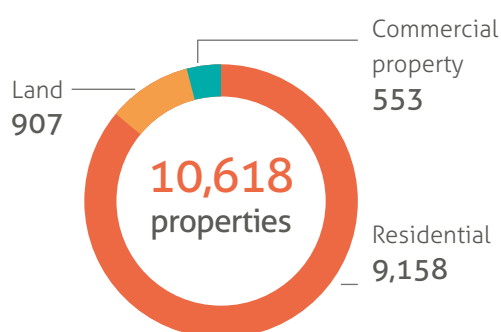
Income (€m)



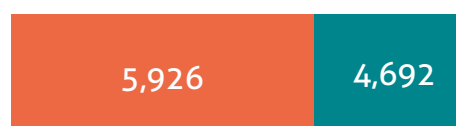
Per type (€m)



Properties sold (No.)



1HY 2018



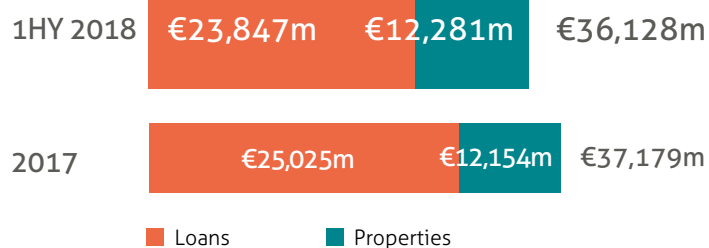
1HY 2017



Own SGP

Portfolio of Assets (€m)

-2.1%



Balance of outstanding debt (€m)

1HY 2018

€37,875m

€-3,050m

Repayment of senior debt
charged against 2017

6

SAREB
BUSINESS

Evolution of the Business Plan	34
Divestment of the portfolio	37
Management and sale of loans	41
Management and sale of properties	47
Repayment of senior debt	65



Picture: Industrial warehouse in Castellón.

EVOLUTION OF THE BUSINESS PLAN

2018-2027 Business Plan

The ultimate objective of reviewing and updating the plan is to guarantee repayment of the entire debt endorsed by the Public Treasury within the deadline given

In the first six months of 2018, the Board of Directors of Sareb approved the updating of the Business Plan for the company's remaining useful life, (November 29, 2027), in line with its annual obligation of reviewing the fulfilment of the objectives defined therein.

The updating for the 2018-2027 period took place taking into account the experience accumulated by the company since its inception, the present circumstances of the environment and the expected evolution of the property market, interest rates and regulations.

Evolution of the Business Plan during the half-year period

At the close of June of 2018 the degree of overall compliance of the objectives defined in the plan stood at 77% from the perspective of revenue obtained, and at 95% in respect of business margins.

The level of progress during these first months of the year has differed in each of the business lines. With this, the management and sale of the real-estate assets has performed well, with fulfilment at 81% in terms of revenue and even higher than the target as regards net margin, partly as a result of the projections for growth accompanying the sector.

These positive perspectives largely arise from advances in the residential market.

In the first quarter of 2018¹⁹, this segment saw a 7.6% increase in transactions and a more modest year-on-year increase of 1.3% in prices.

However, it should not be forgotten that the evolution of the residential market is quite uniform and a good portion of Sareb properties are in peripheral areas outside of the cities which have not yet seen the mentioned advances in respect of prices and transactions.

By way of example, it is worth noting that while 62% of total sales of residential assets in Spain are located in Alicante, Almería, Barcelona, Madrid, the Balearics, Malaga and in the autonomous region of the Canary Islands –the locations with more dynamic markets–, that percentage goes down to 54% in the case of Sareb, who sold assets in other locations where demand recovers more slowly.

Along these lines, Sareb's market share in the more dynamic provinces is within the ranges anticipated by the company in its Business Plan, while it is slightly lower in those areas that have recovered less strongly.

As regards the management and sale of financial assets, the maturity of the portfolio and the due date of the loans leads to reduced revenue in lines such as repayments and paying-off loans, or interest. The Company's impetus to the process of transforming loans into properties, which are more easily divested, also contributes to this.

¹⁹ National Certification Agency – ANCERT (most recent figures available).

Keys to the 2018-2027 Business Plan



Focus on creating value

Maximise the value of the assets in the portfolio through a greater number of resources for:

- promoting new developments –mainly residential– on land belonging to Sareb, and finishing uncompleted construction works, with a total anticipated investment of €1,600 million until 2027;
- investment in land amounting to €340 million for advancing in the level of development;



Intensification of the transformation of the balance sheet

Accelerating the process of transforming loans—which are less liquid– into properties –which have greater market liquidity– that are to be divested.

The target is that in 2021 real-estate assets as a whole will have more relative weight than financial assets on the company's balance sheet.



Change in the operational management model

Search for alternatives that contribute to revitalising sales in geographical areas with a high concentration of properties outside of the urban centres.

The objective is to try and counteract the push toward lower prices for other properties as a result of accelerating competition and the appearance of new players in the market.



Alternative channels for divestment

Development of new formulae and tools for pushing the pace of divestment.

Along these lines, Sareb has given impetus to the creation of the REIT, Témprore Properties, to maximise the value of the stock of real-estate assets used for rental and to revitalise that market. The company has also launched an online channel for the sale of loans, a showcase intended to bring greater transparency and dynamism to the non-performing loans market (NPLs).



New network of territorial branch offices

A new management approach for boosting Sareb's activity through detailed knowledge of its assets in local markets.

During the first months of 2018, Sareb has made progress in giving shape to a territorial organisation, by appointing managers of branch offices in the Regions of Valencia and Murcia; and Catalonia, Aragón and the Balearics.

This initiative enables Sareb to have deeper knowledge of its local markets in order to adapt the offer to the demands and needs of the different geographical areas with a higher concentration of assets, while at the same time contributing to speed up the pace of divestment.



- ✓ Acquiring a **deeper knowledge of the local markets**
- ✓ **Adapting to the demand** of each geographical area
- ✓ **Close supervision of sales process** per province

This proposal for territorial reorganisation began in 2016 with the launch of a trial project in the Central Madrid delegate office (which includes the regions of Madrid, Castilla-La Mancha, Extremadura and the Canary Islands). The good results achieved in the region under this new structure –which revitalises the sales of a portfolio of more than 14,000 assets– have now given impetus to the creation of these new branch offices in the regions mentioned and the company will soon be doing the same in Andalusia and north-western Spain.

3. Sareb assets per territorial branch office

Region of Valencia and Region of Murcia



Properties

23% of the value of the portfolio of Sareb Properties



Loans

20% of the total debt owing to Sareb

Catalonia, Aragón and Balearic Islands



Properties

28% of the value of the Sareb property portfolio



Loans

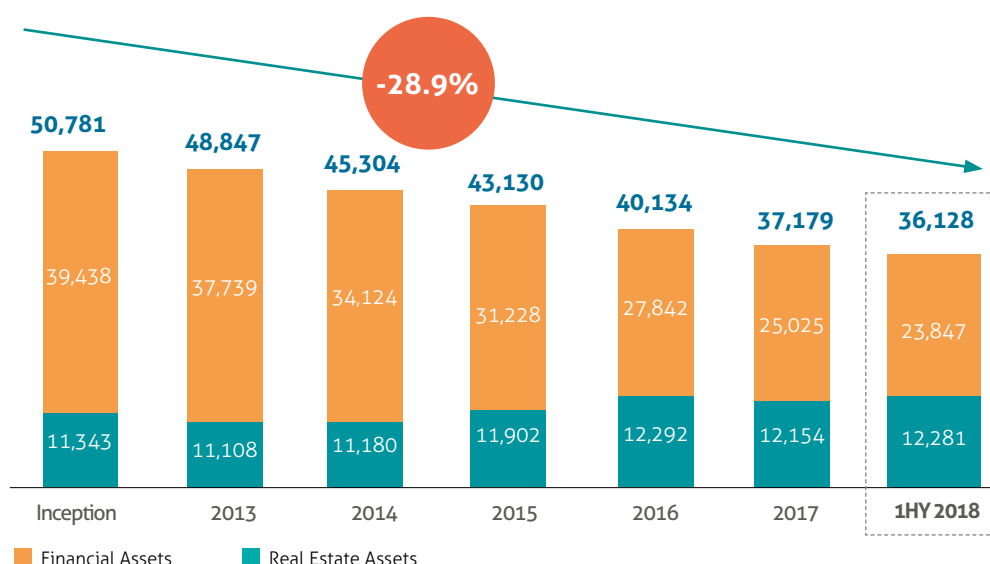
18% of the total debt owing to Sareb

DIVESTMENT OF THE PORTFOLIO

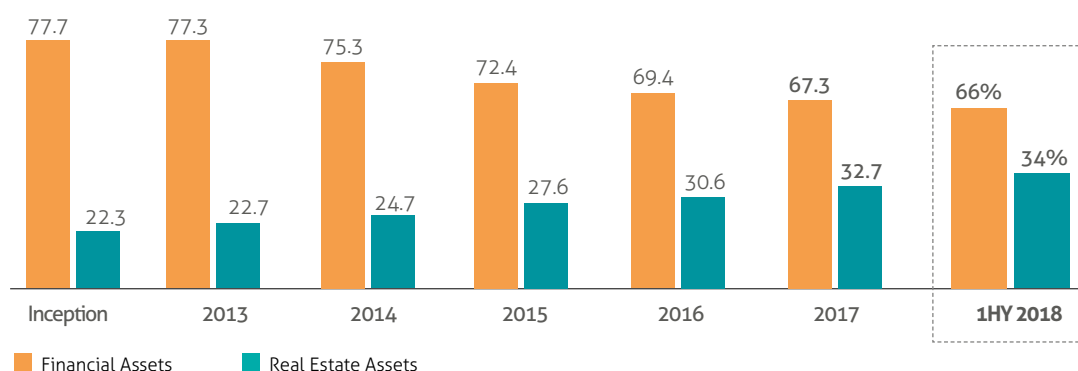
Sareb's asset portfolio has decreased by 28.9% since its inception

Sareb has continued advancing in the process of divesting its portfolio of assets, which in the first half year of 2018 went down by €1,051 million now standing at €36,128 million.

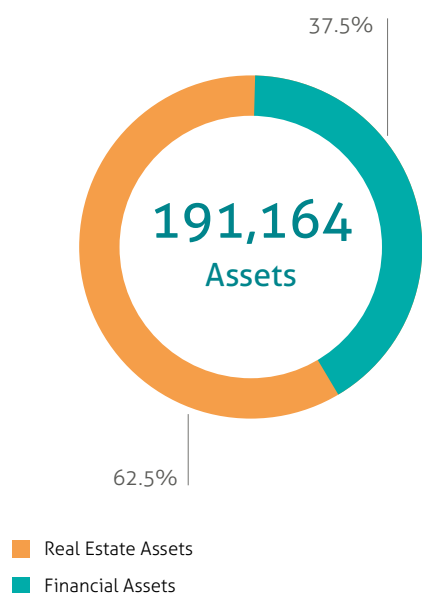
4. Evolution of the portfolio (€m)



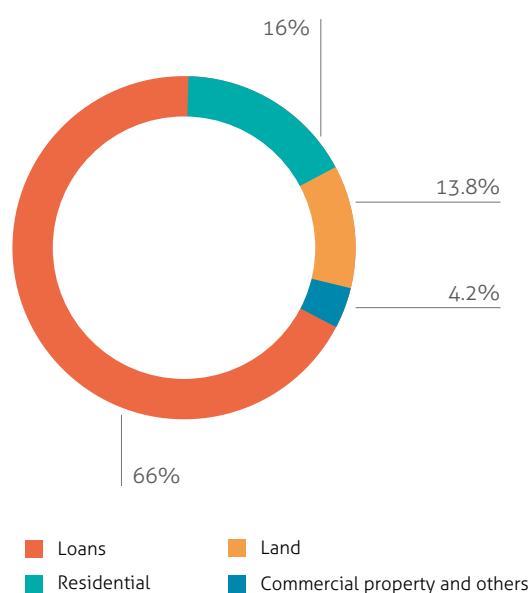
5. Composition of the portfolio (% of €m)



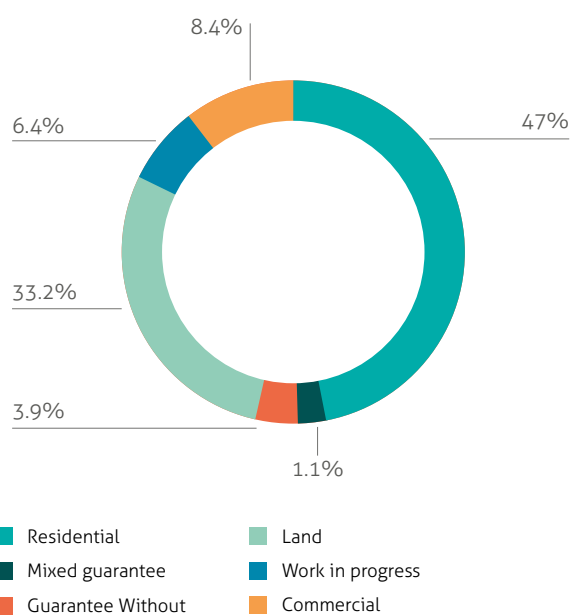
6. Portfolio (No.)



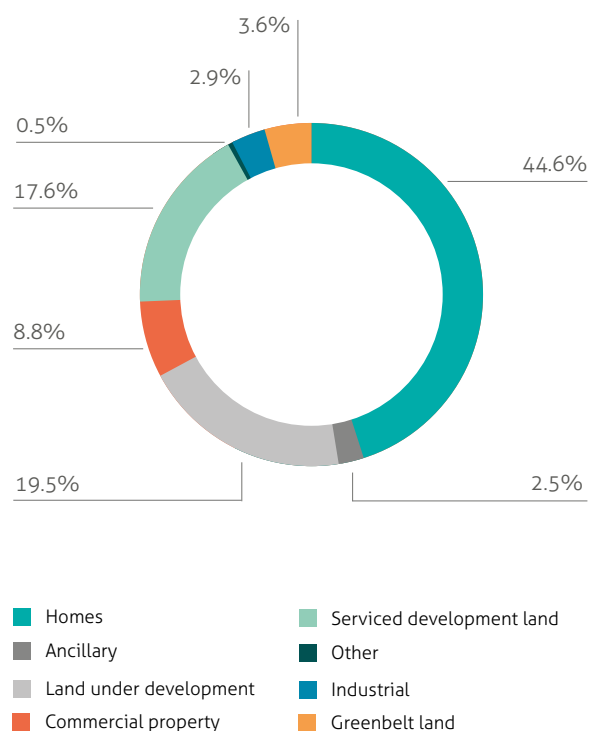
7. Breakdown per type of asset (% of €m)



8. Breakdown of financial assets per type of guarantee (% of €m / NBV²⁰)

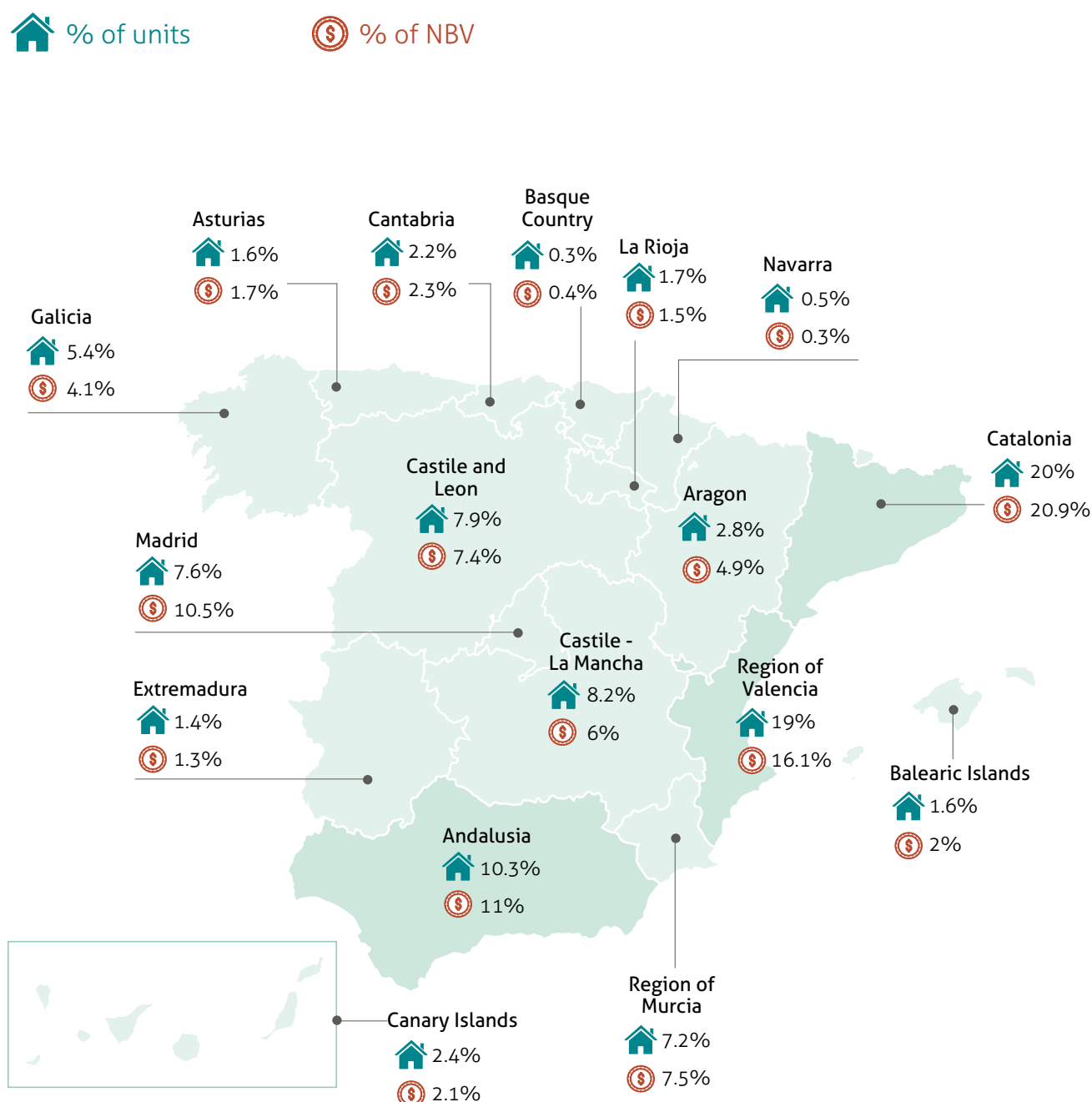


9. Breakdown of property assets per type (% of €m / NBV)



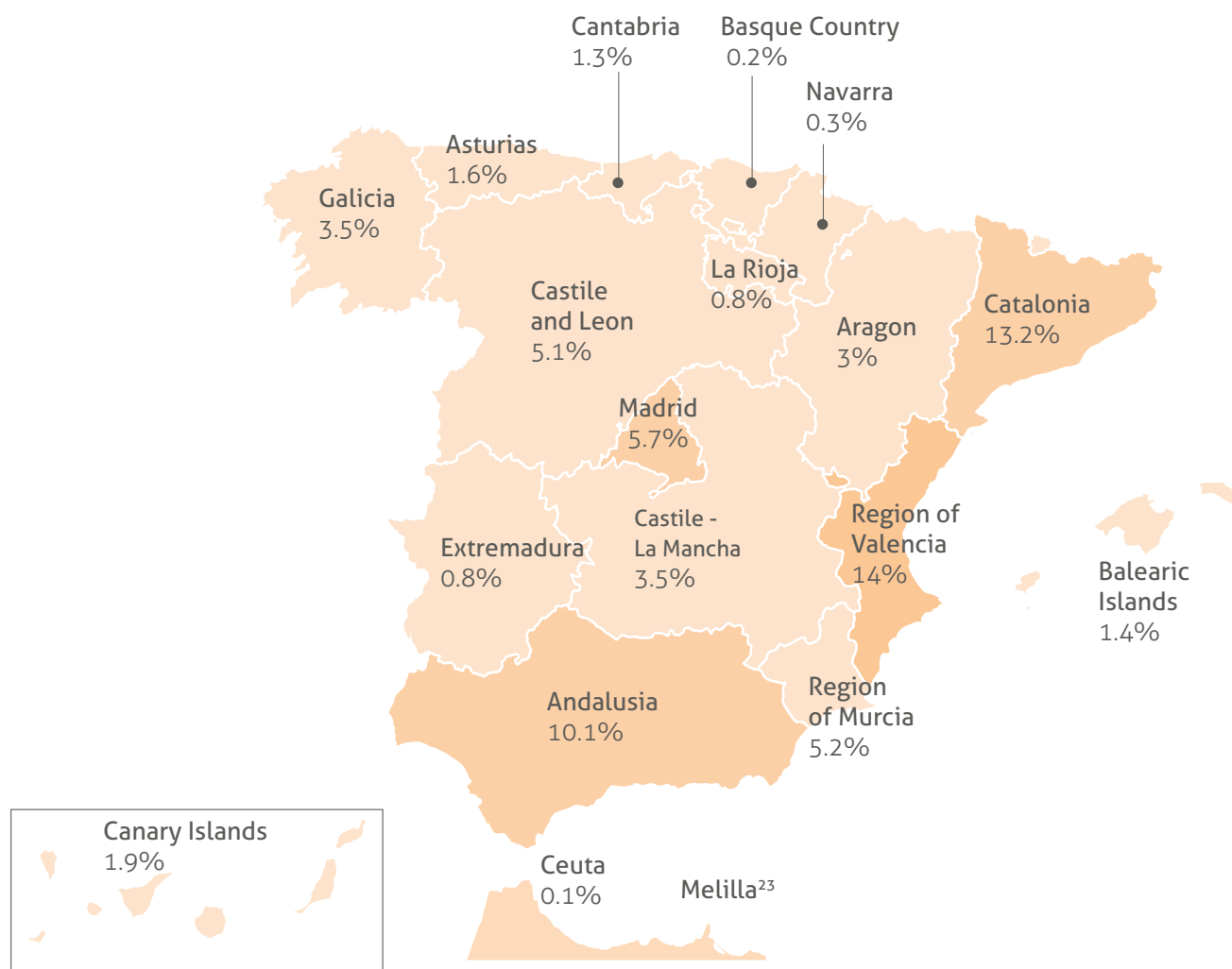
²⁰ Net Book Value.

10. Geographical breakdown of the portfolio of real-estate assets (% of units and of NBV²¹)



²¹ Net Book Value.

11. Geographical breakdown of the portfolio of first borrowers (% of €m based on debt)²²



Picture: Homes in Torre-Pacheco (Murcia).

²² 28.3% of the debt is not assigned to a specific autonomous region.

²³ The portfolio of first borrowers in Melilla accounts for 0.006% of the total.

MANAGEMENT AND SALE OF LOANS

The loans portfolio has decreased by 39.5% since its inception

2018 began with a portfolio of 73,600 loans with a nominal value of €25,025 million, representing 67.3% of the value of the assets making up Sareb's balance sheet. At the close of the first half-year period, the portfolio went down to €23,847 million, which is 4.7% less than at the end of 2017 and 39.5% less than at Sareb's inception.

From the revenue aspect, the turnover from the management and sale of loans between January and July stood at € 983.3 million, representing 62.4% of the total revenue obtained by Sareb in that period.

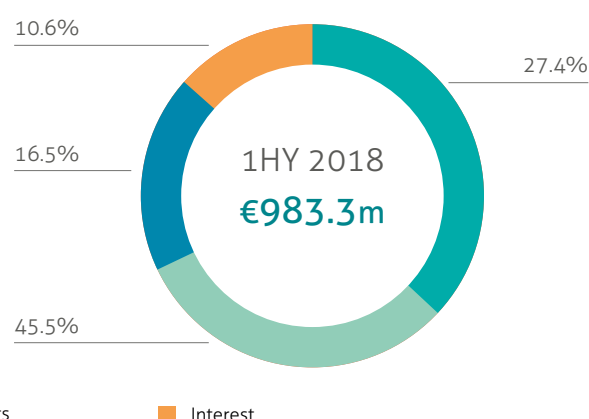
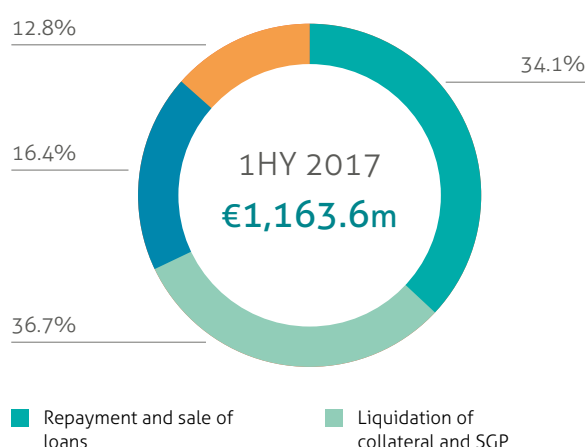
The volume of revenue under this item has gone down compared to the same period of the previous year. In fact, less relative weight has been recorded for amortisations, repayments and interest, a trend that will continue as the loans portfolio is reduced, and especially those which are up-to-date with payments. Meanwhile, that drop in revenue from the repayment and sale of loans was affected by the seasonality found in the sales channels –both retail and

wholesale– for transactions of this type, which are usually concentrated in the second half-year period.

Nevertheless, it is worth mentioning the excellent pace of liquidating collateral and the Sales Growth Plans (SGP) which shows a 4.6% increase in revenue compared to the same period of the previous year and accounts for 45.5% of the turnover obtained from the management and sale of loans. These transactions consist of looking for arrangements for facilitating the sale of the properties appearing as collateral for the loans and constitute an important line of business for Sareb.

The revenue generated by liquidating the collateral and from the Sales Growth Plans (SGP) went up by 4.6% compared to the first half year of 2017

12. Breakdown of income from managing and selling financial assets per business line (% of €m)



Active management of the loans portfolio

The strategy of debt collection is based on the collaboration and the search for joint solutions with the debtors

The high number of debtors, the volume of debt and the level of risk concentration requires proactive and systematised management of the processes. The management of Sareb's loans portfolio is based on assigning recovery strategies adapted to the characteristics of each asset.

The objective is to accelerate the collection of outstanding debt, mainly through arranging agreements, selling loans to third parties or by taking over the properties given as collateral for the loans, in order to then sell them on the retail market.

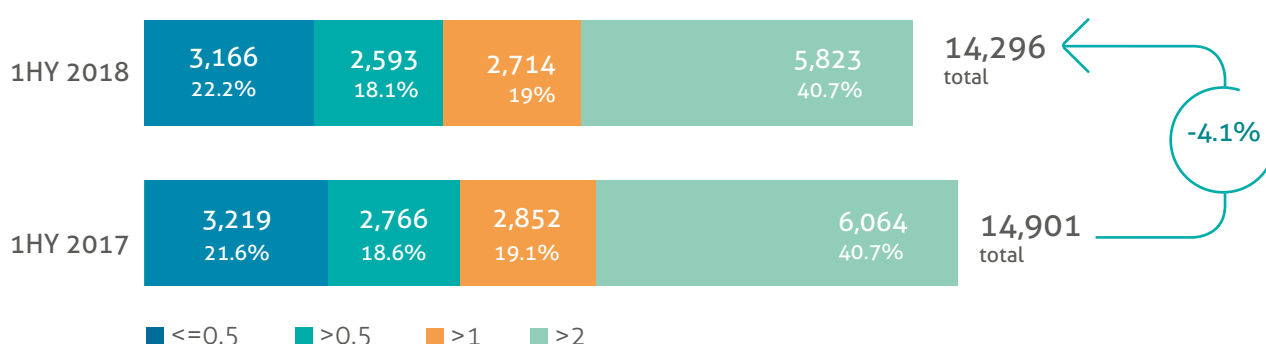


Type of borrower

59.3% of borrowers have exposure below two million, in line with the previous year.

In the first half-year period of 2018 the number of debtors went down by 4.1% compared to the same period in 2017, to 14,296.

13. Number of borrowers per ranking of debt (€m)²⁴



²⁴ The figures for the first half-year period of 2017 were re-drafted in accordance with the change in criteria defined for the number of borrowers.

Business lines of management and sale of loans

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

Proposals managed²⁵

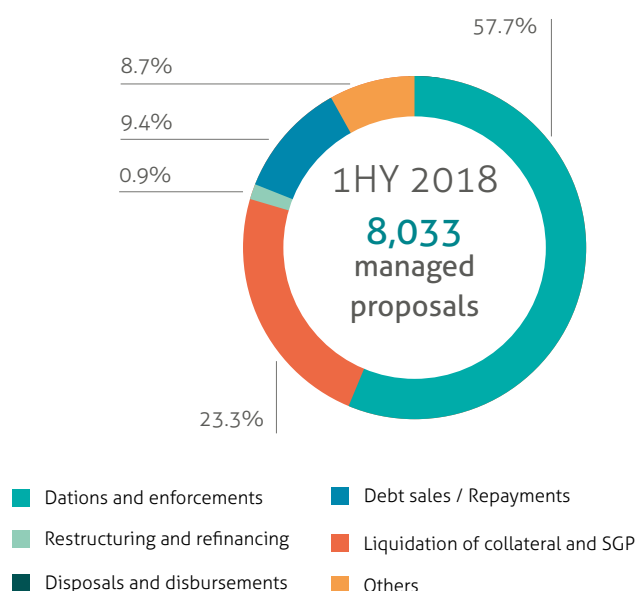
In the first months of 2018 a total of 8,033 proposals for the management or sale of loans received approval, 50.4% more compared to the first half year of 2017

In line with the company's strategic priority of stepping up the conversion of the books to provide greater liquidity, most of the proposals managed relate to transactions of dation and foreclosure which, with 4,631 procedures –double the number for the same period in the previous year– represent 57.6% of the proposals approved between January and June.

The foreclosure procedures, through which Sareb is able to take possession of the properties appearing as collateral for the loans, usually take place when there is no possibility of reaching an agreement with the debtors. However, for Sareb, collaboration is always the main priority in management and does not restrict the search for other alternatives for collecting debt.

Regarding the liquidation of collateral from the developers' books and the Sales Growth Plans (SGP), during the first half of 2018, 1,875 proposals were managed, 23.3% of the total number of proposals approved in that period.

14. Breakdown of proposals managed per type (% of the total)²⁶



²⁵ For the purposes of this report, proposals managed are considered to be the number of debtor procedures that have been handled during the reporting period.

²⁶ During the first six months of 2018 only three proposals were handled related to disposals and disbursements.



Liquidation of collateral and Sales Growth Plans (SGP)

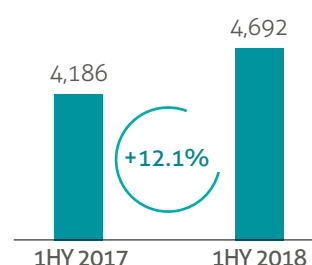
The sale of properties through liquidating the collateral and the Sales Growth Plans (SGP) went up during the first half-year period to 4,692 units, 12.1% more compared to the same period of the previous year.

With these initiatives, Sareb reaches agreements with the developers for selling on the retail market the properties appearing as collateral for the loans which belong to Sareb –mainly entire residential developments and single buildings–.

With this, the borrowers reduce the volume of debt incurred with Sareb, while at the same time avoiding incurring other costs and deadlines associated with mortgage foreclosure procedures.

In line with the half-year period of the previous year, the higher sales volume corresponds to collateral in the form of residential properties, accounting for 86.5% of the total properties sold through these channels.

15. Liquidation of collateral and SGP (units sold)

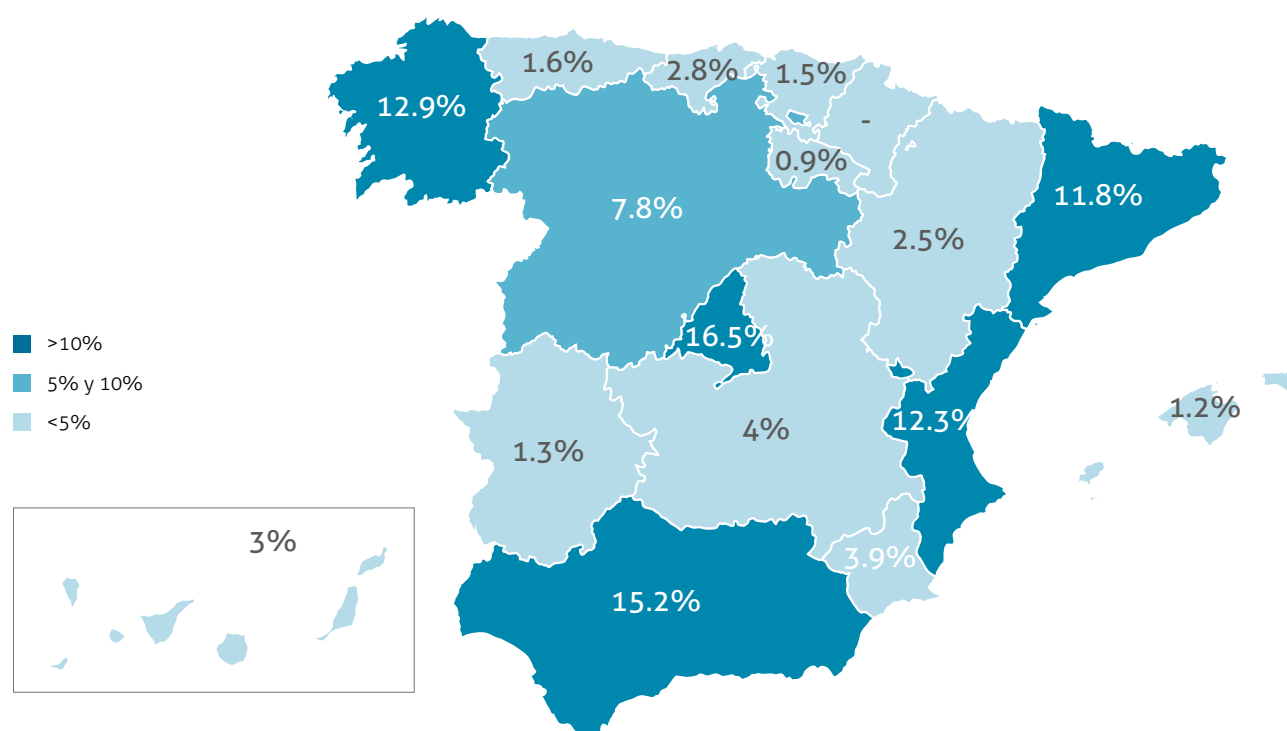


16. Type of sales under SGPs and liquidation of security properties (% of units)



Picture: Homes in Mijas (Malaga).

17. Geographical breakdown of the sales under SGPs²⁷ (% of units)



Per autonomous region, the highest sales volume in terms of units sold is centred in the Region of Madrid, Andalusia –whose contribution to sales is double that of the first half-year period of 2017–, Galicia, Region of Valencia and Catalonia, which account for 68.6% of the sales corresponding to properties held as collateral associated to loans.

Keys to the loan management model

The management model of Sareb's loans portfolio establishes a roadmap for carrying out the divestment in a way that is dynamic, easily monitored and uniform among the various servicers. The objective is to promote and ensure effective management of the loans portfolio assigned to each of those servicers.

- Thorough follow-up of the procedural milestones relating to operations involved in legal action to facilitate the preparation of perimeters for action and improve the effectiveness of Sareb's commercial activities.
- The management of asset sales does not exclude the channel of negotiating with the debtor or the insolvency administrator.
- Special attention to the identification of operations in which, given the characteristics of the debtor and the associated loan, it is advised to hand over the assets as collateral.
- Opening an online channel of loans sales to a greater number of investors, which contributes to giving a boost to and bringing more transparency to the loans market.

²⁷ 0.8% of sales under SGP and properties held as collateral is not associated to any autonomous region.

Institutional sales

Sareb targets institutional buyers both through the wholesale channel –by the sale of portfolios– and retail, in which individual assets are marketed

In the last period the recovery of the sector has favoured the appearance of new players and the consolidation of a more competitive corporate, institutional and professional market.

In this context, institutional sales transactions represent an important channel for maintaining and consolidating the divestment pace at Sareb. In the retail field these transactions –understood as being one-to-one loans– mainly take place through the online channel for the sale of loans launched in 2017; and in the wholesale arena, by composing portfolios of loans, mainly NPLs, which are allocated to investors through competitive sales processes.

Professional retail channel

In the first half-year period of 2018 the second stage of the loan sales channel was concluded with debt being sold for a nominal value of €33.9 million.

There has also been a redefinition of the objectives initially proposed in the channel for encouraging the

participation of intermediaries and broadening the basis of smaller institutional investors interested in Sareb's debt market.

Along these lines, a new stage has begun –the third– for selling debt with a nominal value of €1,800 million and opening the channel to this group of intermediaries and investors, who can already make offers for each of the loans available on the platform.

Wholesale channel

In the first half year of 2018 new loans portfolios were launched, amongst which special mention is made of 'Navia', which includes debt without mortgage guarantee comprising financial assets for a nominal value of €2,335 million and which in July was sold to Axactor. At present the company is also working on the sale of loans portfolios secured by residential assets and by land, in addition to a portfolio that includes unfinished construction work. The nominal value of these portfolios stands at around €600 million.



Picture: Industrial warehouses in Yuncos (Toledo).



More information on the Sareb loan sales channel
https://www.sareb.es/en_US/loans-sales-channel

MANAGEMENT AND SALE OF PROPERTIES

The revenue generated by property management went up by 10.9% compared to the same period of 2017

At the close of the first half of 2018 Sareb's portfolio of properties went up slightly compared to that of the end of 2017, with a total of 119,524 units. This increase comes about because the sale of real-estate assets is offset by the conversion of loans into properties²⁸.

Revenue from the management and sale of properties went up the first half year of 2018 to €593.3 million, 10.9% more than in the same period of the previous year. This business line now accounts for 37.6% of the total revenue between January and June of 2018.

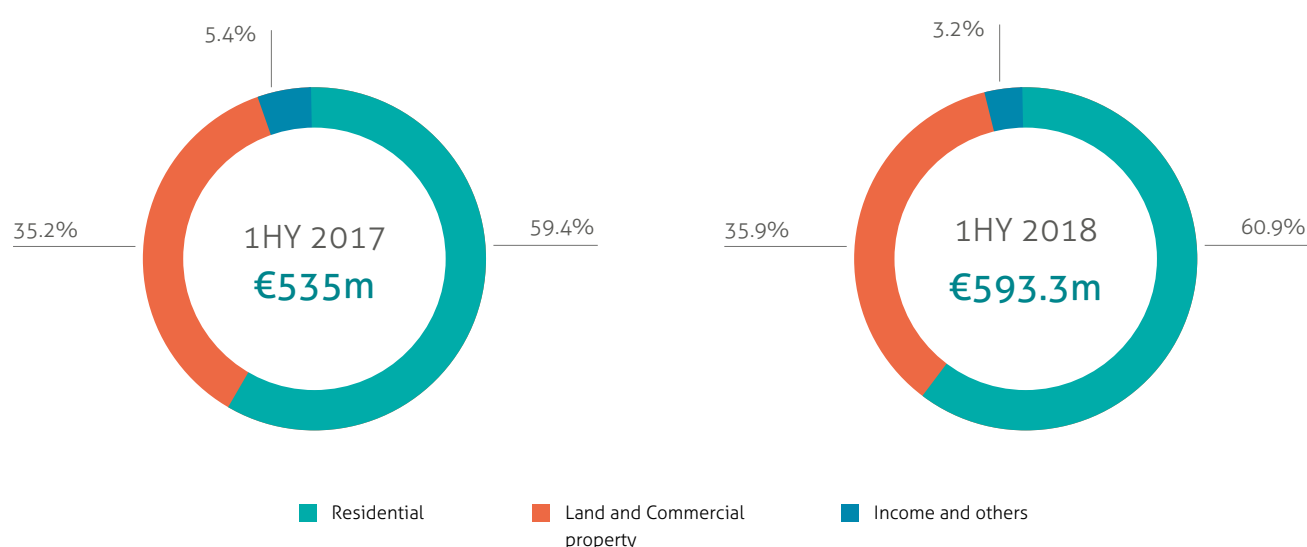
The sale of residential assets represents the largest part of the turnover, 60.9% of the total, increasing to € 361.3 million, consistent with the pattern of growth

shown by this type of assets in the Sareb portfolio through the transformation process.

There is also an improvement in the volume of revenue coming from the sale of land and commercial properties, with €212.8 million accumulating in the first six months of the year, largely boosted by the sale of Sareb's interest in the Parque Corredor Shopping Centre.

For its part, revenue relating to rental activity went down to €19.2 million –3.2% of the total– as a result of selling single rental assets that were generating a significant amount of annual rent.

18. Breakdown of income from managing and selling properties assets per business line (% of €m)



²⁸ Further information on converting loans into properties on page 51.

Property sales

In the first months of 2018 Sareb sold a total of 10,618 properties, 9% more compared to the first half-year period of 2017

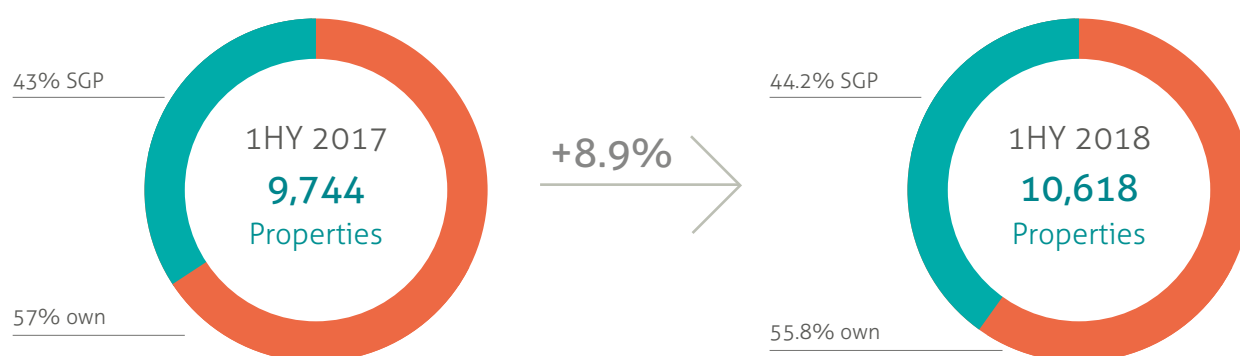
Between January and June of 2018, 10,618 properties were sold, 9% more than in the first half-year period of 2017. This figure is in line with the good results obtained by Sareb at the close of 2017, when a total of 18,925 assets were sold, beating the company's record for property sales up to that date.

Of the total units sold, 5,926 correspond to its own properties, mainly residential, –which account for 86% of the real-estate assets sold–. In terms of declared price, the sale of own properties has generated revenue amounting to € 552.7 million, 10% more than in the same period of the previous year.

The rest of the properties sold, 4,692 units, are assets appearing as collateral for Sareb loans transferred from the developers' books through the process of liquidating collateral and Sales Growth Plans (SGP).

Per autonomous region, the Regions of Madrid, Valencia, Andalusia, Catalonia and Castile and Leon are those which during this half-year period showed greater sales activity, both in terms of units sold and in the volume of sales of own properties.

19. Property sales (% of units)



20. Sale of own real-estate assets per type (% of units)



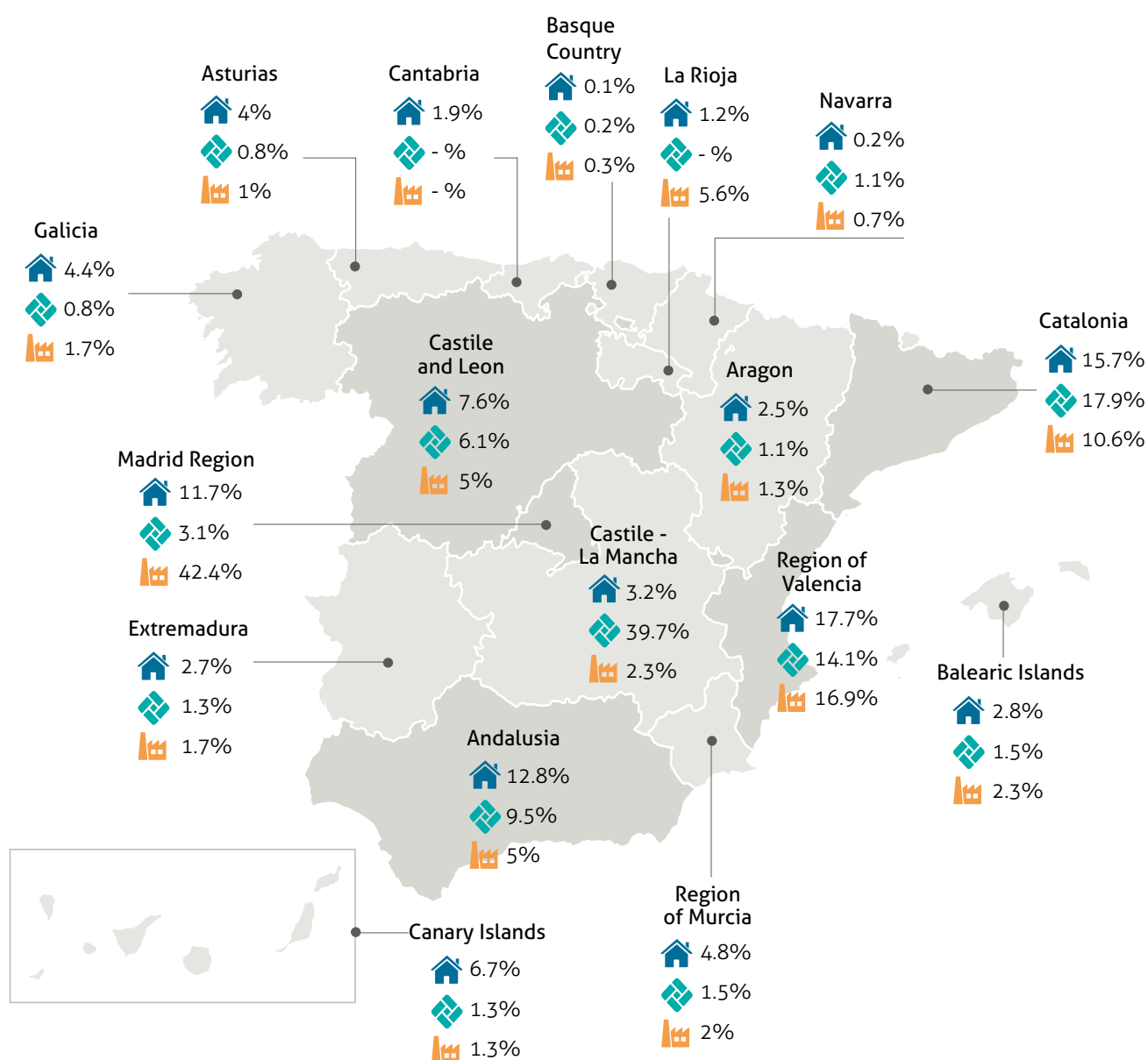
21. Geographical breakdown of sales of own properties²⁹ (% of units sold)



Residential



Land

Commercial
property

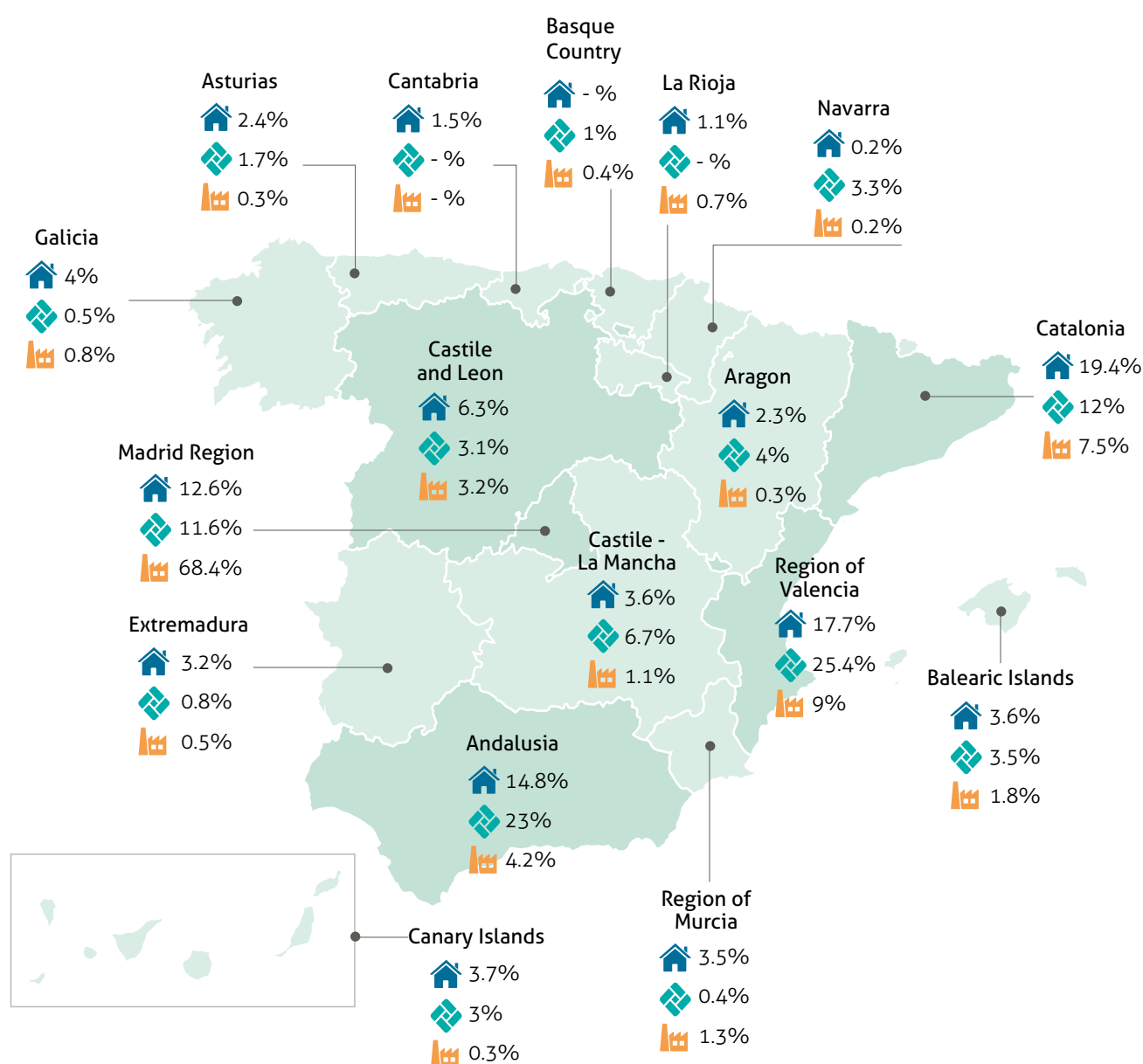
²⁹ Includes works in progress.

22. Geographical breakdown of sales of own properties³⁰ (% of sales volume)

 Residential

 Land

 Commercial property



³⁰ Includes works in progress.



Marketing the properties

The number of assets being marketed at the close of the half-year period represents approximately 58% of the properties in the portfolio, with a total of 69,949 properties published

The other non-published assets relate to properties in the process of being put on a sound technical or legal basis before being placed on sale (26% of the total portfolio of real-estate assets), properties intended for social purposes (7%), land or unfinished construction work that has been set aside for studying the viability of possible development (5%) and leased properties (3%), amongst others.

In this half year Sareb began work on publishing more than 40,000 properties on its website that are at the pre-marketing stage

as they do not yet meet the minimum conditions established by the company for being sold, but which could generate interest in potential buyers.

Transformation of loans into properties

Between January and June, the value of the assets that have entered Sareb's stock-list as a result of the process of converting loans stood at €581.5 million³¹. The entry of these properties into Sareb's portfolio of real-estate assets also contributes to increasing the number of properties marketed.



Picture: Homes in Almería.

³¹ Gross Book Value (GBV).

Residential

9,158 residential properties³² were sold in the first months of the year, a 7.5% increase over the first half of 2017. This figure includes own assets and guarantees associated with loans within the framework of the liquidation of collateral and the Sales Growth Plans (SGP).

With a total of 5,098 properties sold, sales of own residential assets increased by 7.1% compared to the first half of 2017.

A total declared value of €339.9 million represented an 8.4% increase over the same period of the previous year.

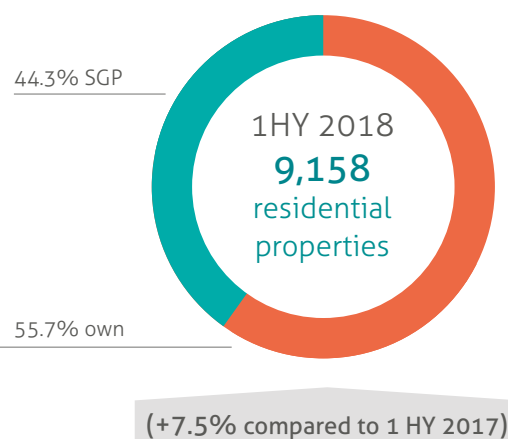
Between January and June 2018, the average price for a home stood at around €111,987, a relatively slight 3.3% increase over the first six months of 2017.

Per autonomous region, the highest volume of sales of own properties is concentrated in Andalusia, Catalonia and the Region of Valencia, which, in terms of declared amount, accounts for more than half of the revenue obtained from the sale of own residential properties in the half-year period.

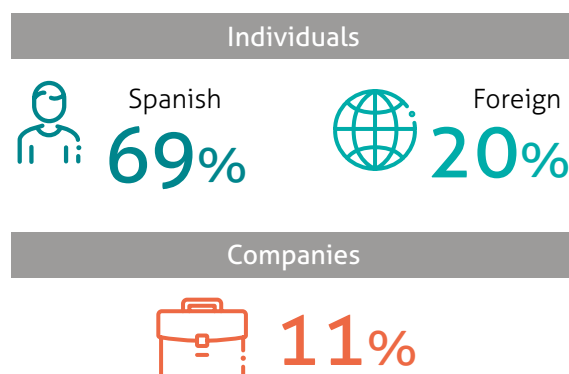
The geographical dispersion of the properties that make up Sareb's portfolio of assets requires organised commercial activity that is physically close to the end customer, which is successfully achieved through collaboration with our servicers. A special mention should be given to the increase in half-year sales in the communities of La Rioja, Madrid, Castile and León and Extremadura.

For its part, sales of residential real estate from developers' books, through the liquidation of loan collateral and the Sales Growth Plans, amounted to a total of 4,060 units.

23. Sales of residential properties (% of units)



24. Profile of the buyer of an own residential property



³² Homes, garages and annexes.

Land

With a total of 907 plots sold, land sales increased in the first half of the year by 13.1% compared to the same period of the previous year.

Own land sales between January and June 2018 amounted to 526 plots, compared to 553 plots divested in the same period of the previous year. In terms of declared price, sales volume also fell in the first half of 2018, to €89.9 million. This result can be explained by the maturity periods and closing of operations found in the land market, which are usually concentrated into the last months of the year, as well as Sareb's strategic commitment to optimise the value of own land through the reserving of such land for development.

During the first half of the year, Sareb also developed an action plan to give impetus to the sale of land. Specific marketing plans have therefore been defined for those areas that have a larger concentration of these types of assets, while continuing to work on improving coordination with servicers.

Regarding the breakdown by geographical area, special mention should be given to the increase in the number of plots sold in the region of Castilla-La Mancha. Sales of company-owned land totalled 209 in this region, compared to six sales in the first half of

2017. Next in importance were Catalonia and the Region of Valencia, with 94 and 74 plots respectively. However, if we look at revenue volume, the Valencian Region, Andalusia, Catalonia and the Region of Madrid are those which account for 71.8% of the activity.

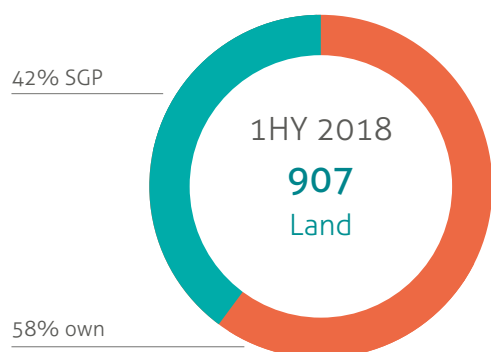
Sales of land as guarantees associated with loans within the framework of the liquidation of collateral and the Sales Growth Plans (SGP) amounted to 381 units, an increase of 53% over the first half of 2017.

Commercial property

The recovery of the economy and the reactivation of production sectors continued to drive the sale of commercial assets during the first months of the year. Between January and June, Sareb sold a total of 553 commercial properties, a 30.7% increase over the first six months of 2017.

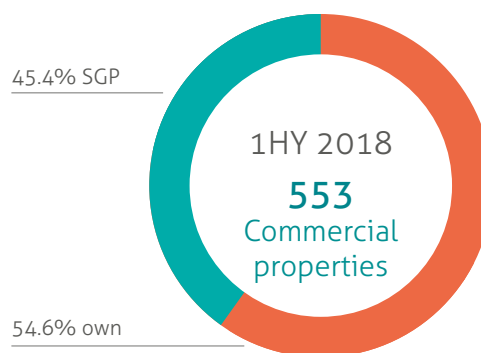
Sareb sold 302 of its own commercial properties, 22.3% more than the same period of the previous year. Special mention should be given to the upturn in the sale of marketing commercial premises, which increased by 120% with respect to 2017, and represents 69.2% of total tertiary assets sold during the first half of 2018. However, office sales represented a smaller proportion of commercial properties sales than in the previous year, representing 12.9% of total tertiary properties sold.

25. Land sales (% of units)



(+13.1% compared to 1 HY 2017)

26. Commercial property sales (% of units)



(+9% compared to 1 HY 2017)

There was also a significant improvement in the declared value of own tertiary assets sold, amounting to €122.9 million, an increase of 150% over the first months of 2017.

Sales of tertiary assets from developers' books also increased. In fact, these sales increased by 42.6% in one year, to reach 251 units.

In respect of the sale of commercial property assets per autonomous region, the Madrid Region accounts for 25% of the total volume of revenue, along with the Region of Valencia and Catalonia, where 23% and 17%, respectively, are concentrated.

27. Breakdown of sales of own commercial properties per asset type (% of units)



Hacienda del Álamo Golf & Spa Resort

In 2018, Sareb leased the Hacienda del Álamo resort and the operation of the apartments of the complex, located in Fuente Álamo (Murcia), to the Adh Hotels Group, a subsidiary of the Avintia Group. The complex will open in the second half of 2018, and will help to consolidate the attractiveness of the Murcia region as a quality tourist destination.

Since taking over its management in 2013, Sareb has shown a firm commitment to the revitalisation and reopening of the Hacienda del Álamo tourist complex. The company has invested a total of €8.6 million in the completion and remodelling of the resort, as well as an additional €10 million for the maintenance of the complex.

In addition to boosting tourism and the economic development of the region, with the immediate creation of 120 jobs, the holiday complex also contributes to the stimulation of the real-estate sector in the Murcia region, where Sareb has a portfolio of major assets that includes both real-estate and loan guarantees.

Boosting the economic and social development of the Region of Murcia

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

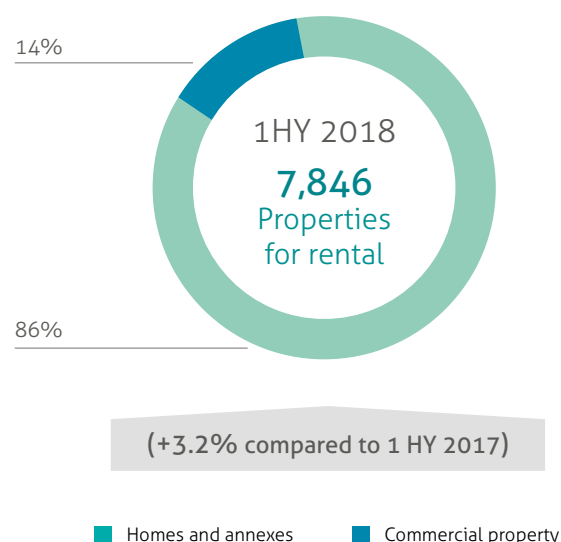
Rentals

In line with the objective of continuing to optimise the value of its real estate portfolio, Sareb significantly increased its portfolio of rental properties during 2017. Having completed the transfer of the more than 1,554 residential assets³³ selected for the incorporation and launch of T  mpore Properties (the Real Estate Investment Trust promoted by Sareb), the number of properties for rent in the first half of 2018 remains broadly similar to the previous period.

At the close of the first half-year period of 2018, Sareb's rental portfolio amounted to a total of 7,846 properties, 3.2% more than in the first half of 2017, of which 86% are residential properties and the rest are commercial assets.

The rental business allows Sareb to recover part of the maintenance costs of properties that are not absorbed by market demand in the short term. Furthermore, once rented, a higher future value is generated for the divestment of assets, especially in commercial properties such as premises or offices.

28. Evolution of the portfolio of rental properties (% of units)



29. Breakdown of residential properties for renting, per type (% of units)

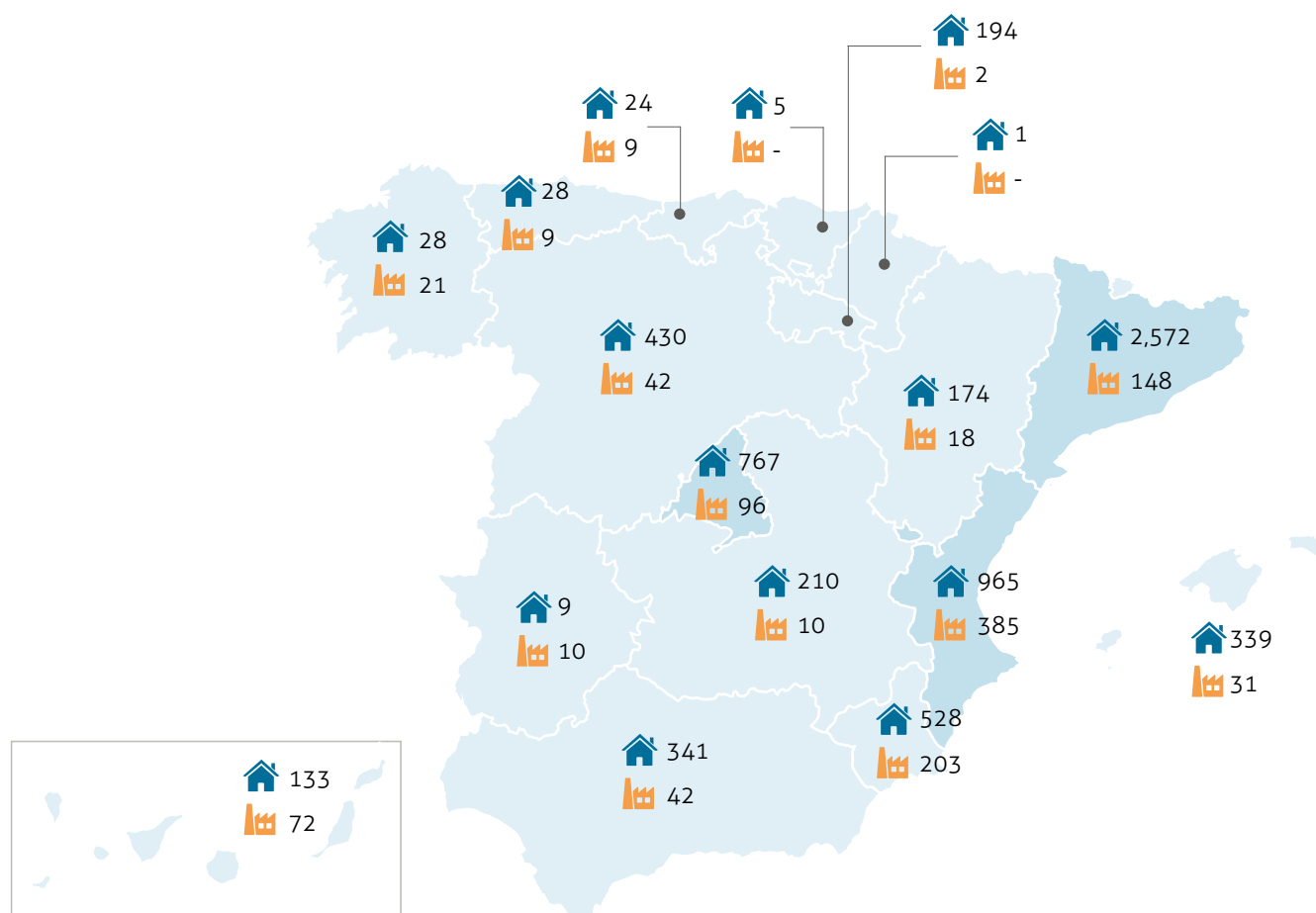


³³ Of which 1,383 are residential and the rest annexes.

30. Geographical breakdown of properties for rental (units)

 Residential

 Commercial property



Among the most important operations carried out in the year, a special mention should be given to the commencement of marketing actions for rental homes and premises in the Hacienda del Álamo holiday complex, located in the Region of Murcia, once the

operation had been awarded. In addition, the city of Murcia made a development of 214 homes available for rent, and almost all of these had been rented by the end of the first half of 2018.



Témpore Properties

Témpore Properties, the REIT promoted by Sareb, and specialising in residential property rentals, was listed for the first time on the Alternative Stock Market in 2018.

At the time of its creation, the company managed a portfolio valued at 175 million, which included 1,383 rented homes located in markets with a high demand for rental properties.

In April 2018, Témpore Properties debuted on the Alternative Equity Market (MAB) as listed real estate investment trust, with a reference price of €10.4, which has remained stable to the end of the first half of 2018 for the 14.6 million shares issued for trading.

After the first six months of operation, Témpore Properties registered an improvement of five percentage points in the occupancy rate, which stands at 89%³⁴ of its stock of rental properties thanks to the signing of 188 new contracts, which include newly registered properties and renewals of expired contracts. In addition, proper management of the debt and the negotiation of new agreements with tenants has allowed the company to reduce the percentage of unpaid rents to below the 5% level.

Future prospects

Témpore Properties is currently exploring new avenues of growth through third parties, and is expected to expand its range of assets by the end of 2018, within the framework of the agreement signed with Sareb for the purchase of assets.

Improvements in the management of the housing stock will also allow Témpore Properties to achieve a gross return of 5.5% by 2020, in line with initial forecasts contained in its original business plan.



After
6 months
of
management

Occupation

84%

↓
89%

Unpaid rents

5.5%

↓
5%

Targets for 2020

- 95% occupation
- 2% late payment rate
- 6% growth in rent per annum
- 5.5% gross return

³⁴ Occupation rate calculated on the volume of assets deducting the properties not available for sale.

Marketing campaigns

Sales associated with these types of initiatives in the first half of 2018 amounted to €137.1 million

In line with the policy to stimulate sales implemented throughout 2017, Sareb launched eight new marketing campaigns during the first six months of 2018.

These campaigns have increased the visibility of 15,000 assets, which are mostly homes, but also commercial properties and land. Revenue corresponding to these marketing campaigns rose to €137.1 million during the first half of the year, 6.3% more than the same period of the previous year.

Real Estate trade fairs

Sareb once again participated as an exhibitor at the annual SIMA International Real Estate Fair, held in Madrid at the end of May.

Likewise, Sareb participated for the second consecutive year in the MIPIM³⁵, held in March in Cannes.

At a local level, Sareb was present at the Santander Property Fair.



Picture: Office block in Murcia.

³⁵ From the French 'Marché International des Professionnels de l'Immobilier' (International Property Industry Market).

Sareb Responde: customer service channel

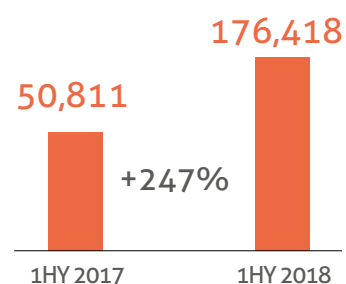
Sareb's customer service channel attended to a total of 176,418 enquiries in the first six months of 2018, an increase of 247% over the same period in 2017.

The largest number of enquiries received corresponded to questions of a marketing nature (75%).

Per customer type, there was a significant increase in the ratio of private individuals (91%)

attended by Sareb Responde, mainly through the online channel, which has clearly consolidated its position as our customers' preferred channel, with a total of 117,490 contacts, 5.7% more than the first half of the previous year.

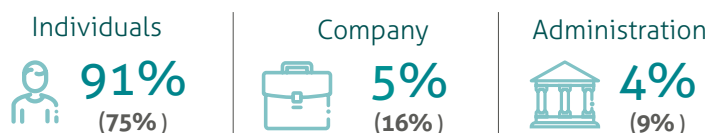
31. Enquiries received through Sareb Responde



32. Type of enquiries received (% of the total)

■ Figures 1HY 2018 ■ Figures 1 HY 2017

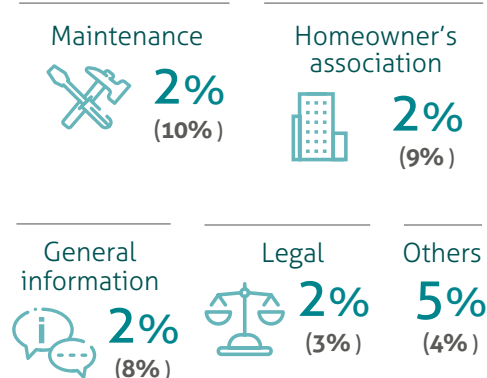
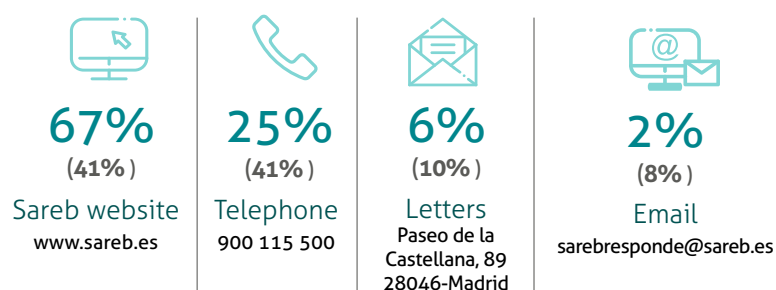
Per type of client



Per type of enquiry



Per input channel



Property development and promotion

The development of promotions on Sareb land and the completion of unfinished work generate value in the company's assets and allow the company to fulfil its divestment mission efficiently

Property development and delivery of new promotions

By the end of the first half of 2018, Sareb had already approved the construction or completion of 6,446 properties. Of these, 1,355 have been completed, 1,860 are under construction, and 3,231 have been approved and are awaiting commencement of the work.

Sareb selects the assets to be developed, whether unfinished work or entire development of land in the Sareb portfolio, in collaboration with its servicers. Sareb also manages the projects and establishes prices, with viability as its watchword.

The largest number of properties under construction is concentrated in Seville, Valencia, Barcelona, Malaga and Madrid, cities with a high level of sales interest and a strong demand for new housing. However, Sareb has also started new property development projects in and around cities like Albacete, Torrent (Valencia), Burgos and Valladolid, where there is also a demand for new housing.

These projects are carried out in collaboration with developers and local partners, which helps to boost the real-estate sector and local and regional economies.



Picture: Home in Torre-Pacheco (Murcia).

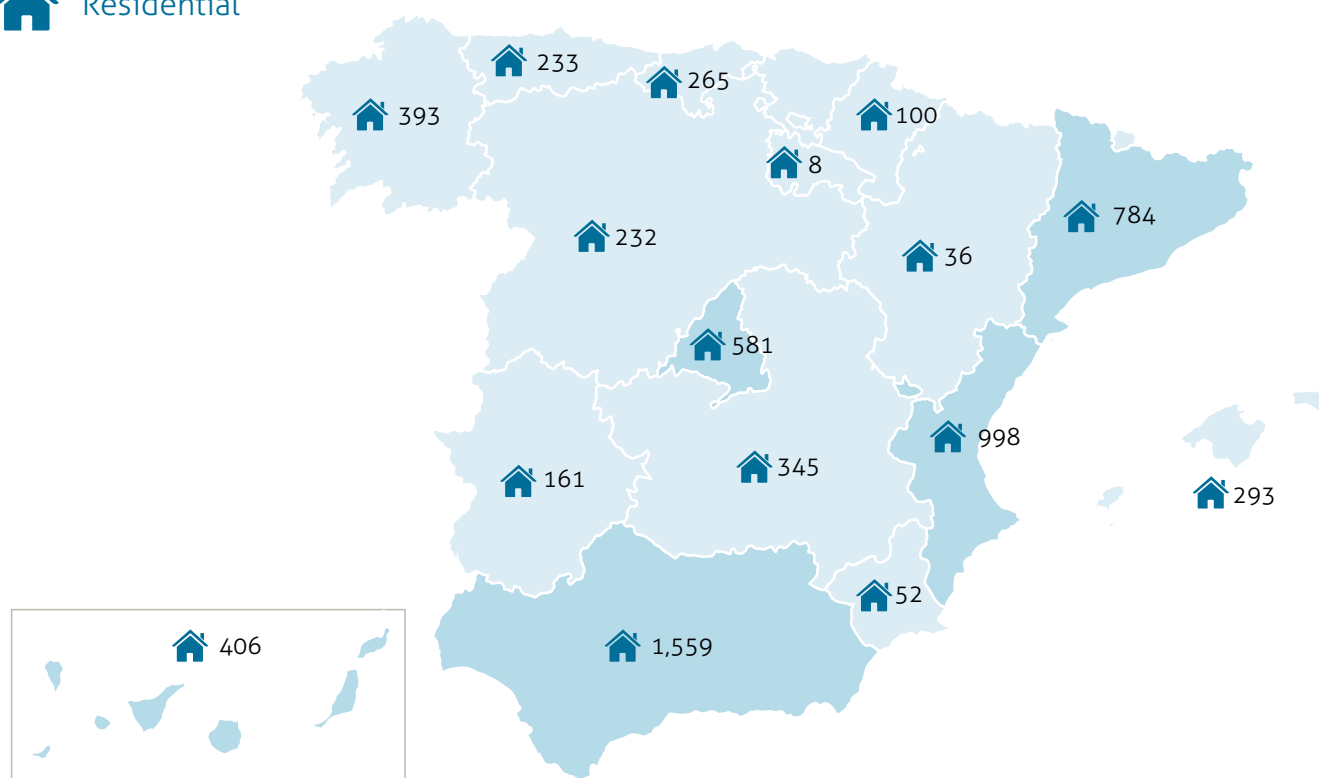
Since the creation of the department, the company has invested a total of €99.4 million in the development of land and the completion of unfinished construction work.

This period has also seen the company continue to deliver new developments. Until June 2018, of the 1,355 homes completed, 908 were transferred by deed.

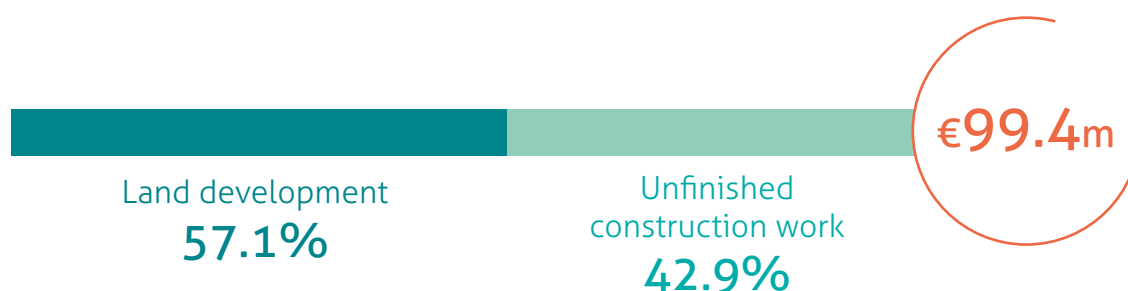
33. Geographical breakdown of planned promotion and development of housing (no. units)



Residential



34. Breakdown of the total investment in the development of promotions on Sareb land and completion of unfinished construction work (% of €m)

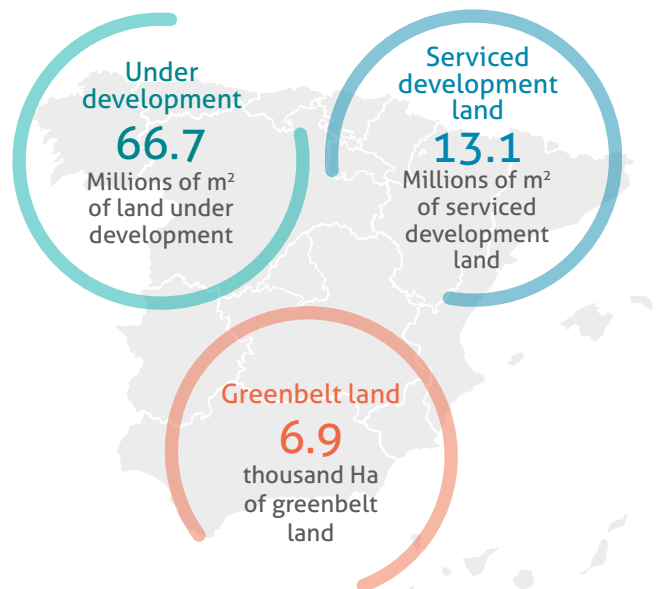


Urban land management

During the first half of the year, the area for Development, Promotion and Investment also continued with initiatives aimed at improving the attractiveness of Sareb's land portfolio, which currently includes 79.8 million square metres of serviced land and 6.9 thousand hectares of greenbelt land.

Among the most noteworthy of many initiatives was the approval of a Management Plan for Greenbelt Land, which will allow Sareb to draw up individualised plans for this type of land and allow for more rapid marketing, whether through sale or rental. All this will make it possible to reduce the weight of these types of assets in the company's land portfolio.

35. Breakdown of the Sareb land portfolio (Millions of m² and thousands of Ha)



Picture: Hotel in Palma de Mallorca.

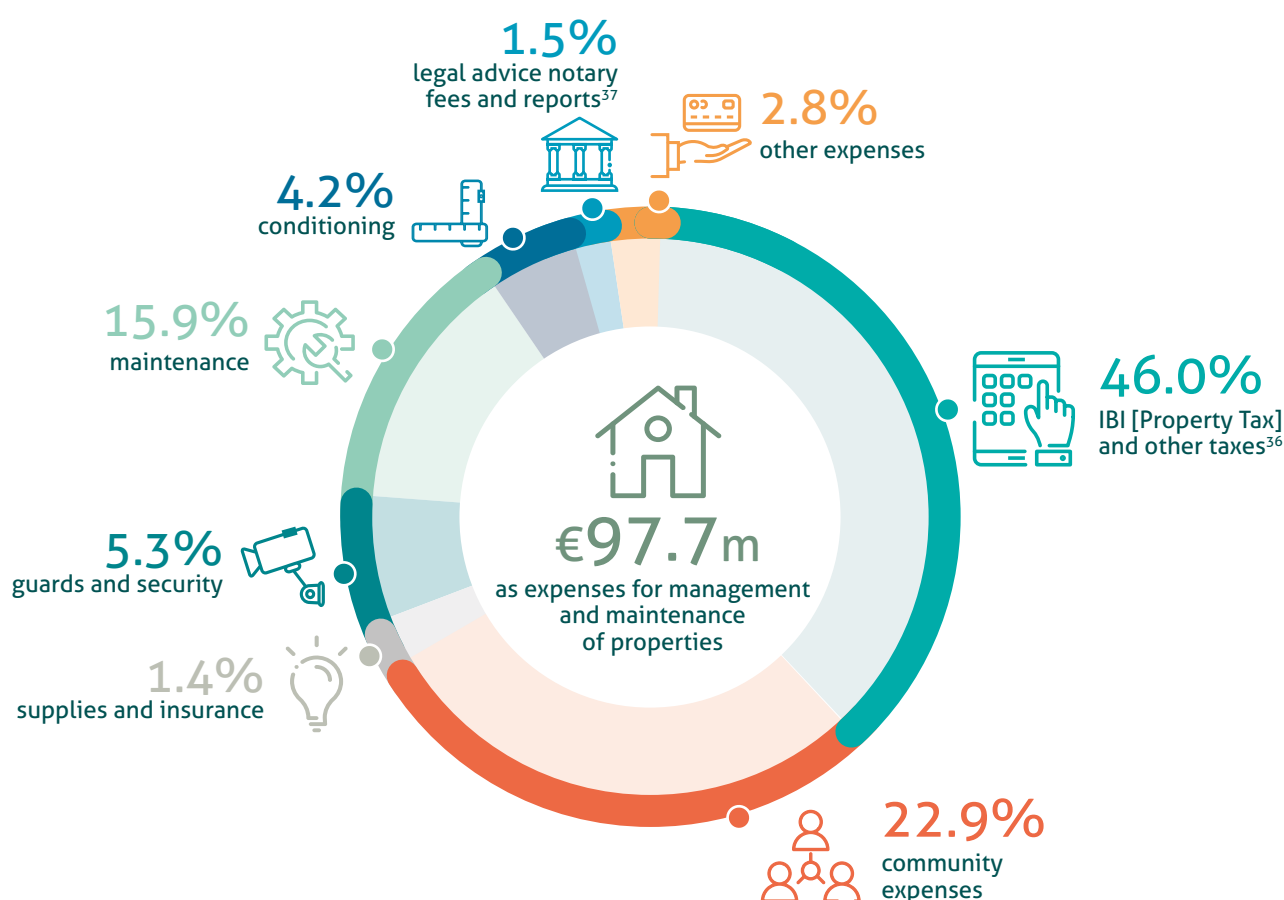
Property management and maintenance

Proper management and maintenance of properties ensure that the housing stock remains in the best possible condition until the moment of sale

The management and maintenance of the properties that make up the Sareb portfolio has high associated costs, which the company has to assume until the moment of divestment. During the first half of 2018,

Sareb invested 97.7 million in the management and maintenance of its portfolio of property assets, of which 68.9% was allocated to the payment of taxes on real estate and community expenses.

36. Expenses for management and maintenance of the properties (% of €m)



³⁶ IBI [Property Tax] and other taxes also includes licence/permit costs.

³⁷ Legal advice and technical reports comprises expenses for lawyers, court representatives and the fees for preparing technical reports.

Sareb also allocates resources for the thorough upkeep and maintenance of the real-estate assets that make up its portfolio. This includes, besides clearing of land, the provision of adequate security measures for maintaining works in progress or unfinished construction work in optimum conditions, the installation and monitoring of alarm systems, and dynamic on-site security surveillance.

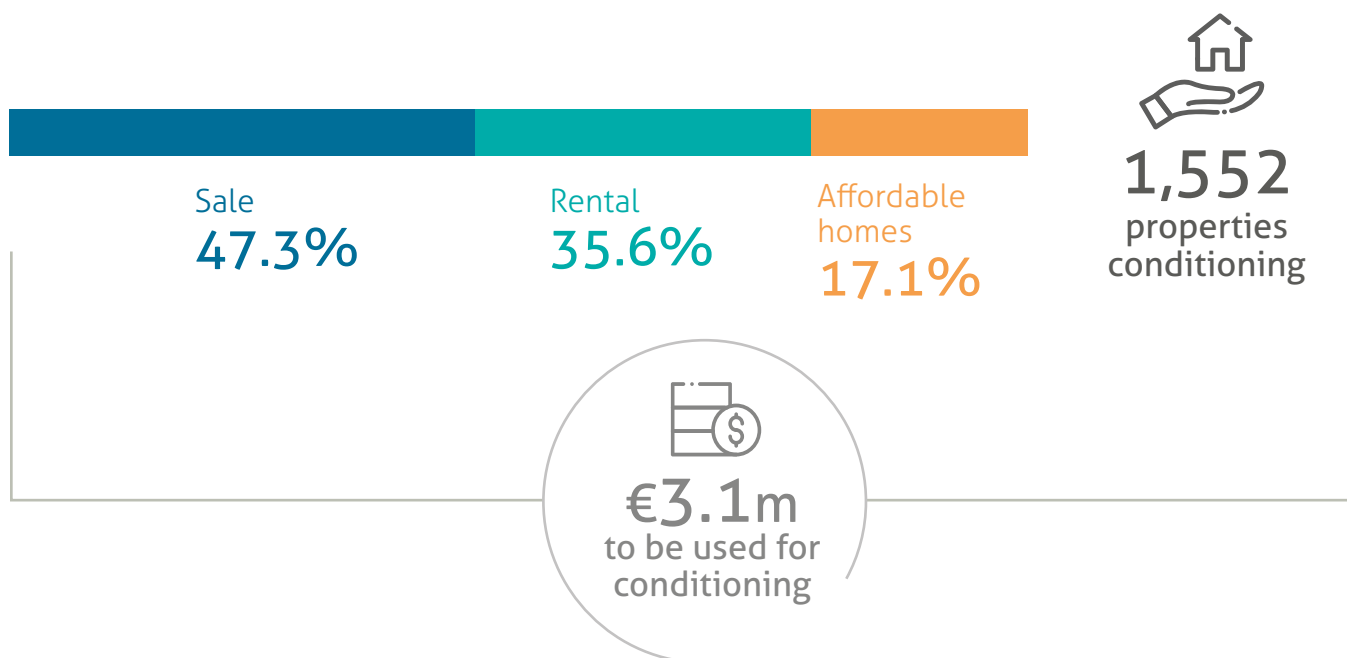
The first months of the year also saw significant progress in the implementation of a new computer-aided management and maintenance system for the unfinished work portfolio, which allows for a more efficient monitoring of on-site conditions. In addition, the company has begun using drones to monitor some of its trophy assets.

Property conditioning

The first months of 2018 saw the allocation of €3.14 million for alterations and improvements to 1,552 properties. This includes minor repairs on the portfolio of properties selected for marketing, whether for sale or rent, and the refurbishing of properties transferred to autonomous regions for social housing.

A special mention should be given to the conditioning of 100 holiday apartments and 154 rooms belonging to the Hacienda del Álamo holiday complex in Murcia, and an office building in Madrid, which will become Sareb's first property to obtain the BREEAM sustainability rating once the work is completed.

37. Conditioning and investment in properties for marketing and transfer



REPAYMENT OF SENIOR DEBT

Sareb has reduced by 25.4% the senior debt issued at the time of its incorporation in order to acquire its portfolio of assets

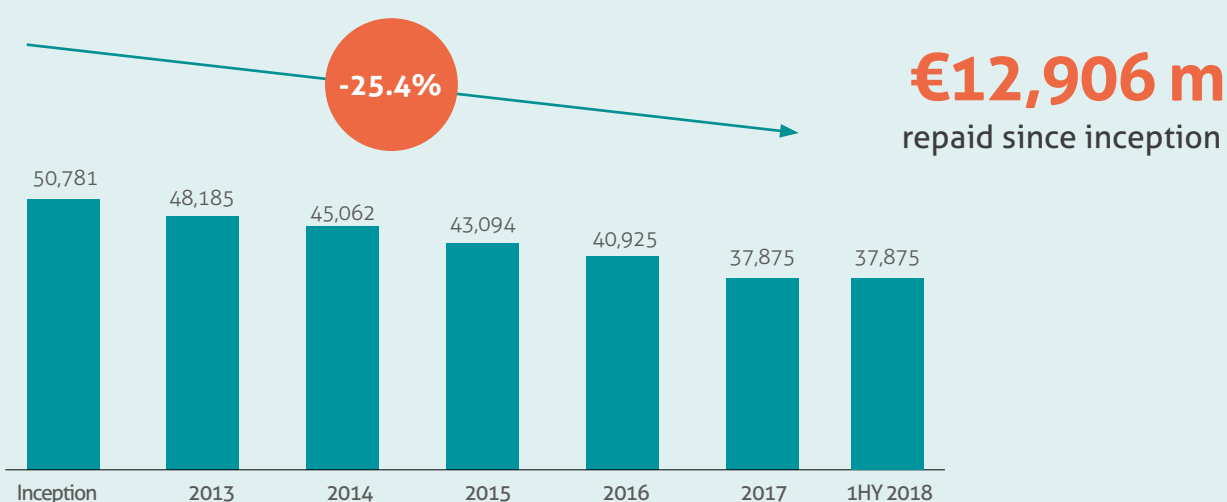
Sareb has so far repaid debt amounting to €12,906 million, 25.4% of the total issued at the time of its constitution to acquire its portfolio of assets. Since its inception, the company has complied with the terms for the payment of the debt and the payment of interest generated.

In 2017, Sareb repaid €3,050 million of senior debt, of which €604.8 million corresponded to the amortisation of Group 2 bonds³⁸ in February

2018, charged to 2017. While €1,526.2 million corresponded to the amortisation of Group 1 bonds³⁹ on 31 December 2017.

The amortisation of €889 million pertaining to the escrow account should also be taken into consideration –under the provisions of the senior debt contract–.

38. Evolution of senior debt since the inception of Sareb⁴⁰



³⁸ Group 2: Liberbank, BMN, CEISS and Caja3.

³⁹ Group 1: BFA-Bankia, Catalunya Banc, NCG Banco-Banco Gallego and Banco de Valencia.

⁴⁰ Includes 604.8 million repaid in 2018 and charged to 2017 and the 889 million of the escrow account.

7

MATERIALITY ASSESSMENT

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Picture: Homes in Torre-Pacheco (Murcia).

Within the framework of the preliminary work for drafting its Annual Report 2017, Sareb carried out a materiality study for the first time. The assessment follows the guidelines defined by the International Integrated Reporting Framework, and also takes into account

the new GRI Standards for the preparation of sustainability reports, which takes into account economic, social and environmental impacts.

In addition, the company continuously analyses the evolution of the context and trends of the market in which it operates in order to identify those issues that may have a potential impact on the business and the achievement of its results, and specifically, on the fulfilment of its mandate.

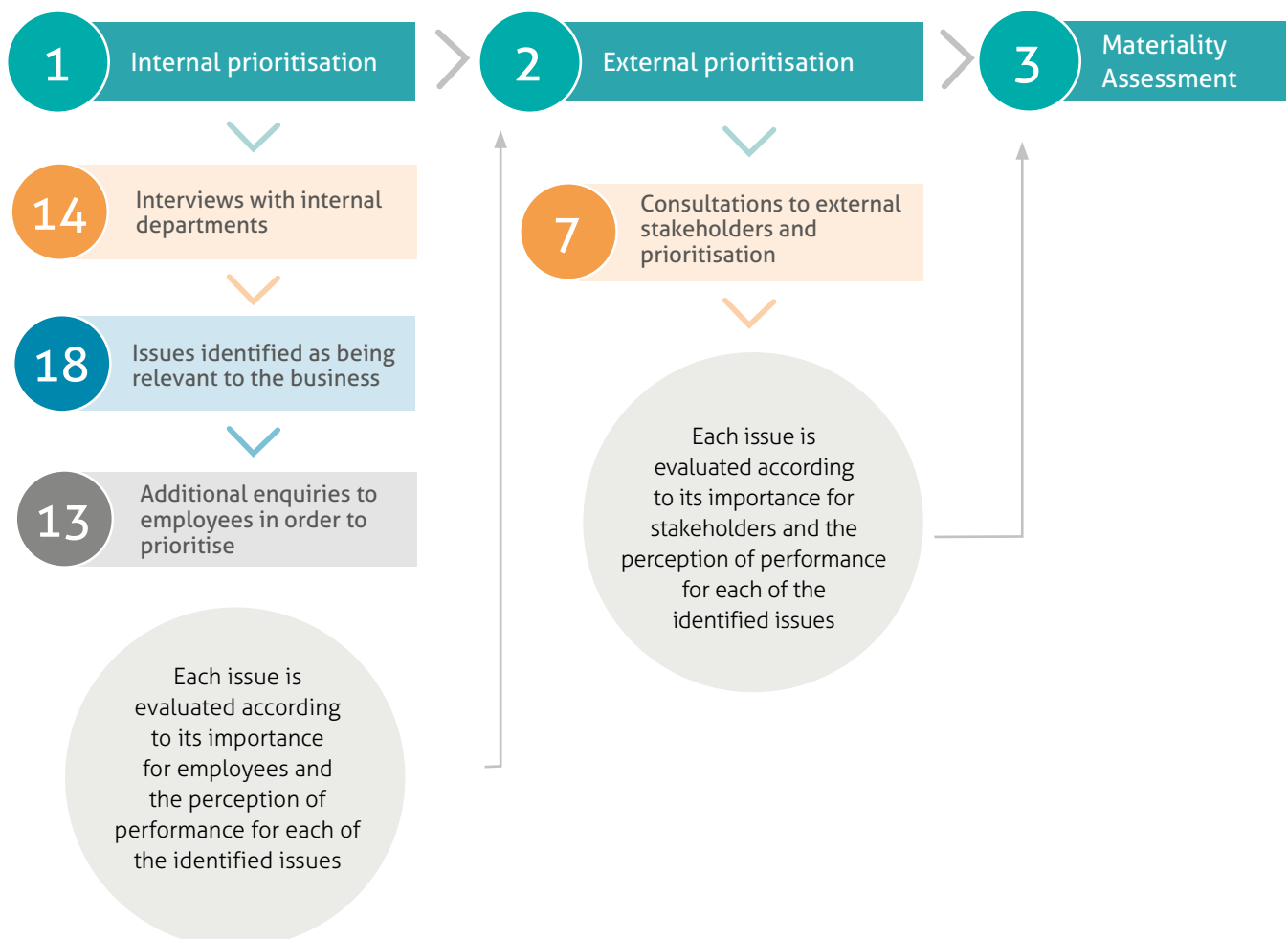
Methodological development

The identification of these issues and their prioritisation was addressed from two perspectives: internal, as a starting point to define and prioritise those issues relevant to the business; and external, which allows Sareb to know which of these issues concern its stakeholders, and their perception of the activity carried out by the Company.

A total of 14 interviews and 13 internal enquiries were conducted with Sareb employees; and seven interviews with representatives of external stakeholders. The result is 18 prioritised issues based on the above, which determine, among other things, the focus of the report for the organisation.

From now on, Sareb will continue to work on gaining a deeper understanding of the identified issues and the results obtained, in order to refine and develop the basis for its knowledge in this regard.

Assessment methodology



Sareb stakeholders



List of issues identified

HIGH PRIORITY

- 1 Transparency in the activity carried out
- 2 Efficient and responsible management of the asset portfolio received
- 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

MEDIUM PRIORITY

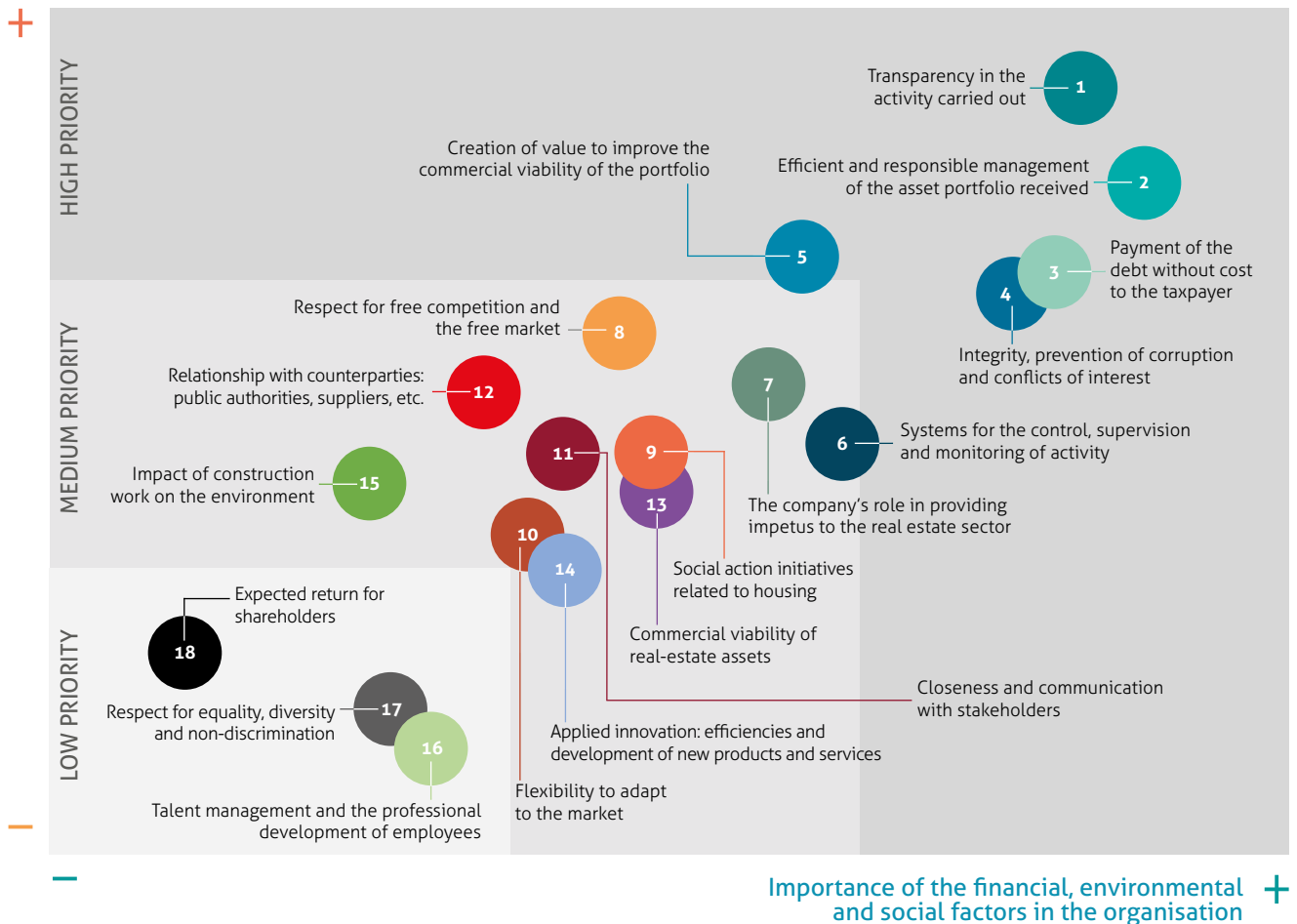
- 6 Systems for the control, supervision and monitoring of activity
- 7 The company's role in providing impetus to the real estate sector
- 8 Respect for free competition and the free market
- 9 Social action initiatives related to housing
- 10 Flexibility to adapt to the market
- 11 Closeness and communication with stakeholders
- 12 Relationship with counterparties: public authorities, suppliers, etc.
- 13 Commercial viability of real-estate assets
- 14 Applied innovation: efficiencies and development of new products and services
- 15 Impact of construction work on the environment

LOW PRIORITY

- 16 Talent management and the professional development of employees
- 17 Respect for equality, diversity and non-discrimination
- 18 Expected return for shareholders

Materiality matrix

Influence on the evaluations and decisions of stakeholders



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