



Activity report
1st Half-Year Period
2021

Sareb presents its Activity Report corresponding to the first half year of 2021 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 2021) and its expected evolution, without compromising those objectives for achieving it.



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

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



**Further information on the
2030 Agenda**



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1 Executive Summary



Sareb has reached pre-pandemic levels in its activity, mainly boosted by the reactivation of sales in the retail channel

The gradual de-escalation process nationwide—once the most critical moment of the Covid-19 health crisis had been overcome and the end of the state of alert in May—has characterised the first six-month period of 2021. A period of social and economic recovery in which Sareb has reached pre-pandemic levels in its activity, mainly boosted by the reactivation of sales in the retail channel¹, accounting for 83 % of total income in the first half-year of 2021, as opposed to the 79 % represented between January and June of 2020 and 62 % in the same period of 2019. Between January and June, Sareb earned 3.4 % more than in the first half-year of 2019 and twice the figure for 2020, up to €1,090 M.

The return to what is known as the 'new normality' has come accompanied by the annual update of the Sareb Business Plan.

That approved Plan enables the company to start operating with negative equity during this period. This was the circumstance that resulted from the accumulated losses since the company was created. However, this circumstance does not prevent Sareb from continuing with its liquidation activity as established in Royal

Decree Law 6/2020². This piece of legislation established a legal modification that was highly relevant for Sareb, enabling it to operate normally in spite of being in a negative equity situation. As a result of this change, the company can focus on selling all the assets on its balance sheet, generating maximum value and cancelling debt, without being conditioned by the impact arising from the accounting principles to which it is subject. This explains, for example, why in a six-month period in which sales have doubled, the negative margin and losses have gone up compared to the previous year to €86 M and €691.6 M (before tax) respectively.

To strengthen the Efficiency Plan and containment of the structure expenses, Sareb reorganised its management structure in June 2021, once the Board of Directors had unanimously approved the appointment of Javier García del Río as Chairman of the company, replacing Jaime Echegoyen. The new organisational chart reduces the number of Management Committee members and reorganises several management departments, with the

In 2021 the focus was placed on maximising the cash flow generated from the divestment of assets in order to pay off the highest volume of debt possible

¹ The retail channel consists of selling residential properties to individuals and companies.

² Royal Decree-Law 6/2020, of 10 March, on adopting certain urgent financial measures. It provides for the possibility of Sareb continuing to carry out its activity even if it has negative equity.



aim of bringing greater efficiency and simplicity to the organisation and thus speeding up Sareb's divestment process.

The results of these changes in the internal marketing processes, together with the reactivation of the economy, are reflected in the transactions completed. On the one hand, 8,130 properties were sold during these six months, 26 % more than in the same period of 2019, before the outbreak of the pandemic. In that context, in the six-month period the company recovered the levels of real estate activity prior to the pandemic and revenue from property sales bounced back to €678.4 M, representing a 32.3 % increase on the same period in 2019. For its part, Árqura Homes—the vehicle created by Sareb to promote new homes and which is the basis of the new relationship with industrial partners for developing halted building work and town planning management of land—had €57 M of revenue in the first half-year of 2021 and has already delivered 532 homes since 2017. It has 110 active developments in its portfolio, with 4,251 units being marketed.

Sareb's activity for converting loan guarantees into real estate assets has been positive between January and June of 2021, with results in excess of the original forecast

Sareb has continued to work under its strategy of collaboration with public administrations to contribute to alleviating the housing needs of the more vulnerable groups

In addition, Sareb's activity for converting loan guarantees into real estate assets has been positive between January and June of 2021, with results in excess of the original forecast. The volume of transactions stood at €1,265.7 M, i.e. more than double the amount for 2020. As a result of the strategy of offloading a profile of assets more similar to the composition of the balance sheet, the gross margin has been adversely affected.

At the same time, throughout the period, Sareb has continued to work under its strategy of collaboration with public administrations to contribute to alleviating the housing needs of the more vulnerable groups, through the sale and temporary assignment of properties to the different town councils and regional authorities; it has continued with this commitment since it was created.



What is Sareb

Mission, vision and values

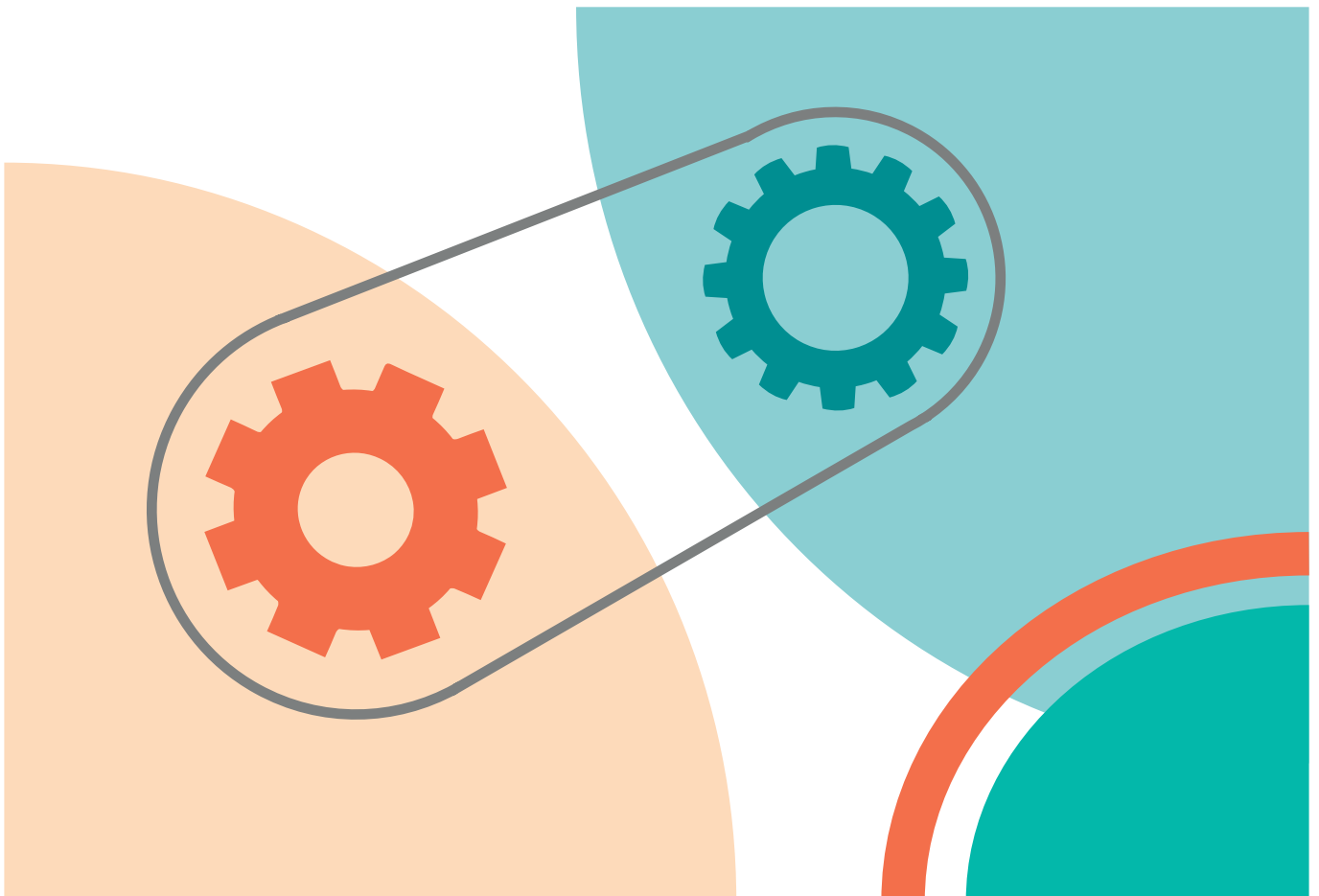
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Our business model

8

Our milestones

10



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 debt liquidation company would be set up, an asset manager to which the properties awarded and the developer loans would be transferred from banks undergoing difficulties at that time due to their excessive exposure in the real estate sector following the 2008 crisis. Sareb is not a bank, but rather the company that absorbed the impaired assets of those banks to manage and sell them.

An aspect for the process of recovery of the financial sector created in 2012 in the context of the paralysis of the real estate market in Spain

200,000
assets acquired
by Sareb

...valued at
€50,781 M
of which...



VISION

Sareb was born as a company with mainly private capital to fulfil the public (supranational) mandate that it has been entrusted with, to contribute to the recovery of the financial sector and stabilisation of the real estate market.

The company sells, develops and converts its assets always seeking to maximise the value and minimise the public funds allocated for putting its portfolio on a sounder footing.

MISSION

Sareb is a company with a special mission which is the orderly liquidation of its assets, optimising their value over a 15-year period, until November 2027, in line with the provisions of Royal Decree 1559/2012 of 15 November, which establishes the legal system governing asset management companies.

It is committed to reducing the cost for taxpayers, by repaying the maximum amount of the debt guaranteed by the central government, and its mission is to manage and sell the assets in its portfolio, generating revenue that enables it to fulfil its objective.

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**



What is Sareb?



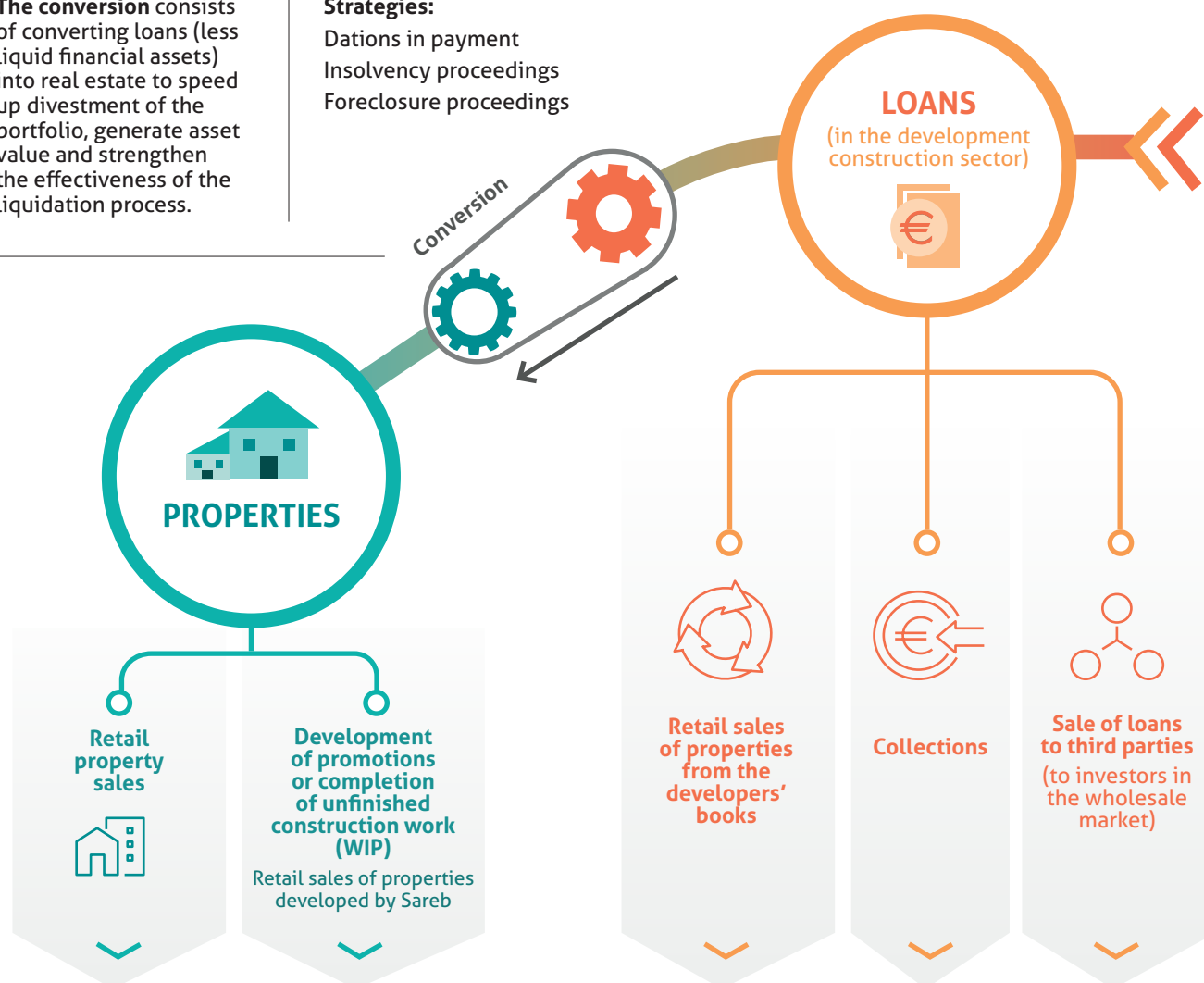
A business model to fulfil its mandate...

The orderly divestment of the asset portfolio, prioritising retail sales (to individuals or companies) over institutional sales.

The **conversion** consists of converting loans (less liquid financial assets) into real estate to speed up divestment of the portfolio, generate asset value and strengthen the effectiveness of the liquidation process.

Strategies:

Dations in payment
Insolvency proceedings
Foreclosure proceedings



Generation of income that will make it possible to pay off publicly guaranteed debt (1HY 2021)*

74%

RETAIL

15%

WHOLESALE (INSTITUTIONAL)

11%

COLLECTIONS

* Percentage calculated on the basis of revenue that enables debt repayments.

PORTFOLIO AT THE END OF THE 1HY 2021

PORTFOLIO
(€50,781 M
ORIGINALLY)

DIVESTMENT SINCE 2012
(-40.0 % vs. inception)

LOANS €15,160 M
(-61.6 % vs. inception)

PROPERTIES €15,328 M
(+35.1 % vs. inception)

SENIOR DEBT
(€50,781M
ORIGINALLY)

REDUCTION SINCE 2012
(-31.2% vs. inception)

Balance of outstanding debt at the end of 1HY 2021 €34,918.2M

... in response to trends in the sector

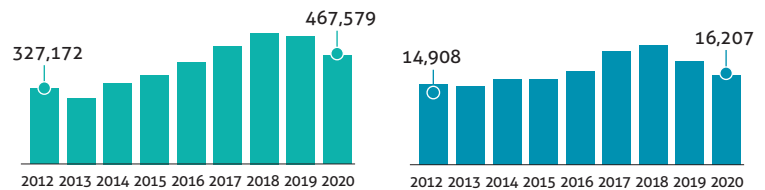
The real estate market

Transactions in the sector

- Since the third quarter of 2020, there has been a notable increase in property transactions as a result of both the stagnated demand due to lockdown and the improved economic situation as from the beginning of 2021.
- This growth in the residential property market has also translated as an increase in the volume of land transactions which, in the first half-year of 2021 was nearly 3 times higher (+188%) than for the first half-year of 2020.

Transactions for free-market housing and land (total sales)

Number of free-market housing sales No. of total sales of land



Source: Ministry of Transport, Mobility and Urban Agenda

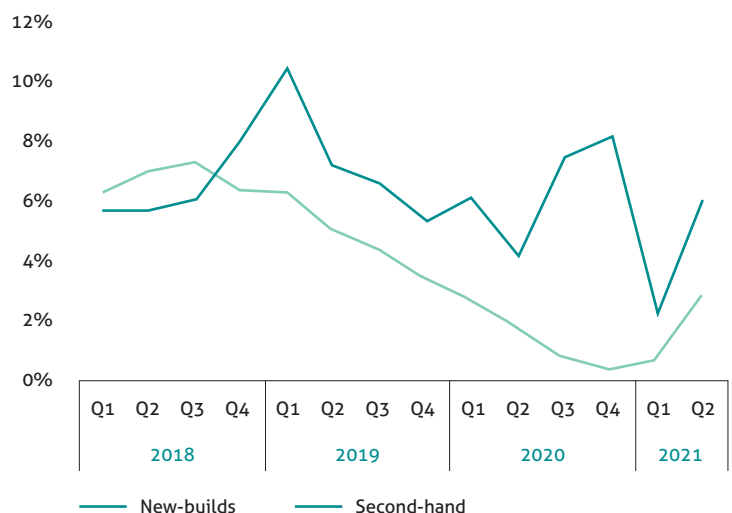
1,622 €/m²
Average price at the end of 2020

142.1 €/m²
Average price at the end of 2020

Evolution of housing prices

- The Housing Prices Index (HPI), according to the National Institute of Statistics, continues its upward trend, which is more pronounced in the case of new-builds than for resales.
- The HPI went up by 2.4 points compared to the first quarter of 2020, and stands at 1.3 and 2.7 for new-builds and resales respectively (NIS).

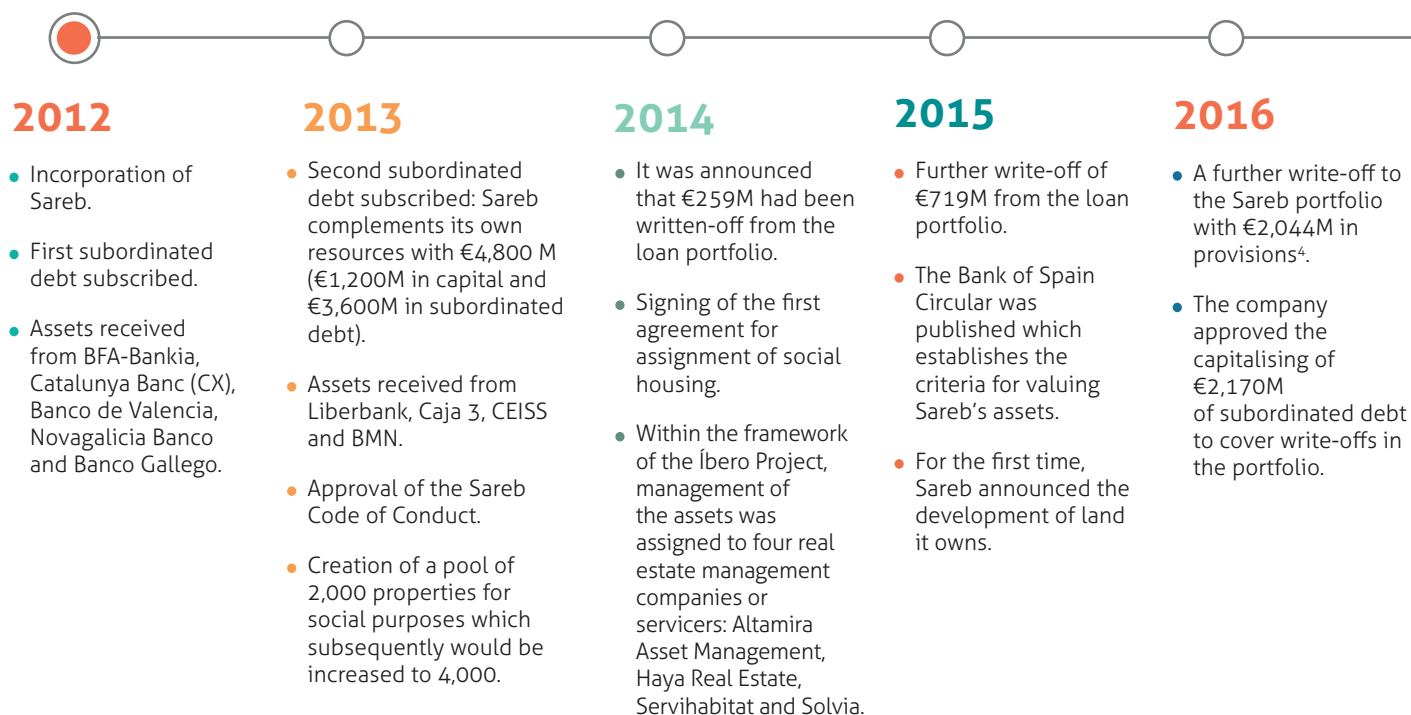
Evolution of the Housing Prices Index (HPI) (year-on-year)



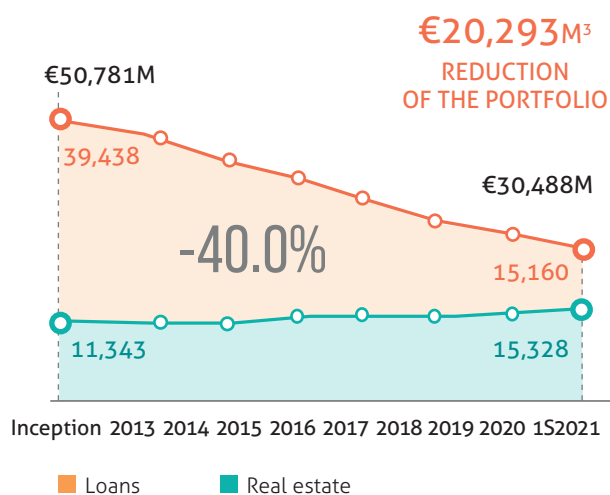
In the first half-year of 2021 Sareb's asset portfolio has gone down by €1,022 M to €30,488 M.

Relevant milestones

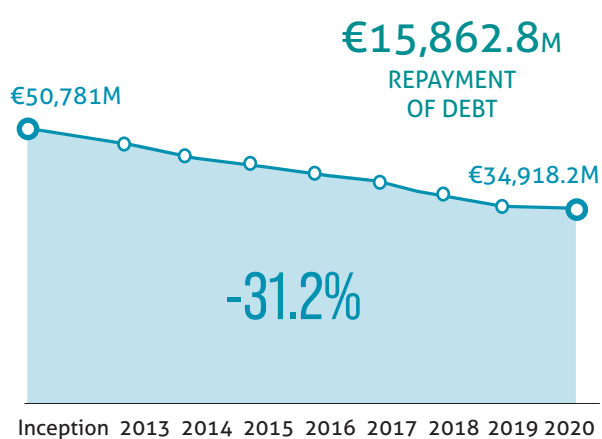
Balance of period 2012 - First half-year of 2021



1. Evolution of the portfolio



2. Reduction of senior debt



Key figures since its inception (aggregated data)

239,318

Properties sold

€2,785 M

Interest paid to the assigning banks

€29,017 M

Income

15,000

Properties used for rented social housing

³ The portfolio figures are presented without impairment for accounting purposes.

⁴ 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 a department for property development and promotion to enhance the value of the company's assets.
- Launching of the online channel for the sale of loans.
- Creation of the REIT, Témpace Properties, with a portfolio of 1,554 assets transferred by Sareb for the value of €175M.

2018

- Témpace Properties makes its debut on the Alternative Stock Market (MAB).
- Launch of a competitive process to sell the holding of Sareb in Témpace Properties.

2019

- Sareb, in partnership with Värde Partners, launched Áqura Homes to promote more than 17,000 properties.
- Sale of 75% of Témpace Properties to TPG Real Estate Partners.
- Approval of the Esparta Project for improving relationships with the servicers. Under this project, Sareb chose Haya Real Estate for the commercial management of a portfolio of €8,400 M.
- Sareb concluded the first sale to a public administration (Town Council of Badalona) of properties for social purposes.

1HY 2021

- Record of retail sales of assets.
- In July, selection of the new industrial managers, specialists in property development and town planning management.
- Eurostat announcement of Sareb's inclusion in the public finances.
- Properties under development in promotions coming from work in progress totalled 1,259 units.
- Agreement with the Spanish Government to release up to 15,000 social housing units.
- Javier García del Río was appointed as Chairman of Sareb
- Sareb rearranged its management structure to boost the retail business. The new Management Committee reached gender parity.
- At the end of the period, the project for simplifying the operating model was launched.
- As in the previous year, the Management Committee waived the variable remuneration in 2021.

2020

- Change in sales strategy for offloading all assets.
- Sareb puts an Efficiency Plan into effect to streamline its expenditure.
- Appointment of Javier García del Río as CEO and, later, as Managing Director.
- Sareb relocated its headquarters to a building of its own in Mirasierra (Madrid).
- The company signed new social housing sales with different town councils.
- Approval of Royal Decree-Law 6/2020, of 10 March, enabling Sareb to continue conducting its activity and not to incur in grounds for dissolution due to being in a negative equity situation.

4,020⁵

Sareb own properties for development

17,083⁶

Properties approved for development through Áqura Homes



Further information on the present-day Sareb



⁵ The figure differs slightly from that published in the Annual Activity Report for 2020 due to adjustments in building projects.

⁶ The figure differs slightly from that published in previous reports, due to the developments in processes to approve investment proposals and because of adjustments to the real estate projects.



Good governance

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Composition and functioning of the Board of Directors	17



Governance model

As set out in its Articles of Association, 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

Sareb's contribution to the United Nations 2030 Agenda



i Further information on the supervision of Sareb and its Articles of Association:



A clear and specific legislative framework

The incorporation and development of Sareb is defined under the following regulatory 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.
- Act 11/2015, of 18 June, on the restructuring and winding-up of credit institutions and investment services companies.
- 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 and private interest associated to Sareb's activity mean it is also subject to strict supervision by the Bank of Spain, the Spanish National Securities Market Commission (CNMV) and the Monitoring Committee.

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. Sareb 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

Spanish National Securities Market Commission (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:

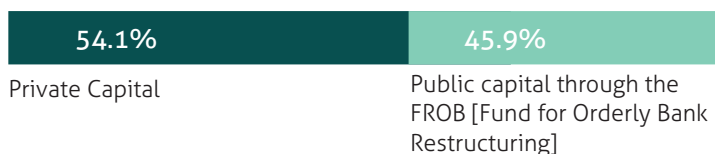
- Ministry for Economic Affairs and Digital Transformation
- Ministry of Finance and the Civil Service
- Bank of Spain
- CNMV

It can ask for additional supervision by other national or supra-national authorities, such as the European Central Bank (ECB), which attends its meetings as an observer.

Governance

Monitoring of the best governance practices applicable to listed companies and public-interest institutions.

Composition of capital



Board of Directors*



10 Meetings in the 1HY 2021

Audit Committee



Remuneration and Appointments Committee



● Independent Director ● Executive Director ● Proprietary Director

*100% attendance of directors at all meetings

Management Committee

38 Meetings in the 1HY 2021

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.

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 over Financial Reporting (ICFR)

Financial Information:

- Risk of reliability of financial information

Internal Control System on Non-Financial Reporting (SCIINF):

Non-financial information:

- Risk of reliability of non-financial information

⁷ The fact that Sareb has 14 directors, as opposed to 15 at the close of 2020 is because there is a vacant seat on the Board of Directors.

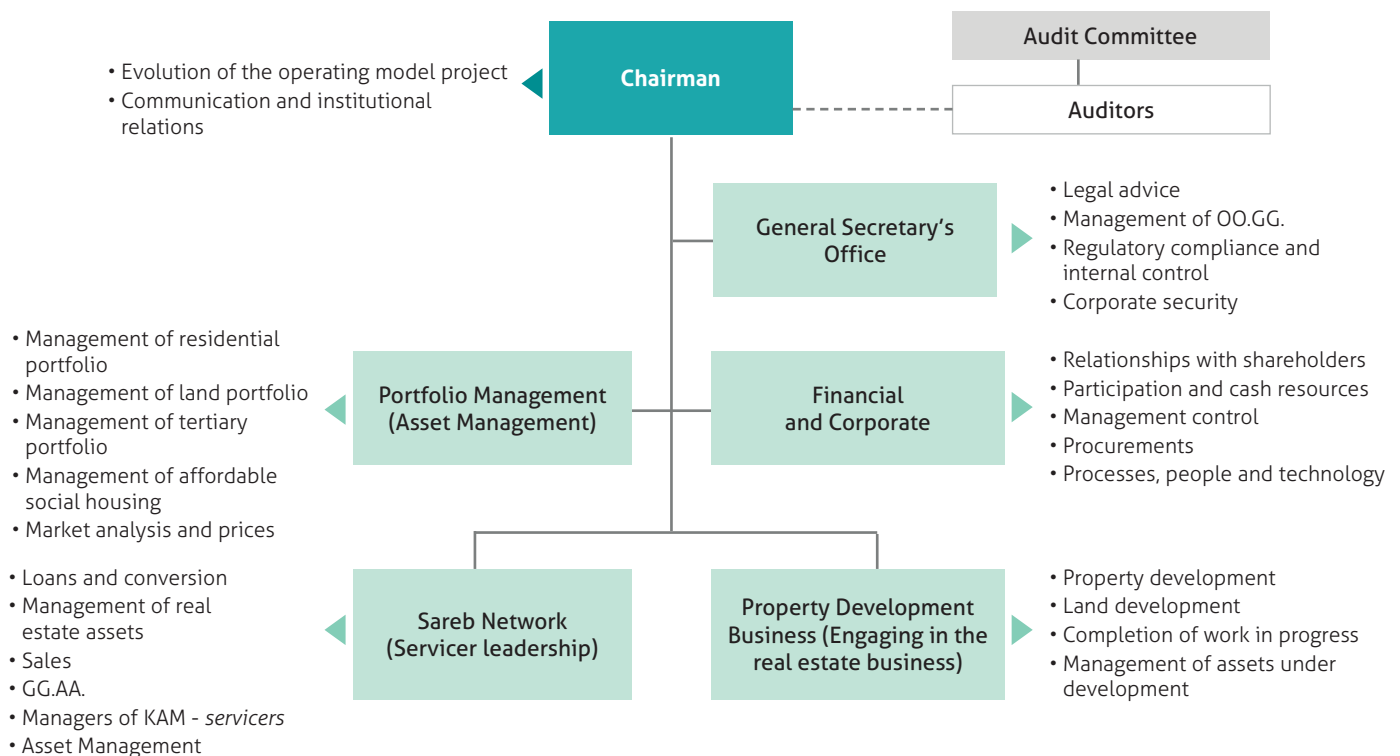
A simplified structure for boosting the fulfilment of our mandate

The objective of this new structure is to give impetus to the retail business and bring more efficiency to the operating side

The new organisation introduced in the first six-month period of 2021 seeks to maximise efficiency in the structure created in July 2020. The objectives are to strengthen the areas associated to the retail business and property development, and also to focus on the individualised strategy for each asset. These are fundamental cornerstones of the Sareb Business Plan.

The new Management Committee, which has reached gender parity, now has 6 instead of 9 members. In this context, the responsibilities and functions of the business divisions have been redefined. The new structure entails giving further depth to the reorganisation that already began in 2020.

Sareb Organisational Chart: functional areas of each department



Waiver of receiving variable remuneration

A year ago, in view of the Covid-19 crisis, the executive team decided to waive receiving their variable remuneration for 2019 and 2020 as an exercise in responsibility toward the situation that the country was undergoing. In 2021 as well, the members of the Management Committee made their decision in advance to waive receiving any variable remuneration due to them for this year.



More information under the caption [Composition and functioning of the Board of Directors and on the Sareb website:](#)



Sareb human capital in the first half year of 2021

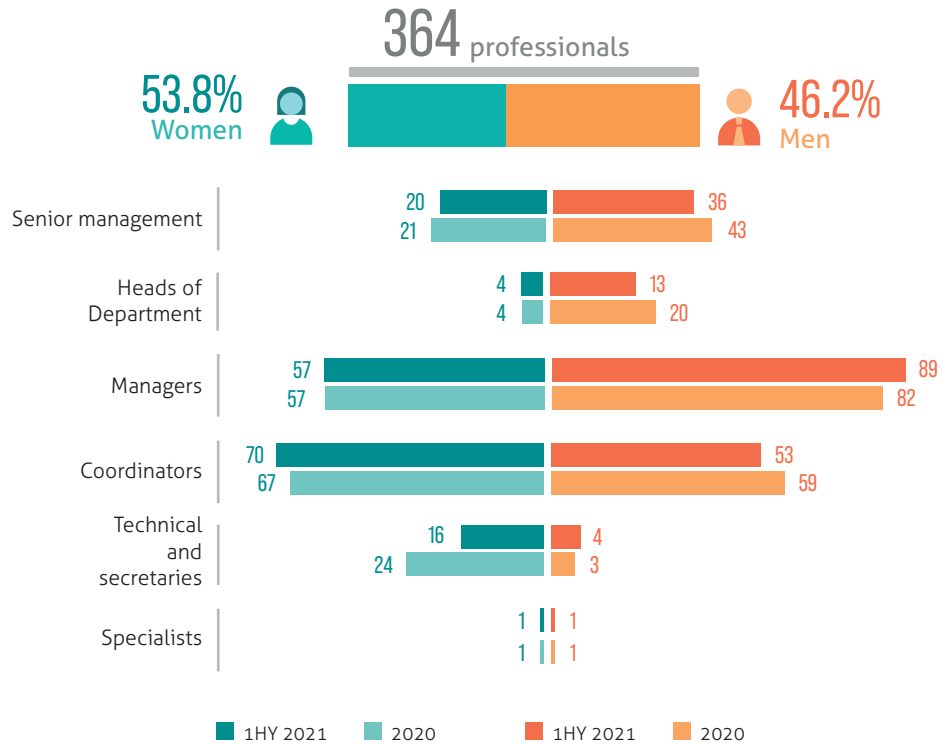
Sareb's workers have an average experience of 19 years in different sectors, especially in real estate and financial sectors

Our mandate could not be fulfilled without the commitment and dedication of the professionals making up the company.

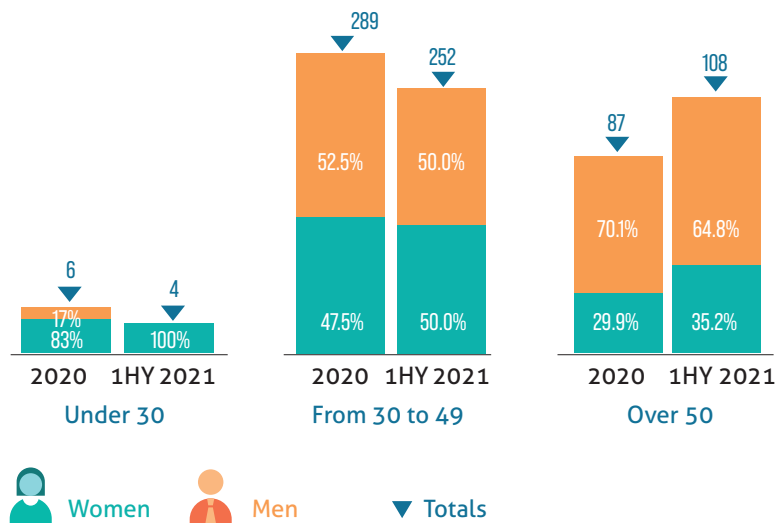
At the end of June 2021, the number of Sareb employees totalled 364, a decrease of 4.7% at the same date in 2020.

Sareb's model is that of an extended enterprise — based on the work of the *servicers* and suppliers with which the company operates—, which enables it to manage its asset portfolio without oversizing the workforce.

3. Profile of Sareb workers (number per category and % of the total)⁴⁴



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



Further information on the human team and Sareb's operations on:



Composition and functioning of the Board of Directors

New blood in the Chairman's office

In May 2021, Sareb's Board of Directors of unanimously approved the appointment of Javier García del Río as Chairman.

García del Río took over from Jaime Echegoyen, who announced his voluntary resignation as Director and Chairman after seven years in office.

With Jaime Echegoyen presiding the company, Sareb underwent a profound transformation, improving its capacities for business. His involvement has been a key aspect in fulfilling the mandate and the Board of Directors has expressed its gratitude for his work at the head of the company.

The new Chairman has experience in non-performing asset management, and he will head this new stage by continuing to fulfil the company's divestment mandate.

The Sareb Board of Directors is currently composed of 14 members, of which five are independent, in compliance with the provisions of Royal Decree 1559/2012, which establishes the legal system governing asset management companies.

Three of Sareb's Board members are women: Paula Conthe (representing the FROB), Carmen Motellón García and Idoia Arteagabeitia González. This has meant an advance in equality and diversity in the Board of Directors.

Sareb has a Board of Directors characterised by its independence and diversity



More information in the corporate governance section on the Sareb website



Profile of Sareb Directors

<p>FROB⁸ (represented by Paula Conthe) 14/04/15 28/10/2020</p> <p>(D) FROB</p>	<p>Enric Rovira Masachs⁹ 25/11/15 28/10/2020</p> <p>(D) Banco Sabadell</p>	<p>Javier García-Carranza Benjumea 05/05/16 26/05/2021</p> <p>(D) Banco Santander</p>
<p>Javier Bartolomé Delicado 28/11/16</p> <p>Independent</p>	<p>Iñaki Goikoetxea González 28/11/16</p> <p>Independent</p>	<p>Eduardo Aguilar Fernández-Hontoria 13/12/17</p> <p>(D) FROB</p>
<p>Jordi Mondéjar López 13/12/17</p> <p>(D) CaixaBank</p>	<p>Jaime Rodríguez Andrade 13/12/17</p> <p>(D) Banco Santander</p>	<p>Juan Ignacio Ruiz de Alda 14/12/17</p> <p>(D) FROB</p>
<p>Idoya Arteagabeitia González 30/04/19</p> <p>Independent</p>	<p>Carmen Motellón García 30/04/19</p> <p>Independent</p>	<p>Alberto Valdivielso Cañas 28/10/20</p> <p>Independent</p>
<p>Javier Torres Riesco 28/10/20</p> <p>(D) FROB</p>	<p>Javier García del Río¹⁰ 28/10/20</p> <p>Executive</p>	<p>i More information on the Board's experience on Sareb's website</p>

Date
of first
appointment
XX/XX/XX

Date of
re-election
XX/XX/XX

Committees to which they belong



Audit
Committee



Remuneration
and
Appointments
Committee



Chairman of the Committee

Nature

(D) Proprietary
Independent
Executive

Profile and competences

Finance

Legal

Real estate
sector

Public
administrations

Business
management

International

⁸ The FROB was re-elected as a legal person by the Ordinary Shareholders General Meeting on 28 October 2020.

⁹ Enric Rovira Masachs was re-elected by the Ordinary Shareholders General Meeting on 28 October 2020.

¹⁰ Appointment of Javier García del Río as Chairman in the Board Meeting held on 26 May 2021.

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 of the company and the Capital Companies Act.

Board of Directors

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 operations.



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

This is the management team. The Management Committee comprises five business divisions (Portfolio Management, Finances and Corporate, Network, Property Development and Promotion and the General Secretary's Office) which are directly answerable to the Chairman. Its activity focuses on support and assistance to the Board of Directors and other powers delegated by it.



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

Board of Directors



Committees



More information on the management team under the caption

A new structure to bring impetus to the mandate and on the Sareb website:





Commitment to Society and economic development



A commitment to society and economic development

Sareb's social contribution goes beyond putting real estate on a sound footing

Without departing from its mandate, Sareb's divestment activity generates a positive impact for Spanish society as a whole: from its contribution to employment and the socio-economic revitalisation of the regions, to the direct response to the housing needs existing in this country.

Sareb's contribution to the United Nations 2030 Agenda



Contribution to the progress and social and economic development

Every year, Sareb publishes its Socio-Economic Impact Report in which it reflects the cumulative impact in economic terms, including the financial contribution to the GNP, the financial contribution resulting from payment of the debt guaranteed by the central Government and the tax contribution from the performance of its activity in Spain.

The company has the effect of revitalising the local economies in the areas where it engages in

its activity, and also the contribution to the real estate sector in particular. For example, Sareb has invested a total of €326 M in residential property developments and the completion of works in progress to increase the property values.

This investment translates as a direct stimulation for the construction sector and an indirect stimulation in other industries serving this sector.



More information on the social and economic impact of Sareb





Response to the need for affordable social housing

In 2013 Sareb created a pioneer scheme for assigning social housing to the public administrations as they have the authority on housing issues and can attend to cases of vulnerability with the backup of the social services. With this initiative, the company has made housing units available to various public administrations, at national, regional and local level, to be used for affordable rentals.

The volume of properties committed through this channel has been growing over the years—from 4,000 homes to 10,000 in 2020—and in 2021 the company has gone a step further by signing an agreement with the Spanish Government. This milestone entails extending Sareb's pool of social housing up to a total of 15,000 homes.

5. Social housing initiatives and their main results

Assignment of social housing

15,000

Properties committed to the public administrations for social rentals since the beginning of operations

Aid to groups in a situation of social emergency

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

This takes place in conjunction with the town councils

3,232¹¹

Properties committed to the public administrations for social rentals since the beginning of operations

Alternative social rentals

In collaboration with the Social Services, it is proposed as an alternative housing solution offered directly by Sareb for families who are socially vulnerable

12,928¹²

People benefiting from housing assigned to autonomous regions and town councils since the company's launch

3,952¹³

People benefiting from agreements with Sareb itself for assignment of properties



¹¹ Includes the housing units committed to the public administrations for social rentals since Sareb commenced its activity. The figure includes properties assigned by means of agreements that are currently in force and those that were covered by agreements that have now expired.

¹² Estimate calculated for an average of four persons per home in Sareb homes pledged to public administrations since the company commenced its activity. The figure includes properties assigned by means of agreements that are currently in force and those that were covered by agreements that have now expired.

¹³ Estimate calculated for an average of four people per home, taking into account a total of 988 applications approved since Sareb was created.

6. The historical map of social housing assigned or sold by Sareb (No. of properties)



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

Properties acquired

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.



Sareb’s contribution to sustainable development

Sareb is committed to the Sustainable Development Goals (SDG) proposed in the United Nations 2030 Agenda. The company has been part of the United Nations Global Compact since September 2016.

Sareb’s mission, in line with the 2030 Agenda

The nature of Sareb’s activity is directly related to advancing in its objectives:



2030 Agenda Targets		Contribution of the company
<div>8.10</div>	To strengthen the capacity of domestic financial institutions.	Sareb came into being with the public commission of putting the financial system on a sound footing and helping to reactivate the real estate market at a very complicated time. This activity enables the company to strengthen the liquidity and increase the solvency of the banks while at the same time giving impetus to property development.
	<div>17.13</div> To increase global macroeconomic stability.	
<div>8.3</div>	Promoting development-oriented policies that support productive activities and the creation of decent jobs.	Due to the nature of its portfolio, Sareb carries out its work throughout the various Spanish regions, promoting employment in the different locations.
<div>11.1</div>	Ensure access for all to adequate, safe and affordable housing and basic services.	<p>Property development and the completion of unfinished building work improves housing conditions and revitalisation of the areas where the company’s plots of land and buildings are situated.</p> <p>Placing properties on the market that can be afforded by average-income buyers through the retail sales channel.</p> <p>The pool of social housing made available to the administrations shows Sareb’s commitment to advancing toward universal access to adequate and affordable housing.</p>

Committed in day-to-day issues: other 2030 Agenda goals in which Sareb has a positive impact

Sareb's good practices throughout its value chain and in respect of its employees result in the company's additional contribution to those Sustainable Development Goals not directly related to its real estate and financial activity.

To guarantee equal opportunities and the diversity of the company, Sareb has policies, procedures and schemes in place, such as the Equal Opportunities Plan. The company also encourages initiatives for training and preparing its employees.

In corporate governance, Sareb has internal control mechanisms and systems for maintaining transparency in the management and rendering of accounts. In addition, it is committed to the environment, it operates using energy efficiency measures and has an Environmental Management Policy.



More information under the caption in the sub-section on the Sareb website on contribution to the 2030 Agenda



5

Evolution of the
Business Plan

Fulfilment of the Business Plan

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Keys to the 2021-2027 Business Plan

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Evolution of the Business Plan

The Business Plan approved in 2021 aims at maximising the cash generated in the divestment of assets

In the first quarter of 2021 the Board of Directors approved the latest updating of the company's Business Plan. This document was drawn up in an environment of major uncertainty as to the rate of economic recovery, following the slowdown in its activity as a result of the crisis caused by Covid-19 since 2020. This uncertainty has also been transferred to the estimated evolution of the main real estate market indicators, such as the evolution of prices and transactions.

In the short term, the Business Plan already provided that the losses reflected could consume the company's entire shareholders' equity, including the subordinated debt, and this occurred in the first half-year of 2021.

RD Law 6/2020, which allows Sareb to carry out its liquidation activity even if it has insufficient equity, enables the profile of asset sales to converge with the very composition of the company balance sheet in respect of its forecast accounting margin instead of inclining sales towards assets with a positive margin, thus overweighting the strategy for protecting the company's equity.

This change of strategy increases the alternatives of saleable assets, while at the same time reducing the sales pressure on assets with accounting gains which, in general, are usually of higher quality. As most of the portfolio is estimated to generate a negative margin upon divestment, in the latest updating of the Business Plan the margins are expected to be significantly negative.

Furthermore, Sareb's updated Business Plan for 2020-2027, approved by the Board of Directors, shows that it is not possible to generate sufficient cash flows over the course of the period to fully repay the debt issued by the company. This circumstance and the outstanding amount will depend on the performance of a number of variables, including the price of real estate assets over the course of each year.

The Business Plan approved in this year places the focus on maximising the cash flow generated from the divestment of assets in order to pay off the highest volume of debt possible. In order to achieve this target, Sareb is focusing on taking a closer look at the strategy to be implemented for each asset in its portfolio. The creation of the Portfolio Management Division in 2020 was a key element for obtaining greater knowledge of the assets and, therefore, for defining the most suitable management and sales strategies for each one.

Fulfilment of the Business Plan

At the time of preparing the Business Plan, the estimates at macroeconomic and real estate level anticipated more volatility due to the uncertainty in the recovery of the country, although in the end the behaviour of the economic indicators has been more favourable than forecast. The projections for 2021 centred Sareb's activity on four aspects:

1. Situating the volume of income at levels prior to the Covid-19 outbreak, giving priority to retail sales.
2. Focusing on the activity of converting loan collateral properties into real estate assets belonging to Sareb.
3. Reinforcing the property promotion and development businesses.
4. Reinforcing the cost savings obtained in 2020, continuing to implement the Efficiency Plan.

The volume of income for the first half-year showed a figure of €1,090 M, 7 % more than forecast in the annual budget for the period and twice the 2020 amount. With regard to the first half-year of 2019, revenue went up by 3.5 %.

Per type of customer, as was forecast, in this six-month period Sareb continued focusing its sales in the retail segment to try and maximise the selling price, significantly reducing the divestment in institutional or wholesale markets. Sales on the retail market accounted for 83 % of the revenue, compared to the 62 % they represented in the same period of 2019. For its part, the institutional channel accounted for 17 % of the total. Special mention should be made of residential product sales, reaching €489.8 M compared to €223.5 M and €385.2 M in the same periods of 2020 and 2019, respectively.



More information in the
[Financial Section](#)

The business margin, in line with forecasts, has changed from a positive figure in June 2020 (€144 M) to a negative figure in 2021 (€86 M). Nevertheless, the amount was not as negative as had been budgeted. This is due to:

- Less discount on the price of residential real estate assets.
- Less discount on land compared to the forecasts of the Business Plan.
- Difficulty of selling less liquid assets (particularly land) not in line with the mix required in the Business Plan.

The conversion activity has also shown a positive trend, with a volume of converted assets amounting to €1,266 M, 3 % more than forecast in the Business Plan, and more than twice the figure in June 2020. In this period the very positive performance of mortgage foreclosures is worth special mention.

For the business of property development and promotion, the activity of Árqura Homes is highlighted, where revenue from the sale of new homes amounts to €57 M in the first six months of the year, in line with what was budgeted. There is also a stock of over 1,656 properties reserved or with a private contract signed, awaiting

the completion of the corresponding building work and signing of title deeds. Since Árqura Homes was created in 2019, 532 homes have been delivered. There are currently 110 active developments with 4,251 homes being marketed.

Operating expenses stood at €321 M—7 % higher than budgeted—of which more than a third relate to tax items (mainly involving Property Tax, non-deductible VAT and other taxes).

The budget overruns centre on two specific items: expenses for conditioning properties and non-deductible VAT. In the first half-year this expense was significantly higher than budgeted, due to the reconditioning of the residential product received by Sareb as a result of recovering unpaid loans in worsened investment conditions. Accordingly, the non-deductible VAT associated to Sareb's expenses was also higher than the amount budgeted.

However, not counting those two deviations, Sareb has achieved a 3% saving on the budget in all other operating expenses.

Keys to the 2021-2027 Business Plan

The basic pillars of the company's strategy outlined in the Business Plan take the following aspects into account:



Assignment of individualised strategy per asset to optimise management in the medium term

The improved knowledge of the assets brought with it an increase in their strategic segmentation, with a view to maximising the cash flows generated by the portfolio. The Portfolio Management team has a communication tool that makes it possible to assign a personalised strategy to each asset in the Sareb portfolio using a system of alphanumeric codes.

The strategic segmentation of the portfolio is founded on two basic aspects: the type of asset and the optimum management strategy established for each one of them. The following segmentations were defined:

Financial assets:

- Use of channels for the collection, on the one hand, of performing loans and, on the other, of unsecured loans and/or loans secured with low-interest collateral.

- Loans where the aim is to achieve a sale at an attractive price for Sareb and alternatively, if that sale is not possible, to convert them to REO for management from Sareb's books.
- Collateral-backed loans in which a potential is identified for generating value by managing them as the asset holder and the strategy associated to this is conversion to real estate assets.

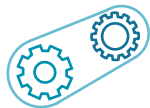
Real estate assets:

- Properties to which a value-generating strategy is assigned that enables a higher return on the divestment, through property development or urban land development.
- Assets for which the priority is their sale since they do not have any scope for generating additional value.
- Properties allocated to a social housing initiative or programme.



Internalising the margin of profit for the developer

- Property development: Using new developments on Sareb-owned land and on land which currently appears as collateral for loans but which in the future will form part of the Sareb balance sheet. This business segment started to be developed specifically with the creation of Árqura Homes in 2019, which executes a large portion of the property development activity with the involvement of a specialist manager.
- Completion of unfinished construction works: Part of Sareb's portfolio comprises works that have been halted and are at various stages of completion. The current status of these assets makes them especially difficult to market and would mean Sareb accepting very low prices, while completion of the projects and their sale as completed homes could generate significant value for the company.
- Urban land development: The company owns a large volume of land and, as a result of the conversion process, it is expected to add more assets of this kind. The degree of development of the land portfolio is highly varied, so that, along with specialist managers, the necessary investments are made to progress in its achieving planning status. Accordingly, the company strives to maximise its sale price, rather than to market the land in its current condition.



Opting for the conversion process

- The strategic commitment is ongoing to transforming a large portion of the financial asset portfolio secured by real estate collateral.
- This takes place in the case of loans where the recovery capacity is focused on taking control of the collateral properties, reorganising their status, publicising and then selling them in the form of assets that are more liquid and easier to sell on the retail market, or managing them and generating value using the channels mentioned above (property development, completing unfinished building work, town planning management....)



Streamlining the company's expenditure

- Since 2020 the company has an Efficiency Plan, focusing on savings and containing expenditure. Since its launch, the company has significantly reduced its cost base, especially costs with a higher fixed component and less dependent on the level of activity, and it has conducted a review of all sources of expenditure to identify areas for improvement.
- The 2021-2027 Business Plan includes a consolidation of these savings over the forecast period. The current expenditure plan means a decrease of €70 M on the previous plan.
- In addition, the company has worked on the unification of services provided by the different suppliers, simplification of the foreclosure process, and identification of operational synergies that will result in improved economic conditions for contracting.



More information on
[Management and sale of real estate](#)
[and Management and sale of loans](#)



Our business in the first half-year of 2021

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Main figures for the half-year period

Advancing with the fulfilment of our mandate

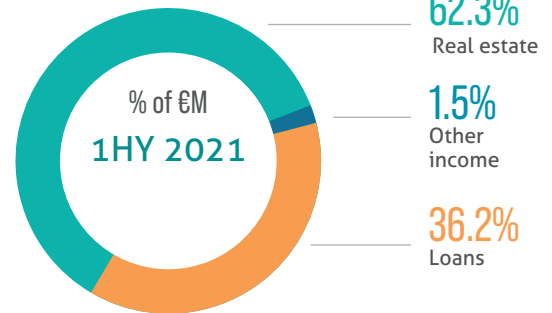
Total Income (1HY 2021)

€1,089.9¹⁴ M

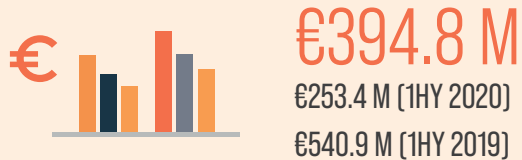
€540.7 M (1HY 2020)

(€1,053.7 M 1HY 2019)

Per type
of asset



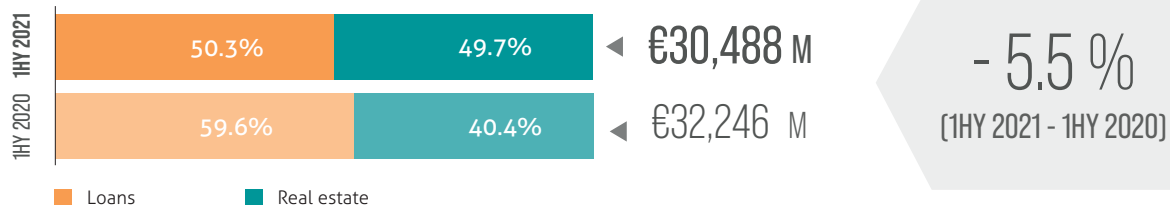
Loans (Revenue 1 HY 2021)



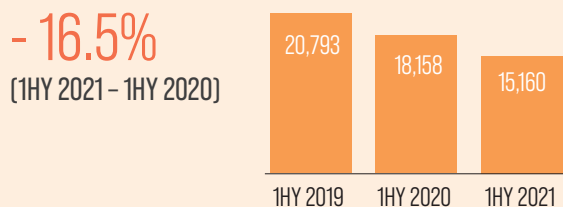
Properties (Revenue 1 HY 2021)



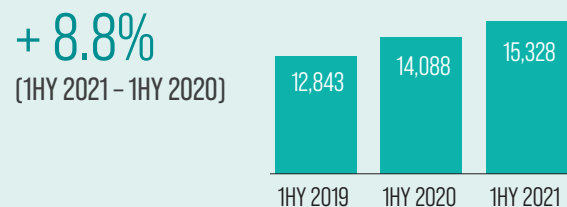
Portfolio of assets



Financial asset portfolio



Real estate asset portfolio



Balance of outstanding debt



¹⁴ Other income €16.7 M

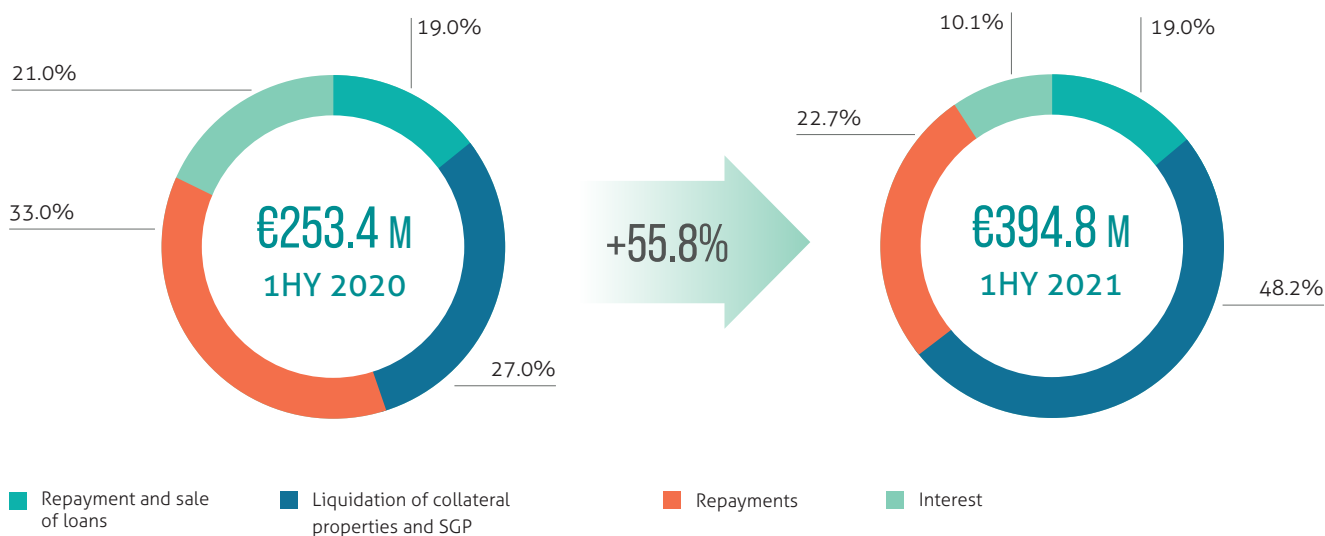
Management and sale of loans

Income coming from the management and sale of loans accounted for 36.2 % of the total volume of business turnover in the first half-year period

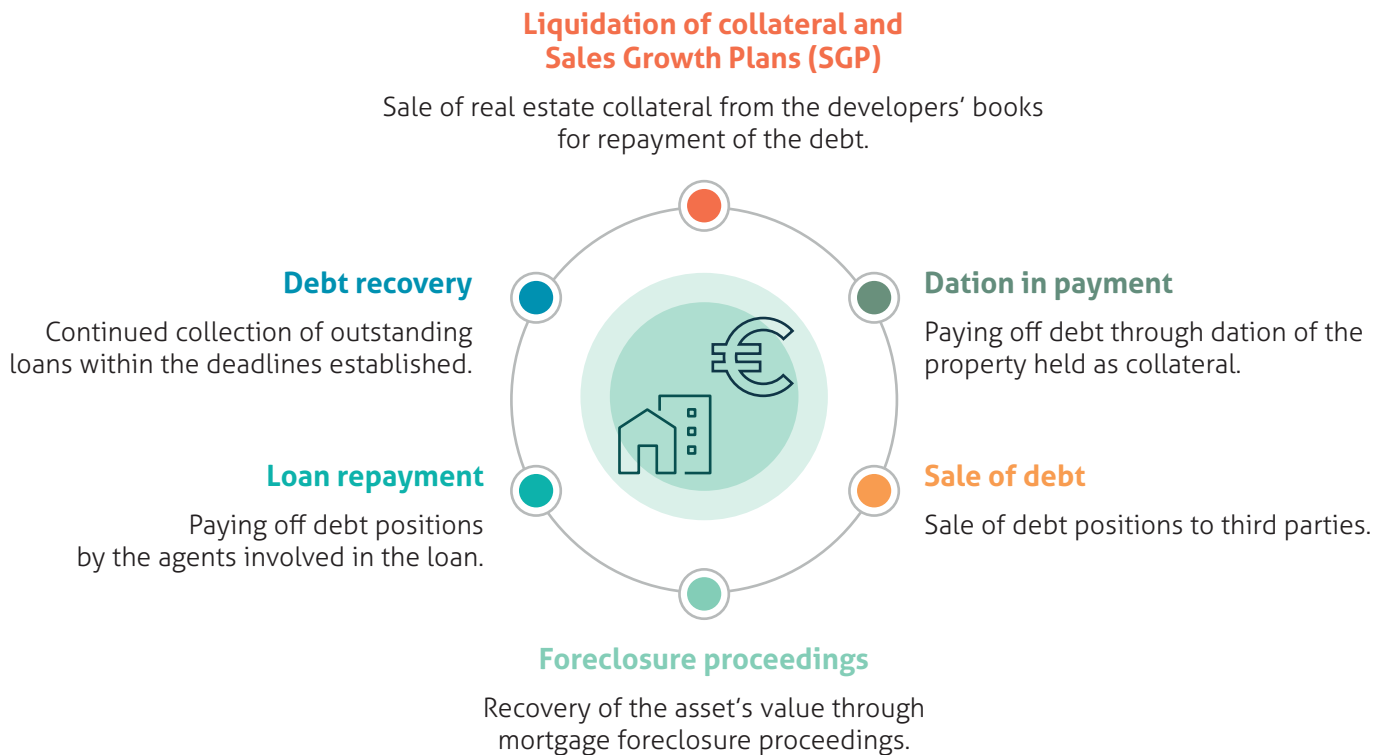
In the first half-year of 2021 the income from the management and sale of loans stood at €394.8 M, 55.8 % more than in the same period in 2020. This evolution has been marked by a gradual reactivation of the market, but not without losing sight of the restrictions arising from managing Covid-19. Compared to the pre-pandemic figures, in 2019, income from sales of loans has gone down by 26.9 %.

In recent years we have observed a gradual decrease in the weight of loan-based income following Sareb's strategy of promoting the conversion of financial assets into real estate and selling on the retail market. At the close of the first half-year period, the loans segment accounted for 36.2 % of the total income.

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



8. Strategies for the management and sale of loans

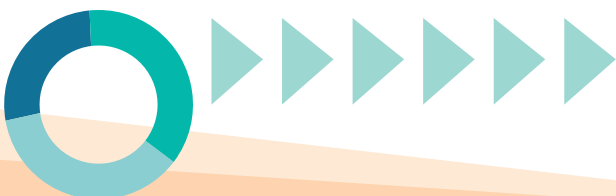


The strategic focus for the management and sale of loans in the first half-year period of 2021 centres on two essential aspects:

- i) retail selling from the developer's books through instruments such as SGP or liquidation of residential collateral properties.
- ii) converting any collateral properties that are prioritised for Sareb, resulting in more than 13,500 real estate assets added to Sareb's books. In this respect, we held meetings with our suppliers for monitoring and incentivising the line of dation in payment, insolvency and foreclosure proceedings for speeding up the conversion of collateral properties of interest to Sareb.

In the first half-year of 2021 Sareb has strengthened the line of SGP and liquidation of collateral properties line as the main strategy for income from loans, representing 48.2 % of the total revenue, following the boost given to this line during the previous year, focusing on sales to individuals, end consumers, from the debtors' books.

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 for repayments and debt cancellation, this segment accounted for 22% of the total income from loans for the first half-year of 2021.



Sales Growth Plans and liquidation of property given as collateral

Following an agreement with the developers, the Sales Growth Plans (SGP) facilitate the sale of real estate assets—residential property developments or single buildings—which appear as collateral for the loans directly on the debtor balance sheets, thus enabling them to reduce their debts with Sareb.

Although this strategy was pivotal in the first few years of the company's activity, it is expected to gradually become less important, for two main reasons: the reduction in the scope of assets that meet the criteria for signing an agreement of this type (in terms of cooperation from 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 number of properties, between January and June, 2,196 units were sold using this formula. In the same period of 2020, marked by the pandemic, this figure stood at 411 units. Compared to 2019, SGP sales in terms of units went down by 16%.

Proposals managed by Sareb

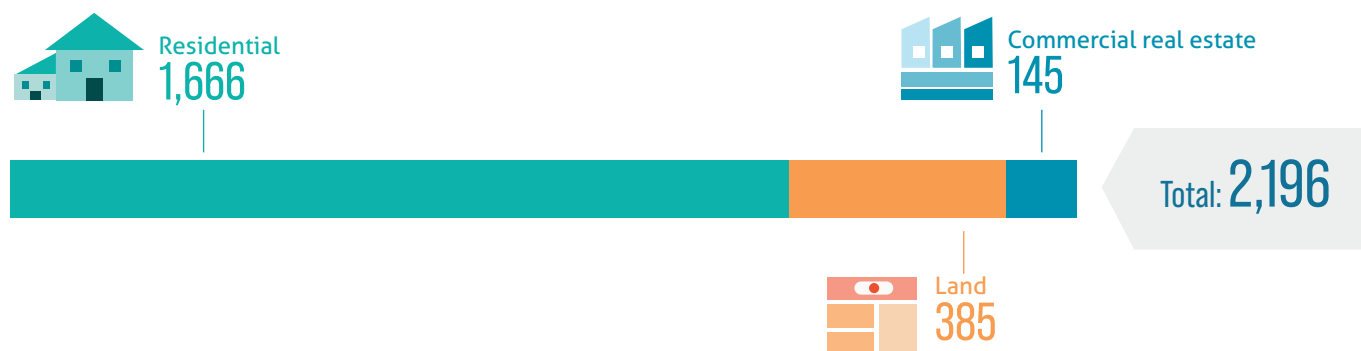
During the six first months of the year, the company has managed the financial proposals corresponding to the loans portfolio. In the first half-year, Sareb managed 2,924 proposals. Of these, 1,165 (39.8%) relate to datations and foreclosures, 745 (25.5%) to liquidation of collateral properties and SGPs, 297 (10.2%) to sales and cancellations of debt. The remaining 24.5% comprises proposals managed through other channels (disposals, disbursements, restructuring, etc.)

Characteristics of debtors in the first half year of 2021

57.3% of Sareb's debtors are subject to exposure of less than €2 M and 39.5% to exposure of less than €1 M. At the end of the first half-year of 2021, Sareb's financial asset portfolio was composed of 11,740 debtors, 6% less than for same period of 2020. Per volume of debt, 80% of the debt is concentrated in 21.7% of debtors.

21.7 % of the debtors account for 80% of the debt

9. Properties sold from the developers' books by type (units)



More information under
Management and sale of properties.

Conversion

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, using foreclosure or dation in payment procedures which, once concluded, enable properties which were previously collateral for financial assets to be added to the Sareb portfolio.

Although this process means having to assume lengthier time periods, it is essential for preserving the value of the Sareb's assets. At the same time it makes it possible to increase and diversify the company's real estate offer.

The conversion process is adapted to the specific situation of each loan on Sareb's portfolio—depending on the willingness of the debtor to collaborate or the legal process involved—and it is carried out by means of three instruments: dation in payment, insolvency and foreclosure proceedings.

The slowdown of legal proceedings as a result of Covid-19 has had an impact on the strategy for

converting Sareb's balance sheet. In this context, the company has intensified its efforts to achieve out-of-court agreements for both loans in insolvency proceedings and those for which mortgage foreclosures have already been filed.

With respect to insolvency, Royal Decree-Law 16/2020¹⁵ has introduced a series of new measures aimed at speeding up insolvency proceedings.

Implementing this strategy has enabled Sareb to pick up the pace of conversion.

In the first six months of 2021, the company added a total of 13,897 new properties to its books, worth €1,265.7 M. With this, the total of assets placed on the market stands at 26,939 units, with an aggregate value of €2,656.3 M.

Dation in payment

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

€267.7 M / 21.11% of the total
3,727 properties

Insolvency proceedings

In cases in which the borrower is the subject of insolvency proceedings, Sareb collaborates with them or with the insolvency administrator to come to a solution.

€241.9 M / 19.1% of the total
2,867 properties

Foreclosure proceedings

Claiming the debt through legal proceedings when it is not possible to reach an agreement for collaboration.

€756.1 M / 39.4% of the total
7,303 properties

Conversion by method in 1HY 2021

+ ----- Degree of collaboration -----> -



Further information on the conversion of the balance sheet in the section [Business Model](#)

¹⁵ 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.

Management and sale of properties

In this six-month period the company recovered the levels of real estate activity prior to the pandemic

Sareb's contribution to the United Nations 2030 Agenda



The Spanish real estate market has been affected by the Covid-19 health crisis and the consequent slowdown of the economy, although the evolution of the financial indicators in the first six months of 2021 has been more favourable than had been expected.

In that context, during this six-month period the company recovered the levels of real estate activity prior to the pandemic and specifically revenue from property sales bounced back to €678.4 M, representing a 32.3 % increase on the same period in 2019.

Sareb has continued prioritising asset sales through the retail channel (not to institutions, but to companies or individuals) which accounts for 83% of total income in the first half-year of 2021, as opposed to the 79% represented between January and June of 2020 and 62% in the same period of 2019. With this strategy Sareb aims at maximising the selling price of its assets and avoiding the sizeable discounts demanded on the institutional markets. In the case of residential sales, retail accounted for 97% of the volume of transactions completed.

Property sales

Between January and June 2021, out of the total invoicing volume for properties—€552.7 M—, €394.8 M came from sales of residential properties, which means a 175% increase on the first half-year of 2020 and a 56% upturn compared to the same period of 2019.

In terms of units, Sareb has sold 8,130¹⁶ properties, a 231% increase compared to the first half-year of 2020 and 26% compared to the same period of 2019. Of the total of real estate assets sold until June 2021, the majority were residential (4,452 units, 230% more than a year ago) and ancillary (2,168 properties, 160% more). However, the reactivation of the activity has been more intense in the land segment, with 849 units sold (+665%) and in the tertiary segment (premises, warehouses, offices, hotels, amongst others), with 661 assets sold (+308%).

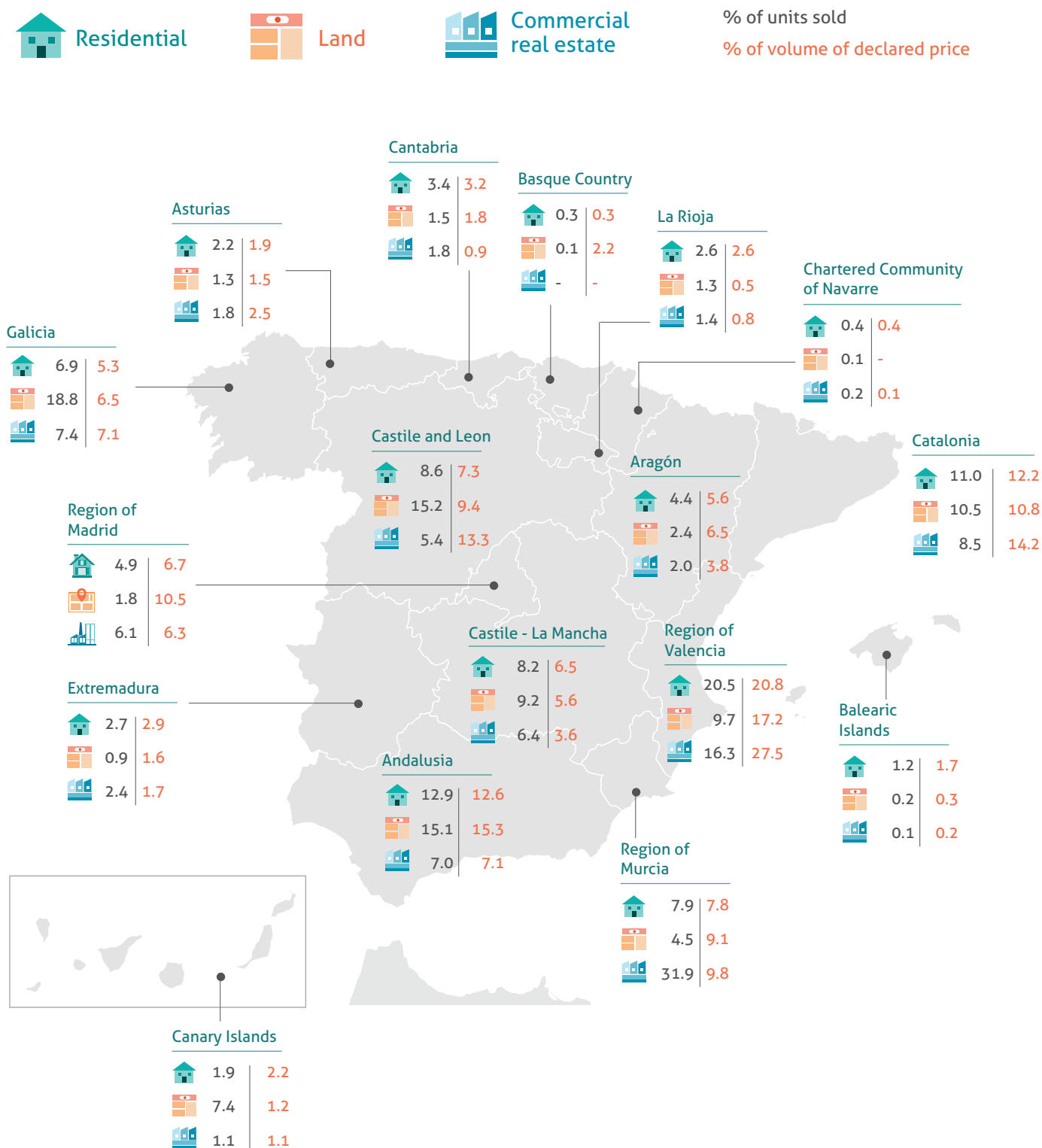
In overall volume of units, and without differentiating between asset types, the autonomous regions where most property sales took place in the first half-year of 2021 were the Region of Valencia, Andalusia and Catalonia.

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 for the company. Conversion is a tool for transferring value between two types of assets held by Sareb and is intended to increase revenue and margins.



More information on property sales through Sales Growth Plans (SGP) in the section [Management and sale of loans](#)

¹⁶ These figures differ from those reported in previous reports as now they only include sales in the retail channel (excluding ROFO, institutional sales, work in progress or WIP).

10. Geographical breakdown of sales of Sareb-owned real estate ¹⁷

More information under
Conversion of the balance sheet and Management and sale of loans

¹⁷ Includes works in progress.



Residential

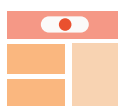
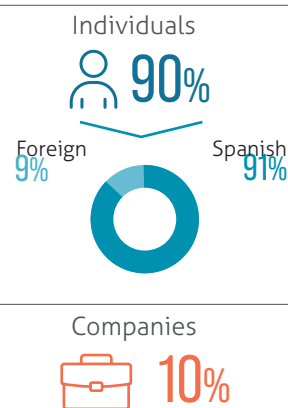
The company has reviewed its portfolio and prices of residential real estate assets, based on their liquidity and the demand, in order to be able to respond to the housing challenges, amongst other aspects, arising from Covid-19 and in this way to contribute to economic and social reactivation.

The revenue from sales of residential real estate assets reached €490 M, 119% more than in 2020 and 27% more compared to 2019; this was partly as a result of the strategic changes and a gradual return of buyers to the real estate market.

In terms of units, it sold 6,620 residential real estate assets—counting homes and ancillary—, 203% more than the first half-year of 2020. At regional level, the highest volume of revenue was concentrated in the Region of Valencia (21%), Andalusia (13%) and Catalonia (12%).

*This figure includes all sales of Sareb's residential stock.

Profile of the buyer of a residential property (1HY 2021)



Land

Land sales stood at a total of 849 units during this half-year period, 202% more than the figure for 2019.

In terms of declared price, the volume of income obtained from marketing land went up to €88.6 M, €68.5 M more than in the first half-year of 2020, and a 48% increase on the first half-year of 2019, when there was no impact of the pandemic.

The autonomous regions with the highest volume of revenue in this segment were the Region of Valencia (17%) and Andalusia (15%). In number of units, special mention is made of sales completed in Galicia (19% of the total land sold during the six-month period).



Commercial real estate

Between January and June 2021 the company sold a total of 661 commercial assets. The declared value of commercial properties stood at €72.9 M, 325% more than the first six months of 2020 and 44.1% more than in the first half-year period of 2019.

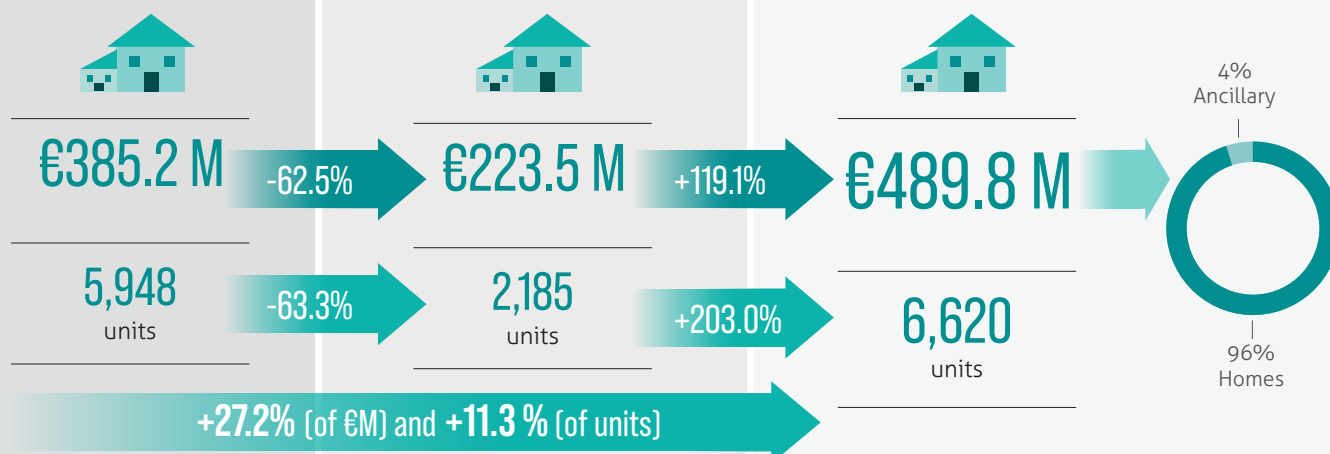
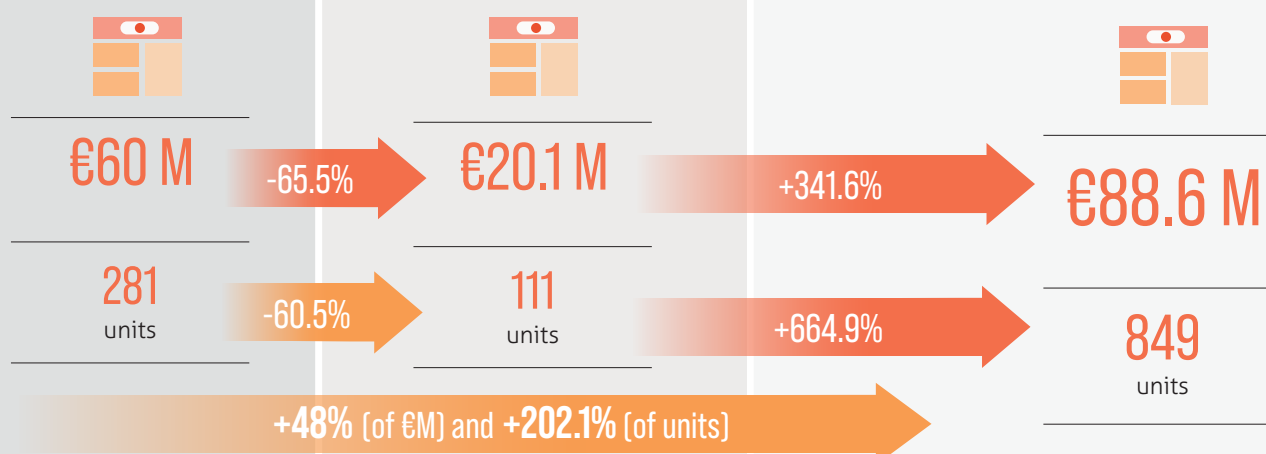
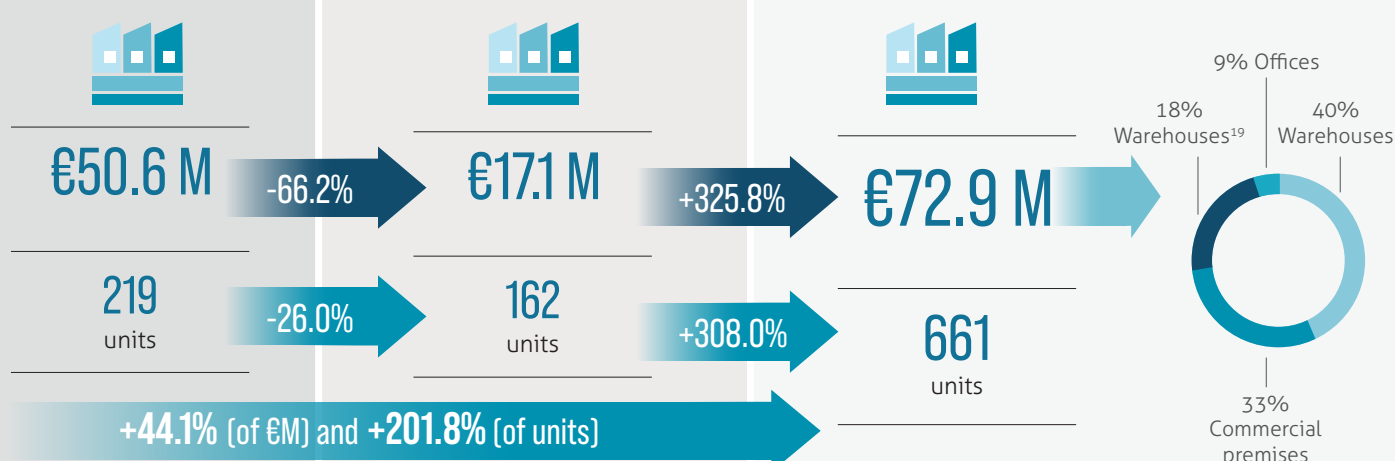
The significant increase in transactions compared to 2020 is largely due to the negative effect of Covid-19 on sales. Compared to the first half-year of 2019, sales of commercial assets went up by 202% in terms of units.

Per geographical area, the regions that have shown the greatest recovery in the pace of sales in this segment of assets are the Region of Valencia, Catalonia and Castile and Leon, which together account for 55% of the revenue from commercial properties in the period.

1HY 2019

1HY 2020

1HY 2021

11. Property sales¹⁸ (€M and units sold)**12. Sales of land (€M and units sold)****13. Sales of commercial properties (€M and units sold)**

¹⁸ These figures differ from those reported in previous reports as now they only include sales in the retail channel (excluding ROFO, institutional sales or works in progress).

¹⁹ In the 1HY 2021, this category refers to the sale of car parks (€4.6 M) and to the sale of the former El Salvador school to the Town Council of Valladolid (€6.8 M)

Property development and urban land management

Property development on land owned by Sareb enables the company to generate value in its asset portfolio

The thorough and responsible management of Sareb's portfolio includes nurturing initiatives to increase the value of its assets. These include initiatives relating to property development on land owned by the company, with the completion of unfinished construction works and urban land management.

Árqura Homes property development

Since it was created in 2019, Árqura Homes has played a prominent role in the development and promotion of Sareb properties. This is a Bank Assets Fund (FAB) in which the company owns a 90% stake and through which it invests in most of its property development projects.

When Árqura was set up, Sareb transferred assets valued at €811M to the FAB, amongst which some were developments that had been halted and others under construction, and also land.

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

The management and marketing of the Árqura Homes property portfolio is delegated to Aelca, a company that originated as a developer specialising in the comprehensive management of turn-key real estate projects that has delivered nearly 2,500 homes since it was created in 2012.

In its first two years of activity, the company approved the development of 6,525 homes, with an investment of €1,050 M. The company has already invested €238 M out of the total planned. In total and until 2027, the company expects to invest a total of €2,514 M in developing 17,083 properties throughout Spain, as set out in its Business Plan.

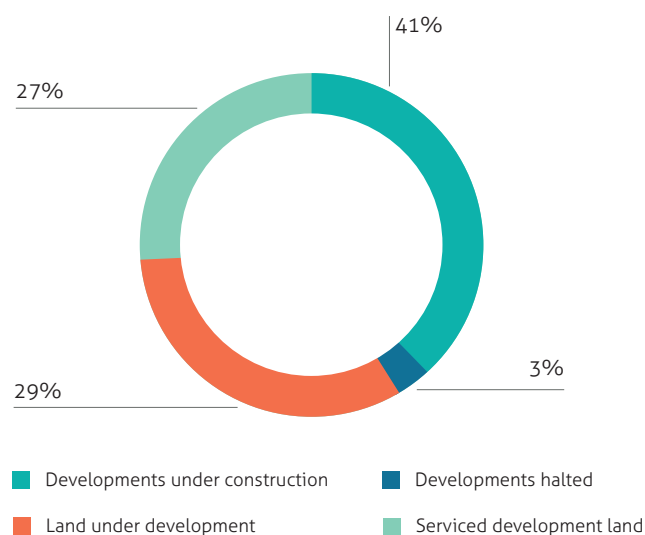
In the first six months of 2021, €155.8 M were invested, used for residential property development. In this period, Árqura Homes obtained profits of €4.4 M, compared to the negative figure of €3 M in the first six months of 2020. The progressive commissioning of new developments has enabled the company to turn a profit in a six-month period in which revenue rebounded by more than 313%, up to €57 M.

At the end of June the company's pre-sales portfolio was around 1,650 units (322% more than in June of 2020), while the total volume of assets being marketed amounted to 4,783 homes.²⁰

In terms of pre-sales, at the close of August the property portfolio of Árqura Homes continued covering 84% of deliveries for 2021, reaching 59% in respect of those for 2022.

The company owns close to two million m2 of development land through the development of 17,000 homes in which it intends to invest around €2,500 M. Árqura Homes' business volume places the company as one of the leaders among the group of non-listed development companies.

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



²⁰ this includes Árqura Homes own developments and developments delivered.

15. Breakdown of total Árqura Homes residential units being marketed



16. Árqura Homes activity at the close of the first half-year of 2021 (units)



Árqura Homes
has approved
investment
projects for

6,306
properties

(38.4% of the total
forecast for 2027)



Investment projects
under way

5,774



532
finished
homes

Sareb property development

Although Sareb carries out most of its property development business through Árqura Homes, it has maintained its own scope for building developments on its own land and completing unfinished construction work.

During the first half-year, Sareb chose the Domo Group as the specialist manager for completing 205 residential projects, with a total value of €300 M, which Sareb received unfinished and which will make it possible to place around 5,600 new homes on the retail market.

The object of this process was to find a manager with a high degree of specialisation in these activities, as opposed to a general servicing model, which will contribute to greater speed and efficiency in the processes for finishing building work while at the

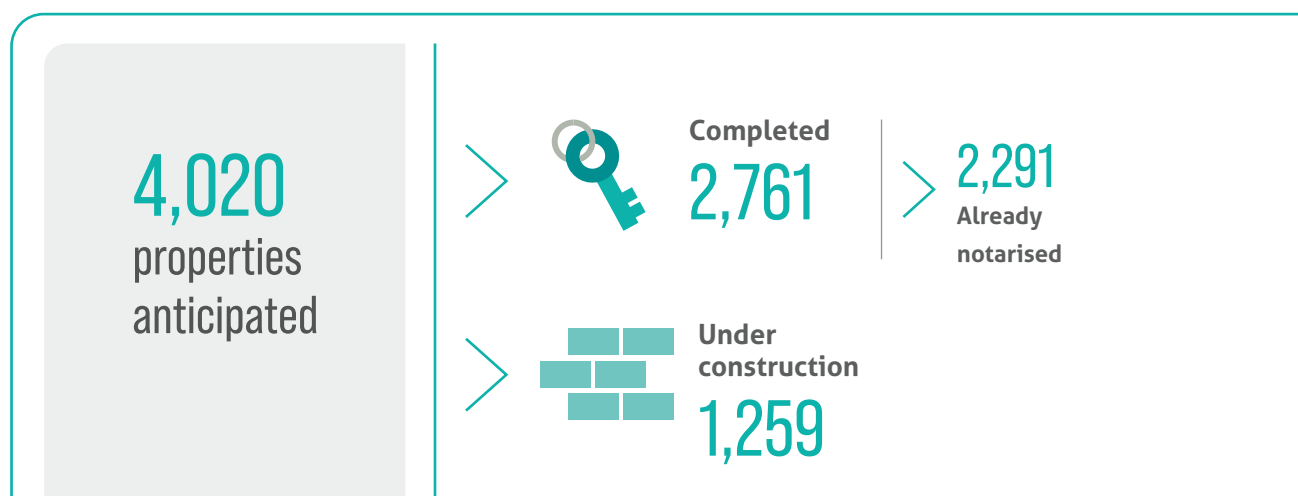
same time making it possible to accelerate the pace of completing projects and increasing the offer of new properties for our company.

Finishing building work and selling the properties to individuals enables Sareb to obtain the highest value of the assets possible, in contrast with selling developments under construction on the institutional and corporate market, where significant discounts are demanded.

Apart from finishing residential projects, the contract awarded to Domo includes marketing the properties on the individual homebuyers' market.

Per autonomous region, the majority of homes are centred in Catalonia (1,167), Region of Valencia (1,142), Canary Islands (846), Andalusia (587) and Castile and Leon (473).

17. Sareb property development in figures²¹ (units)



²¹ Not including the promotion and development projects transferred from Sareb to Árqura Homes.

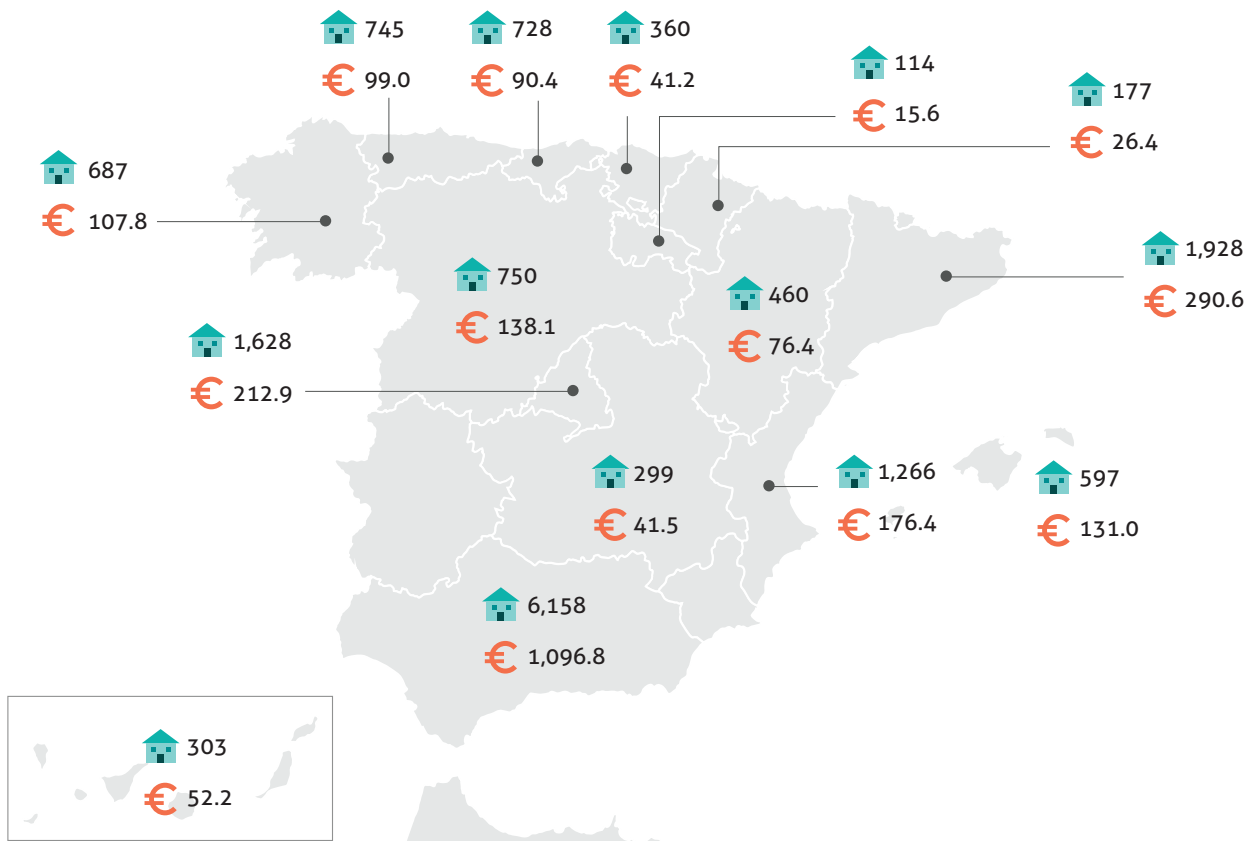
18. Total number of properties to be built directly by Sareb by 2027 (units and €M)



Units forecast



Investment anticipated



19. Investment by Sareb in residential property development from its launch until the first half-year of 2021 (% of €M)

49%

51%

€112.6 M



Completion of
unfinished
construction works



Developments
on Sareb-owned land

Management and maintenance of real estate

Sareb bears the management and maintenance costs of its real estate assets and carries out the necessary conservation work on them until they are sold.

The company earmarks funds for identifying and keeping up to date with the payments for all of the real estate assets it owns. It also has a comprehensive maintenance model (certified as compliant with ISO 9001 standard since 2018) which enables it to better manage the properties and the various processes, as well as those linked to conditioning the assets.

In the first six months of 2021, the expenses associated to management and maintenance of real estate amounted to €123.7M, of which the main items relate to conditioning, payment of taxes and expenses of homeowners' associations (€93.3 M).

Management of the land portfolio and urban development processes

As a result of the acceleration in the conversion of the balance sheet and the resulting transfer of land, the composition of the land portfolio changes continuously

Sareb's land portfolio includes land under development, serviced development land and greenbelt land. The total number of assets in the portfolio at the close of the first half-year of 2021 was 31,554. Of that total, 53.3% related to land under development, 37.3% to serviced development land and 9.4 %to greenbelt land.

Sareb carries out a number of initiatives to maximise the value of this type of assets before they are sold, notably including the development of urban planning management processes for certain land. In addition, the company devises individualised strategies for sale adapted to the circumstances of each asset and its potential demand.

20. Breakdown of the Sareb land portfolio

	No. of assets and % of the total land portfolio
Under development ²²	16,815 (53.3%)
Serviced development land	11,787 (37.3%)
Greenbelt land	2,952 (9.4%)

New industrial partner for developing land

During the first half-year of 2021, Sareb selected Servihabitat as its new partner for developing land. The company's objective was to find a manager with a high degree of specialisation to bring greater speed and in this way be able to increase the offer of serviced development land for professional investors and developers.

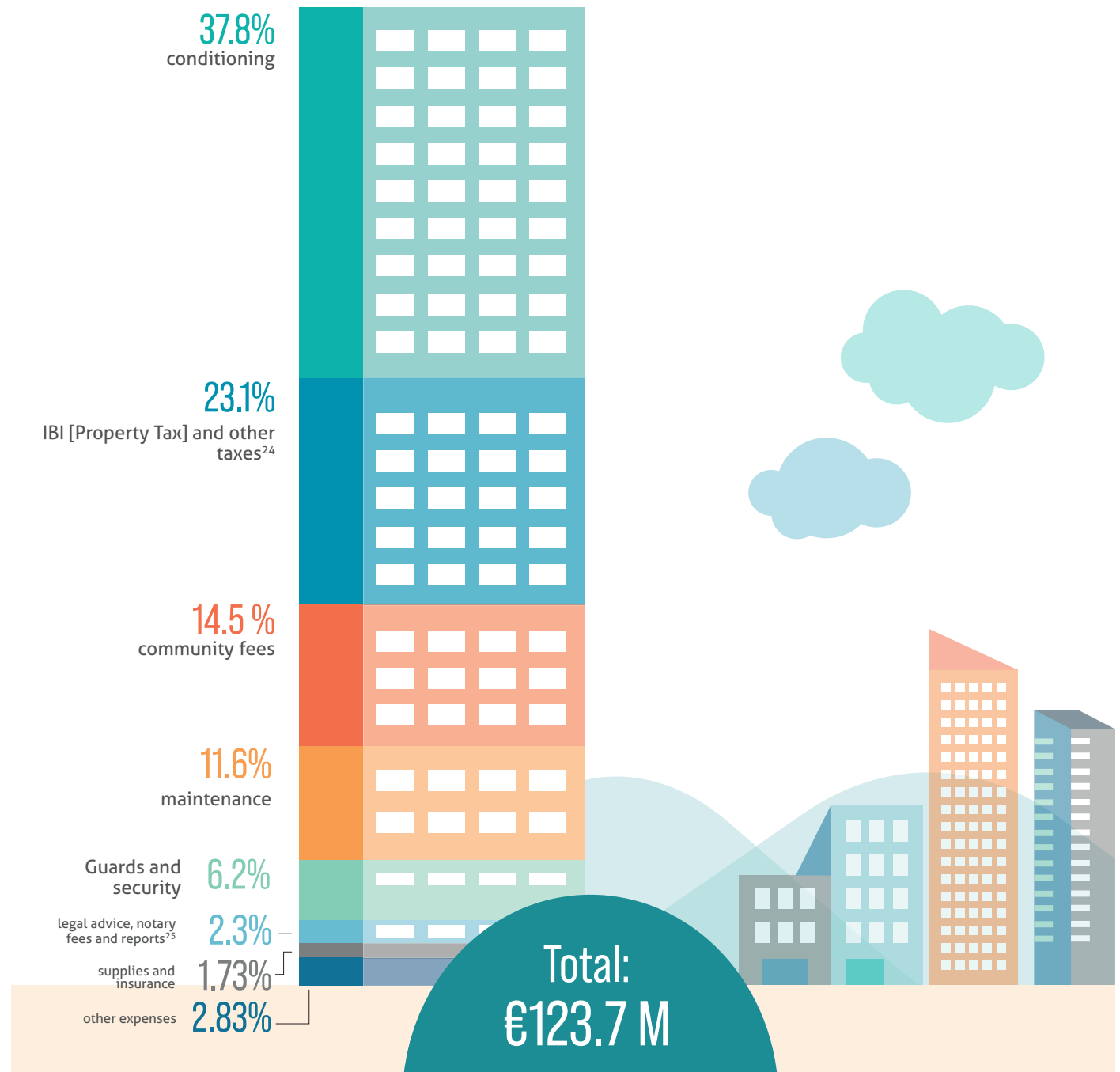
Servihabitat will manage a total of 51 plots of land, currently valued at €107 M with a total maximum building volume of 1.2 million m². For carrying out this work, it will create a subsidiary that is separate from its overall servicing structure, with teams of town planning specialists dedicated to this portfolio.

Initially, 51 plots of land were allocated, but in the future this could be increased by another 200 additional assets managed by general services, once these contracts finish in 2022.

Per autonomous region, the majority of land is located in Andalusia (16 units), Catalonia (11), Region of Valencia (6) and Region of Madrid (5). All other assets included in the project are found in Cantabria (3), Aragón (2), Galicia (2), Asturias, Canary Islands, Castile and Leon, Extremadura, La Rioja and the Region of Murcia (all with 1).

²² The area of Sareb land under development does not include land transferred to Árqura Homes.

21. Expenses for management and maintenance of real estate (% of €M)²³



Real estate conditioning

In the first half-year of 2021 conditioning work was completed on 5,925 properties. Considering Sareb's operating expenses for this period, it has meant an investment of €46.8 M.

Property upgrades and improvements are essential for selling properties on the retail market and for maximising their sales price.



5,925

assets conditioned
in the first half-year
of 2021.

²³ According to the company's management account at the end of 2021.

²⁴ "IBI [Property Tax] and other taxes" also includes licence/permit costs.

²⁵ Legal advice and technical reports comprises expenses for lawyers, court representatives and the fees for preparing technical reports.

Expense

Sareb's total operating expenses went up by €102 M compared to the same period of the previous year, mainly due to the greater volume of business activity in both sales and conversions and conditioning the real estate portfolio. As a whole, this item went up in the first six months of the year to €363 M, 39% more than the same period of the previous year.

In business terms (the table below), expenditure was contained to the figures in the Efficiency Plan implemented in 2020 in the items of business (sales) and converting loans to real estate. The items associated to "Portfolio Management" (mainly expenses associated to owning the property portfolio) went up due to the necessity of undertaking conditioning work on assets for sale on the retail market, and also the items associated to the company, where analytically tax items are counted (non-deductible VAT) associated to that conditioning

work. Eliminating the effect of the excess conditioning work compared to 2020, the relative performance of expenditure would be similar to that of the previous year.

It is also important to highlight the increased expenditure in property conditioning, as a result of greater efforts by the company in its residential portfolio for facilitating retail sales and promoting a positive impact on the margin. It is worth noting that the poor condition in which Sareb frequently receives the properties after process for recovering unpaid loans means the company having to make considerable efforts to upgrade them for sale on the retail market.

Sareb has adopted additional efficiency measures to be introduced during the second six-month period of the year to partly offset those budget deviations.

Breakdown of expenses for per type (€M) ²⁶

	1HY 2021	1HY 2020	Difference
Business	43	20	114%
Conversion	90	50	79%
Portfolio management	165	132	25%
Company	65	59	11%
Total expenses	363²⁷	261	39%

Ratios of expenses per type (€M)

	Objective		
	1HY 2021	2021	2020
Business⁽¹⁾	3.96%	4.70%	3.97%
Conversion⁽²⁾	7.12%	7.81%	7.55%
Portfolio Management⁽³⁾	1.05%	0.94%	0.85%
Company⁽⁴⁾	0.42%	0.38%	0.35%

(1) Cost of doing business = Total Expenditure / Income (financial assets + real estate assets)

(2) Conversions costs = Expenditure / Converted NBV

(3) Cost of portfolio management = Expenses / Assets under management

(4) Cost of doing business = Expenditure / Assets under management



More information in the chapter [Expenses](#)

²⁶ Classification of the expenses: Business (selling real estate assets and financial assets), Conversion (foreclosure and dation in payment expenses, non-deductible VAT on foreclosures and dation in payment and conversion charges), Portfolio Management (expenses associated to real estate assets and management fees) and Corporate (OPEX for structure and non-deductible VAT other than on Conversion).

²⁷ Includes €43 M in commission on sales.

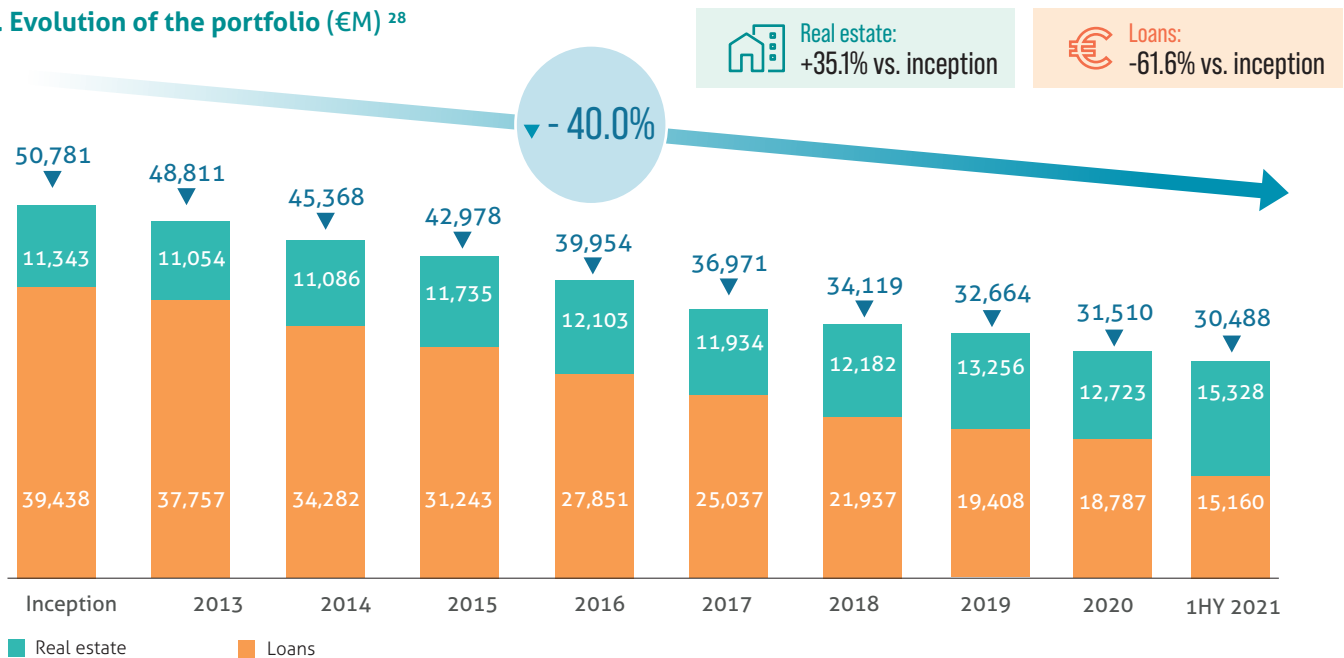
Sareb loans and real estate portfolio

Sareb's asset portfolio has decreased by 40% since its inception, but continues evolving as a result of the conversion of its balance sheet

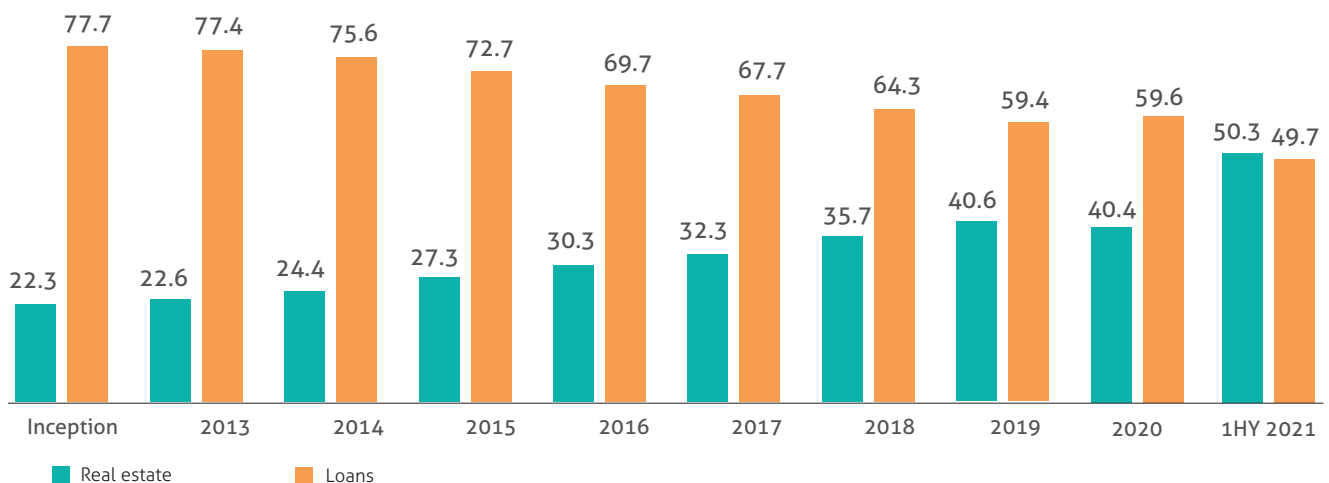
Sareb has continued advancing in the process of divesting its portfolio of assets, which in the first half year of 2021 went down by €1,022M now standing at €30,488M. Compared to the original starting portfolio of €50,781M, this figure represents a reduction of 40.0%.

As for the number of assets, the portfolio has increased to 205,199 units as a result of the conversion process (151,481 properties at June 2021 vs 145,174 assets of this type at the close of 2020).

22. Evolution of the portfolio (€M) ²⁸

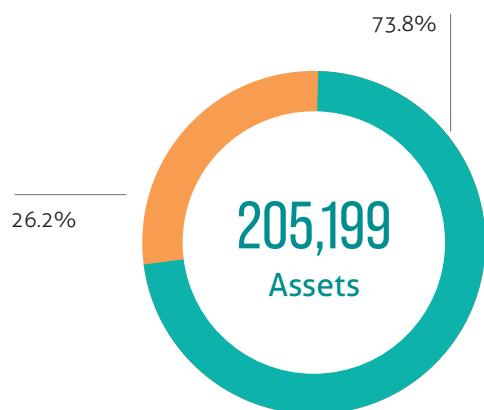


23. Composition of the portfolio (% of €M)



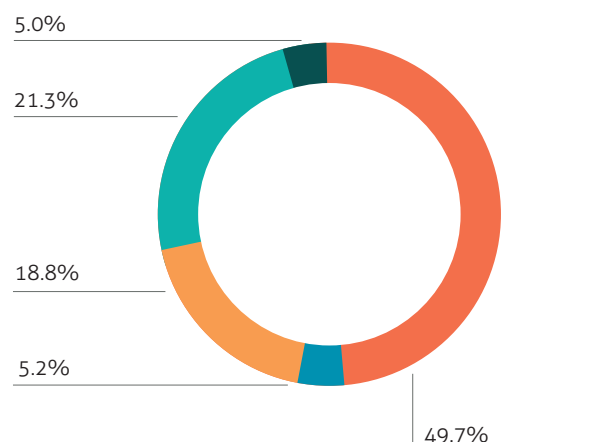
²⁸ The portfolio figures are presented without impairment and with amortisation/depreciation.

24. Composition of the portfolio ²⁹ (% of number of assets)



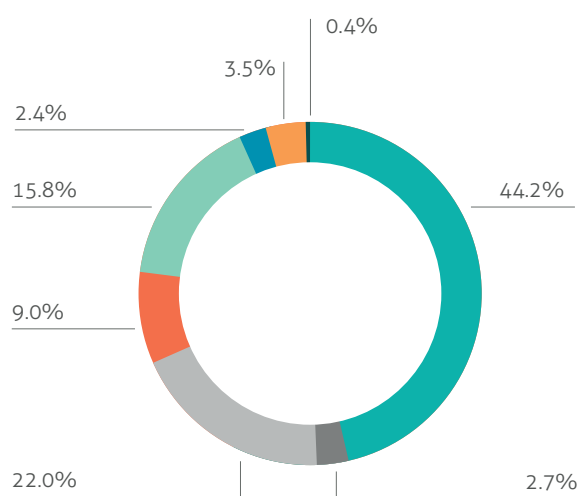
Loans
Real estate

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



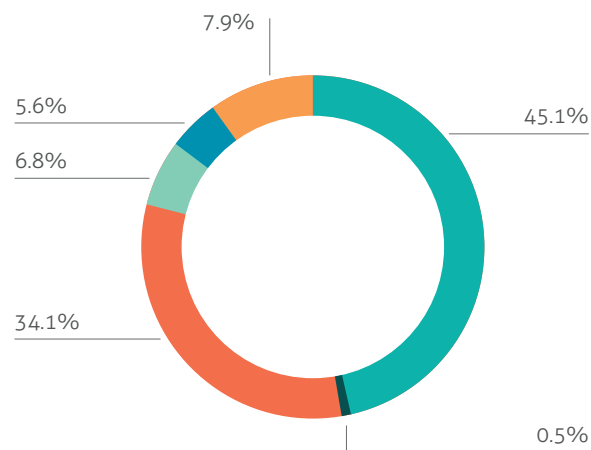
Loans
Land
Commercial real estate
Others³⁰
Residential

26. Breakdown of real estate assets per type (% of €M)



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

27. Breakdown of financial assets per type of guarantee (% of €M)



Residential
Mixed guarantee
Land
Unsecured
Works in progress
Sales

²⁹ The portfolio figures are presented without impairment and with amortisation/depreciation.

³⁰ Includes Árqura Homes, unfinished building work and other non-classified assets.

28. Geographical breakdown of the portfolio of real estate assets³¹ (% of units³² and of €M³³)



³¹ Does not include works in progress.

³² Not reported: 0.05%.

³³ The portfolio figures are presented without impairment and with amortisation/depreciation.

29. Geographical breakdown of loan management³⁴ (% of €M)



³⁴ 0.08% of loans are not assigned to a specific autonomous region.

Financial information

Key management indicators

The first half-year of 2021 has been conditioned by the growing economic activity in the country following the impact of Covid-19, resulting in the beginnings of recovery in the different production activities and a new dynamism in the markets. In the real estate market this impact translates as an increase in the number of transactions and in a certain lack of definition in prices, the uncertainty becoming more patent in less liquid assets and geographical areas.

The improvement introduced in the internal segmentation and selling processes, together with this reactivation of the economy—which has meant a very significant growth in land and tertiary—has brought about a very clear increase in the levels of revenue.

Without promoting aggressive pricing strategies, the margins in absolute terms have gone down considerably during the period, as forecast in the Business Plan.

As for operating expenses, Sareb undertook a significant reduction last year which has been consolidated in the present year. Nevertheless, the increase in this item during the first half-year of 2021 is mainly explained by two factors: i) by the expenses arising from the conversion processes (legal and tax-related), as that activity has grown considerably compared to the figures for the previous year; ii) and, on the other hand, as a result of the increased expenditure in conditioning work, which is carried out to upgrade the assets for their divestment on the retail markets.

Lastly, finance costs were reduced in the period, due to the partial maturity of the interest rate swaps.

Profit/loss for the first half-year of 2021 (€M)

Accounting Balances				
	1HY 2021	1HY 2020	Variation 1HY 2021 - 1HY 2020	
Actual income *	1,089.9	540.7	102%	
Income *	672	541	24%	
Net business margin	-86	144	-159%	
Operating expenses	-321	-242	33%	
EBITDA	-407	-97	319%	
Amortisations and provisions	-44	-38	16%	
EBIT	-451	-135	233%	
Financial profit/loss	-240	-264	-9%	
Profit/loss before taxes	-692	-399	73%	

* In accounting, transactions with financial assets are not recognised for their amount but instead for the margin they generate.



More information [under the caption on the evolution of the Business Plan](#)

Breakdown of income (€M)

Income	1HY 2021	1HY 2020	1HY 2019
Repayments	89.8	83.5	127.5
Sales Growth Plans and liquidation of residential property as security	103.8	29.8	145.5
Income from financial assets	394.8	253.4	540.9
Sales residential stock and others	489.8	223.5	385.2
Sale of non-residential stock and land	161.5	37.2	107.7
Total income billed from real estate assets and others	27.1	22.8	19.8
Income from real estate assets	678.4	283.4	512.7
Other income / expenses	16.7	3.83	0.12
Total income	1,089.9	540.7	1,053.7

Evolution of unrealised losses on the portfolio

Sareb is subject to the Bank of Spain Circular 5/2015, regarding the measurement of its assets and how they are recorded for accounting purposes. On the basis of the appraisal value—given by an appraisals company approved by the Bank of Spain—, of Sareb-owned assets and those held as collateral for loans transferred to the company, Sareb introduces a series of variables that make it possible to provide for both the expected evolution of prices and the costs of holding the assets until they are sold.

These variables are updated annually at the corresponding closing date, based on the estimate of the Business Plan approved by the company and the updated appraisal values of a large part of the assets. Accordingly,

the interim calculations are approximate, as not all of the parameters are updated, particularly those relating to future market prices.

The reduction of the unrealised losses on the portfolio has its origin in the sale of assets that showed losses—leading to negative margins in the income statement—and also in the process of converting loans into real estate (the value allocated is worth more than the loan from which it originated as certain conversion costs are deducted from the loan value), which explains the increase in operating expenses.

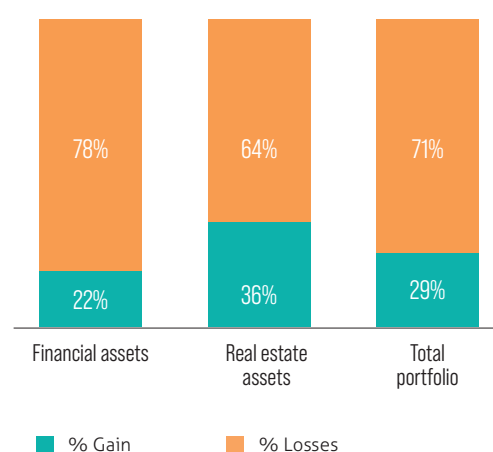
With these limitations, the value change adjustments in June 2021 were as follows:

Portfolios	June 2021	Dec 2020	Variation	Dec 2019
Real estate assets	1,136	1,247	-111	496
Financial assets	7,676	7,872	-196	6,323
Value change adjustments for impairment	8,812	9,119	-307	6,819

At the close of the first half-year of 2021, 71% of Sareb's portfolio, as net book value, showed losses, while the rest showed gains, based on the information on the management in this period.

Per asset type, 78% of financial assets showed losses, while 22% registered gains at the close of the period. For its part, the real estate asset portfolio showed losses in 64% of its assets, while 36% reflected gains.

Proportion of losses and gains at the close of the 1HY 2021



Evolution of own resources and equity

Sareb has an income statement with recurring and growing losses as its margin (the sales figure less the amount for which it received the assets) is increasingly negative; this is because it is currently divesting the portfolio that shows the greatest losses and which, furthermore, has to bear a series of considerable operating expenses (outsourced services, tax costs, property maintenance) arising from the progressive conversion of loans into properties.

Although in December of 2020 it had negative equity for the amount of €843 M, by booking losses of €1,073 M for the year, in June 2021 a further €648 M were added corresponding to the losses recorded in the first six-month period of the year, reaching a negative figure of €1,491 M.

It should be pointed out, as we have done in previous reports, that this amount exceeds the provision of shareholders' equity arising from the conversion of €1,430 M³⁵ of subordinated debt notarised in June 2021, but which was not recognised in the accounts until the month after it was registered in the Companies Registry.

Therefore, the company's own resources, taking that conversion into account, were already negative in the amount of €61 M. However, under Royal Decree Law 6/2020 of 10 of March, this situation does not require the dissolution of the company, which can continue carrying out its activity with negative equity. While it is true that, due to its own financial structure, the company enjoys continuous ample liquidity, which shields it from any insolvency proceedings for lack of payment.

	June 2021	Dec 2020	Difference
Shareholders' equity	-1,491	-843	-648
Capital and reserves	-843	230	
Profit/loss for the period	-648	-1,073	
Subordinated debt	1,430	1,430	0
Own resources with subordinated	-61	587	-648
Equity adjustments	-9,231	-9,686	455
Derivatives	-419	-567	148
Impairment	-8,812	-9,119	307
Equity with subordinated	-9,292	-9,099	-193



More information on the regulations governing Sareb under the caption [Governance Model](#)

³⁵ The entire amount of the subordinated debt (€1,430) was converted, effective for accounting purposes in July 2021. Following that conversion, in June of 2021 shareholders' equity stood at a negative figure of €61 M.

Repayment of senior debt

Almost €15,863 M of debt repaid since its inception

Sareb's activity focuses on generating revenue through the management and sale of loans and properties to pay off the highest amount possible of debt issued when the company was set up. Since its creation, Sareb has reduced the amount of debt by €15,863M, 31.2% of the total.

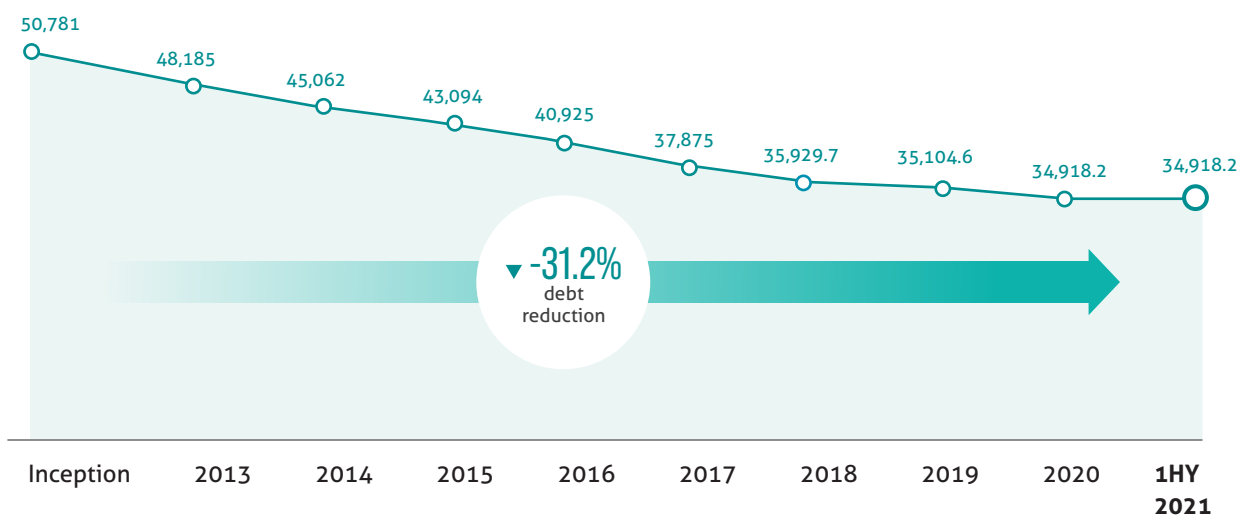
In 2020, as a result of the dramatic fall in revenue caused by the health crisis, the proceeds generated by the company to repay the debt issued were greatly reduced. In 2021 the revenue has been becoming progressively more normal, making it possible to return to normal levels of cash generation for repaying debt. In fact, the Board of Directors decided to make an early repayment of €348 M with the funds generated up until May, which took place in August (Group 2 companies) and September (Group 1 companies).

The current forecast is that in 2021 the company will be able to generate funds for repaying close to €1,000 M of debt.

Interest paid, associated to Sareb's debt since its inception, stood at €6,135.1M, of which €2,785M went to the banks which received public aid and assigned their assets to Sareb. The rest mainly relates to the payment of interest associated to the interest rate hedge.

In 2021 the European agency, Eurostat, informed of its decision to bring the company into the scope of the public accounts. While this fact will have an impact on both the volume of Government bonds and the public deficit, it does not affect the company's internal accounting operational system nor the structure of its bond issues guaranteed by the Government.

30. Evolution of senior debt since 2012 (€M) ³⁶



³⁶ The Annual Activity Report for 2018 reflected €35,761 M by taking into consideration €169 M corresponding to the escrow account for 2018 which was finally repaid between 2019 and 2020. The 2019 amount includes €293.3M corresponding to the cash generated in 2019 and €10.7M corresponding to the escrow account for 2018 repaid in February 2020.



Materiality assessment and 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.

Channels and initiatives worthy of mention



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.



Shareholders

- Shareholders receive invitations to participate in meetings and video conferences on the evolution of the company.
- The company has suitable digital channels for facilitating access to information for all shareholders, reinforcing transparency and stimulating relations and communications.



Supervisory body and public administrations

- Sareb maintains fluid and transparent communication with supervisors and public administrations, meeting on a regular basis to share information about the evolution of the company and the fulfilment of its objectives.
- Sareb also works closely with the autonomous regions and local councils with which it has agreements for the assignment of housing for social purposes.



Suppliers

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



Customers

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



Company

- In addition to the Sareb Responde 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.

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 sector: its blog "[Huellas](#)".



More
information
on [Huellas](#)



31. Type of enquiries and complaints received by Sareb Responde in the first half-year of 2021 (% of the total)

Per type of customer



Individuals

47%

Administration

26%

Company

25%

Group
and others

2%

Per input channel



Telephone

41.2%

Letter

30.2%

Email

21.7%

Online
form

5.5%

Online

1.2%

Internal

0.1%

Social networks

0.1%

Per type of enquiry



Sales

27.4%

Maintenance

19.5%

Payment of
invoices

15.0%

Homeowners'
association

11.0%

Rental

8.0%

Management of
financial assets

6.3%

Irregular
occupancies

5.9%

Others

5.0%

General
information
on assets

1.9%

Updating of the materiality assessment in 2021

In order to provide information on the more relevant aspects for the company, since 2017 Sareb prepares its materiality assessment, reviewed and subsequently updated in 2018. Due to recent changes in the context, mainly linked to the Covid-19 crisis and the growing relevance of the management of different non-financial aspects, Sareb has updated the assessment in 2021. This update has taken into account the dual approach of materiality described in reporting frameworks—such as the *Global Reporting Initiative (GRI)* and *Sustainability Accounting Standards Board (SASB)*—and in line with the expectations of the different Sareb stakeholders.

With this, an analysis is made not only of the aspects that are relevant to the extent that they could be affected by Sareb's activity (inside-out perspective), but also the aspects that could have an impact in its activity, performance or results (outside-in perspective).

The results of the materiality assessment will be considered in the process of preparing the company's Statement of Non-financial Information to cover the aspects relevant to its different stakeholders and in this way to contribute to the maximum transparency in the management of its assets. These results also assist in recognising the issues on which Sareb should prioritise resources in the current changing context, and on which its sustainability management should be hinged.

Methodology

The methods employed were designed to undertake the materiality assessment with the dual approach mentioned above: involve the different key stakeholders for Sareb and obtain valuable results for steering the company's management and reporting on sustainability issues.

Double materiality

Inside-out perspective

First of all a documentary analysis was made taking into consideration the reporting frameworks, the sectoral trends, and other external sources. Then, external consultations were made, taking into account the view of interested parties unrelated to the company. These stakeholders bring knowledge of the impact and repercussion of Sareb's activities on its environment.

Outside-in perspective

Internal consultations were made, taking into account the opinion of company employees who, ultimately, are who best know the internal processes and can contribute a holistic view of how external factors affect Sareb's activities.

Below is an executive description of each stage of the analysis made:

A Preparation of the list of relevant issues

An analysis was made of the different sources of information to identify any potentially relevant issues for Sareb on the basis of its activity and context:



Reporting frameworks (GRI, EPRA, SASB, GRESB, etc.)



Peers and other agents in the sector (*servicers, peers, other opinion leaders, etc.*)



Press



Initiatives highlighted in sustainability issues (TCFD, UN PRI, UN Global Compact, etc.)

B Evaluation of the relevance

The following three channels were used to evaluate the relevance of the different issues identified:



Documentary analysis

Using the sources analysed for the preparation of the list of relevant issues, an analysis was made of relevance based on the presence of the different issues and at the depth with which they are addressed.



Internal consultations

Sareb employees were consulted through an online survey to assess the relevance of the different issues identified in the short, medium and long term.

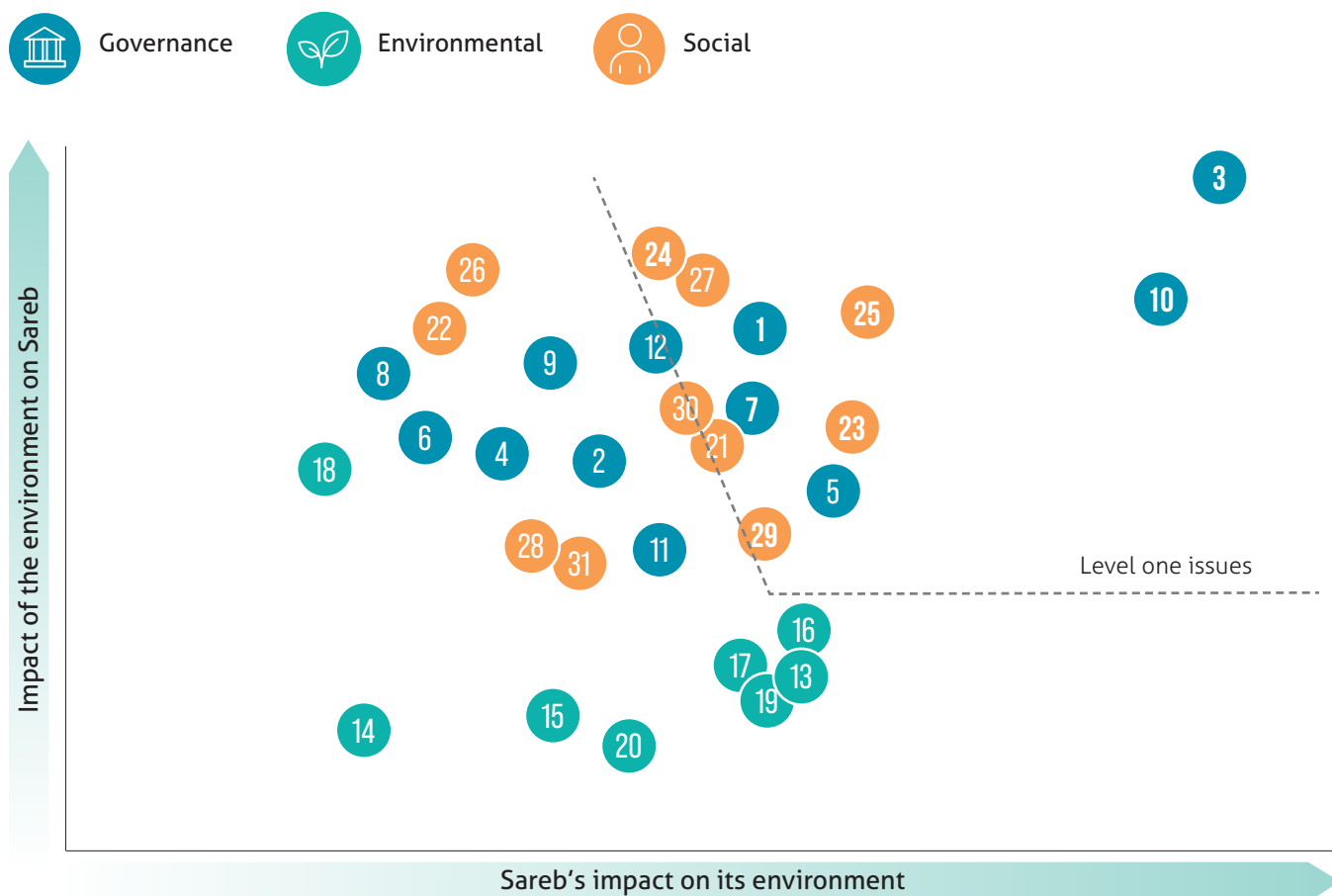


External consultations

External consultations cover customers, suppliers, members of the Board of Directors, public administrations, companies in the real estate sector, journalists who cover Sareb's activity and Society. The stakeholder participants have selected the most relevant issues (comprising more than one issue) and the most relevant matters for each of the three scopes considered: social, environmental and of governance.

C RESULT ANALYSIS: MATERIALITY MATRIX

An analysis of the outcome of the consultations and the documentary analysis has enabled the preparation of the materiality matrix presented below, which shows the most relevant issues from the two perspectives considered:



Level one issues

- 3** Ethics and anti-corruption
- 10** Transparency
- 25** Diversity and equality
- 23** Social action
- 1** Governance structure
- 5** Identification and assessment of risk
- 27** Well-being and safety in the workplace
- 7** Compliance
- 24** Employment and skills
- 29** Commitment to customers

Level two issues

- 16** Efficiency in the consumption of resources and the circular economy
- 21** Respect for human rights
- 30** Relations with other stakeholders
- 12** Improved efficiency and commercial viability of the portfolio
- 13** Minimisation of the environmental footprint
- 19** Fight against climate change
- 17** Innovation applied to sustainability
- 11** ESG Integration
- 2** ESG Supervision
- 9** Cybersecurity and data privacy

Level three issues

- 31** Responsible management of the supply chain
- 26** Work-life balance
- 20** Adaptation to climate change
- 28** Relations with local communities
- 4** Value generation for shareholders
- 22** Recovery of properties and search for occupational alternatives
- 15** Sustainable building certifications
- 6** Integration of ESG risks
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CALLE COSTA BRAVA, 12
28034 MADRID

www.sareb.es