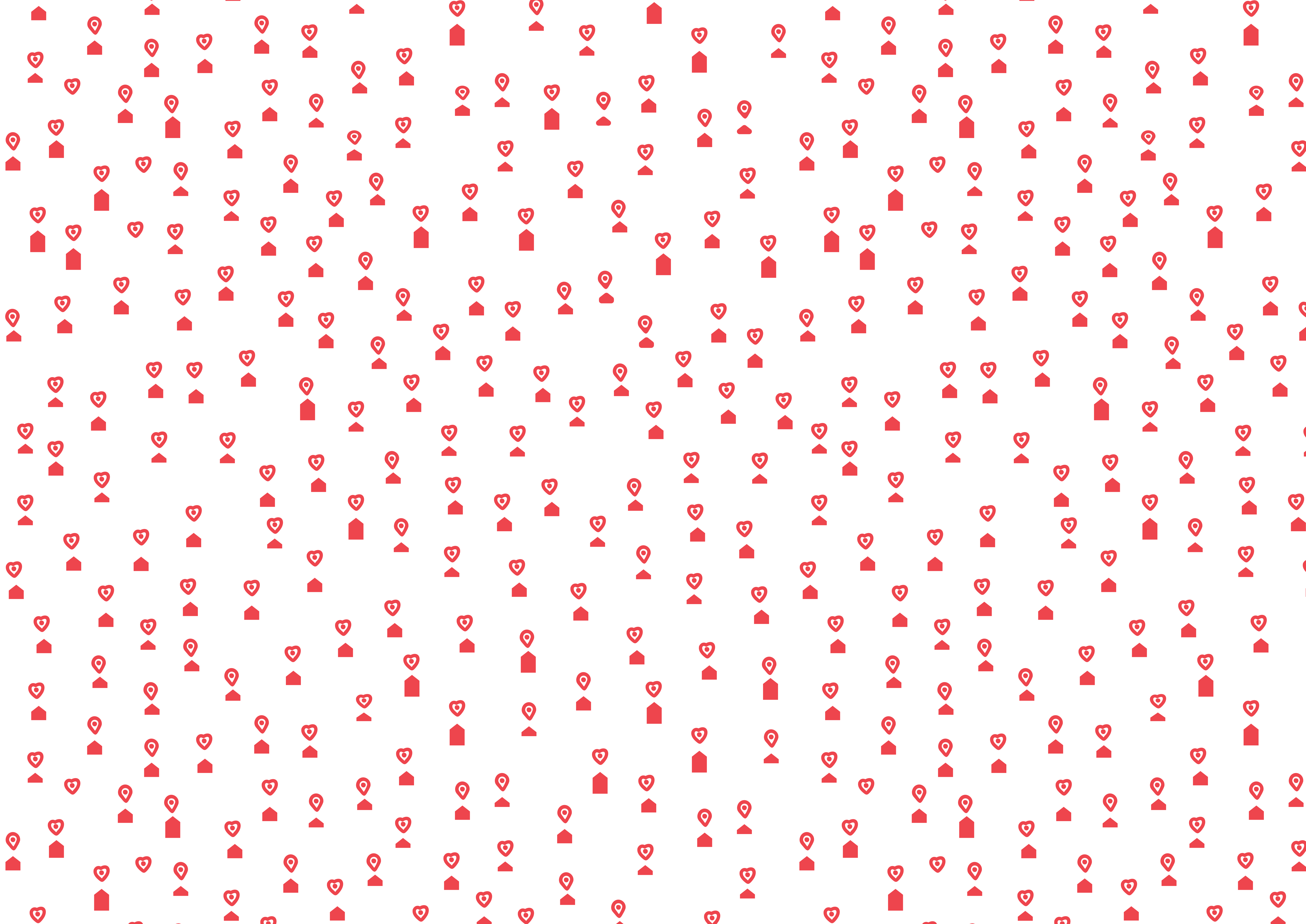
ANNUAL REPORT16.

UCI.



UCI.

annual report 2016

1 Message from the CEOs

Message from the CEO

From a macroeconomic perspective, and even with unexpected political upheavals such as Brexit and the arrival of Donald Trump as President of the USA, 2016 has been a good year for the Spanish economy, which posted higher growth than the rest of the eurozone.

Drilling down by sector, the real estate and mortgage sectors further consolidated the recovery that began back in 2014, with a 13.6% jump in property sales and an average increase in housing prices of 1.5%, while housing mortgage loans expanded by 14%.

UCI Group continues to adapt and develop, focusing on optimising the client experience throughout their life cycle with UCI.

Roberto Colomer
CEO

"UCI continues to develop innovative tools to fine-tune the quality and transparency of its processes."

In 2016, UCI Group signed off new mortgage loans worth a total of EUR373 million, a 33% expansion from the year before. Our online channel brand Hipotecas.com enjoyed 80% higher growth than in 2015.

With interest rates still at historical lows, UCI Group continues to promote simple, tailored and transparent solutions, concentrating mainly on fixed and mixed return products. These now account for over 70% of lending. We have kept to our strategy of not requiring clients to have other products or services with UCI when they take on a mortgage loan through us.

On the secondary market, UCI was again the biggest player in the Spanish securitisation market in 2016, conducting transactions totalling EUR 1.000 million.

UCI Group posted consolidated financial results of EUR 6.30 million after tax, compatible with a one-off allocation of EUR 34.9 million for general provisions throughout the year.

One of the biggest challenges currently facing banking is digital transformation. UCI continues to develop innovative tools to fine-tune the quality and transparency of its processes: digital signatures for pre-contract paperwork are becoming the norm and new IT tools have been designed to improve pre-contract information using simulation and comparison software The agreement between UCI and the General Council of Notaries, signed in December 2015, came into force in January 2016; this aims to reinforce transparency when drawing up new mortgage loans.

I do hope that you will find the 2016 Annual Report a worthwhile read.

Yours faithfully.

Message from the CFO

The world economy grew by 1.6% in 2016, as opposed to 2.6% in 2015. This reduction was caused by the slowdown of some of the economies with the highest weighting in the global economy.
At around 3% - a higher growth rate than for the rest of the Eurozone, the ongoing economic recovery in Spain enabled UCI to execute business in more favourable conditions than in previous years. Furthermore, the growth of the Portuguese economy also meant that trade in Portugal made a positive contribution to the improvement in the Group's results. In this context, consolidated new mortgage loans grew in Spain by 33%, at a total of EUR 373 million, whilst production in Portugal increased 23% to reach EUR 118 million.

Global lending for the set of countries where UCI has a footprint reached EUR 11.233 billion by the end of the financial year, and our market share for loans in Spain and Portugal improved slightly.
The UCI Group's attributable profit was EUR 6.30 million. The Group achieved these results thanks to a combination of increased revenues and cost control. The Group's main risk indicators also improved in 2016. At 24.6%, the coverage ratio remained high, while the NPA rate fell to 9.69%, and the cost of risk concurrently fell by 100bp, without taking into account the allocation of EUR 34.50 to generic provisions during the year.

The ongoing improvement to the result is due to a reduction in provisions requirements during the financial year, the positive impact on the Group's operating margin for debt restructuring, and the positive contribution from new production.

"Consolidated new mortgage loans grew in Spain by 33%, at a total of EUR 373 million."

"Throughout 2016, 22.9% more mortgage securities were admitted to the Spanish secondary market compared to 2015."

Throughout 2016, 22.9% more mortgage securities were admitted to the Spanish secondary market compared to 2015, with the strong price appreciations for all assets demonstrating increased investor appetite and trade. For its part, after reopening the market for mortgage- securitizations in Spain in May 2015 with Prado I, in 2016 UCI managed to securitize 960 million in premium mortgage loans using the RMBS securitization funds Prado II and Prado III. In 18 months, UCI achieved over 1 billion in new financing on an important institutional investor base covering a range of countries and jurisdictions.

I hope you find the annual report interesting reading.

Kind regards.

Philippe Laporte
Chief Operating Officer Finance, IT and Customer service

to help you anytime, anywhere.

by your side

2 Global Environment and UCI Group

UCI. in a year

numbers

373 M€
consolidated production

+33%
growth since 2015

+80%
growth of Hipotecas.com

255 M€ **Spain** + **118 M€** **Portugal**

20% of the production in Spain

employees

704
employees

390 woman
314 man

7.2% Greece
14.41% Portugal
78.39% Spain

+29,692
hours of training

33 clasroom courses
+
50 online courses

customers

Since 1989 we have granted mortgages to more than
300,000 customers

97%
of our customers recommend us*

*Survey to customers who completed their morgages from 1 th January to 31 th December 2016.

We are commited to fixed rate mortgages

mixed 32.4%
variable 25.2%
fixed 42.5%

by your side
you choose
a sensitive purchase

highlights

1. New customer relationship model based on **transparency and accompaniment** from beginning to end.

Reinventa RED

2. UCI completed 2 new mortgage securizations valued at **one billion euros.**

Prado II & Prado III

3. UCI succeeded in **securitising over EUR 1.4 billion** in mortgage loans.

UCI contigo

4. UCI becomes the NAR representative in Spain throught **Spanish International Realty Alliance**.

SIRA

Key Data

HIGHLIGHTS	Euros 2016	Euros 2015	Variation
Consolidated Production (M)	373.2	279.9	33.4%
Loan Production Spain (M)	254.7	183.3	38.9%
Loan Production Portugal (M)	117.9	95.6	23.2%
Loan Production Greece (M)	0.7	0.9	-27.2%
Total Consolidated Loans Managed (M)	11,233.0	11,602.0	-3.2%
Balance Spain	4,266.7	5,206.6	-18.1%
Balance Portugal	1,080.2	1,072.8	0.7%
Balance Greece (***)	244.4	254.9	-4.2%
Secured Assets Balance Spain (UCI 18)	813.2	866.3	-6.1%
Spanish on Balance Consolidated Placed RMBS (UCI 10-17 and Prado I - III)	4,569.7	3,914.2	16.7%
Spanish off Balance Placed RMBS (UCI 7-9)	258.8	287.2	-9.9%
Nº of Files Under Management (Spain, Portugal and Greece) (***)	121,560	123,790	-1.8%
Nº of Solutions (Sales + Rentals) Repossessed Homes(*)	1,783	1,743	40
Nº of Branch Offices (*)	32	28	4
External Agent (*)	95	80	15
Nº of Employees (**)	709	728	-19

(*) Spain, Portugal and Greece
(**) With Temporay Employees and Comprarcasa (Spain and Portugal)
(***) Included 0.5 M Euros Consumer Loans (CTLM, 225 files -70%)

CONSOLIDATED FINANCIALS (4/04)	Euros 2016	Euros 2015	Variation
Gross Margin (M)	206.45	172.11	20.0%
Financial Margin(**)	193.20	165.21	16.9%
Comissions Fees and Other Incomes (*)	13.25	6.91	91.9%
General Expenses (M)	45.83	45.17	1.5%
Net Operating Income (M)	160.62	126.94	26.5%
Cost of Risk (M)	151.43	135.61	11.7%
IS Deferred (DTA) (M)	0.00	0.00	
Pre-Tax Profit (M)	9.19	-8.67	
Tax (M)	2.70	-1.45	
Consolidated Profit (M) (***)	6.30	-7.78	

(*) Deducted Origination Fees
(**) Including capital gain BuyBack47,1 M€ in 2016 vs 5,1 M Euros in 2015
(***) Including shareholdings (-193 K€)

SPANISH FINANCIALS (4/04) (Without UCI SPPI)	Euros 2016	Euros 2015	Variation
Gross Margin (M)	186.35	152.47	22.2%
Financial Margin (**)	176.70	148.94	18.6%
Comissions Fees and Other Incomes (*)	9.65	3.54	172.9%
General Expenses (M)	38.27	37.39	2.3%
Net Operating Income	148.08	115.08	28.7%
Cost of Risk (M)	143.78	124.11	15.8%
IS Deffered (DTA)	0.00	0.00	
Pre-Tax Profit (M)	4.30	-9.03	
Tax (M)	-0.22	-2.14	
Net Profit (M)	4.52	-6.89	-165.6%

(*) Deducted Origination Fees
(**) Including capital gain BWIC 47,1 M Euros in 2016 vs 5,1 M Euros in 2015

PORTUGUESE FINANCIALS (4/04)	Euros 2016	Euros 2015	Variation
Gross Margin (M)	15.26	14.94	2.1%
Financial Margin	12.67	12.52	1.2%
Comissions Fees and Other Incomes (*)	2.59	2.43	6.8%
General Expenses (M)	4.54	4.39	3.4%
Net Operating Income (M)	10.72	10.55	1.6%
Cost of Risk (M)	5.65	7.93	-28.8
Pre-Tax Profit (M)	5.07	2.62	93.6%
Tax (M)	2.90	0.88	
Net Profit (M)	2.17	1.74	25.1%

(*) Deducted Origination Fees

GREECE FINANCIALS (4/04)	Euros 2016	Euros 2015	Variation
Gross Margin (M)	3.79	3.80	-0.1%
Financial Margin	3.81	3.81	0.0%
Comissions Fees and Other Incomes (*)	-0.01	-0.01	
General Expenses (M)	1.81	1.83	-0.7%
Net Operating Income (M)	1.99	1.98	0.4%
Cost of Risk (M)	2.04	3.45	-40.7%
Pre-Tax Profit (M)	-0.06	-1.47	-96.1%
Tax (M)	0.00	0.00	
Net Profit (M)	-0.06	-1.47	96.1%

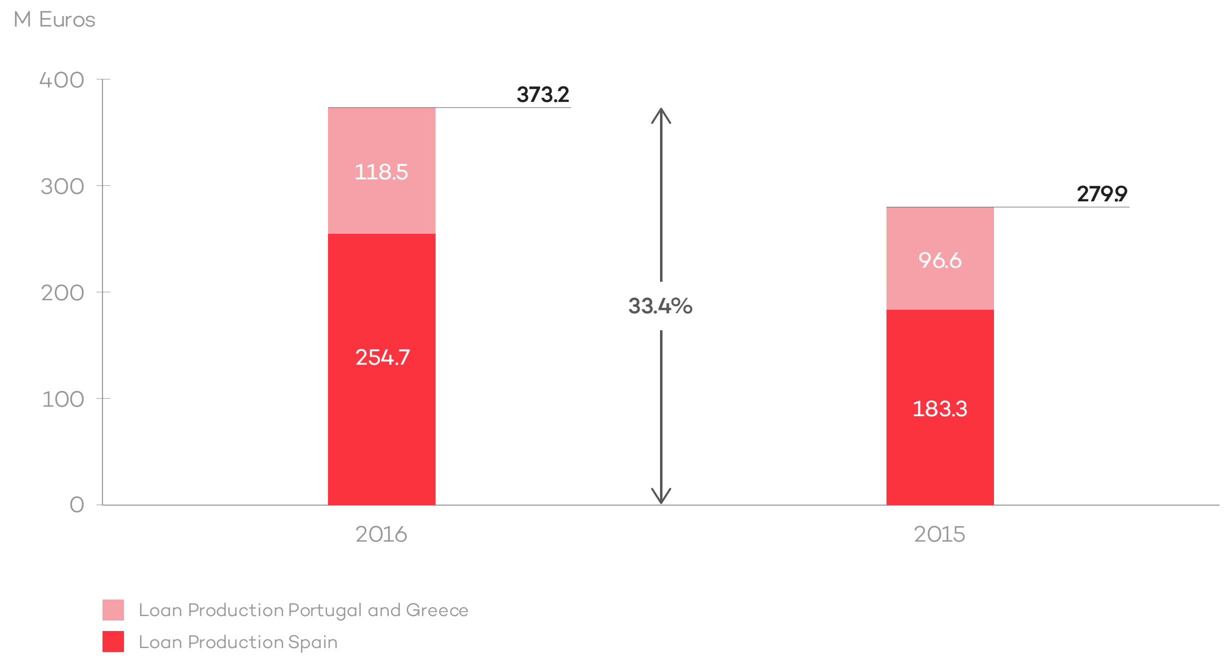
(*) Deducted Origination Fees

CONSOLIDATED MANAGEMENT RATIOS	Euros 2016	Euros 2015	Variation
Suscribed Capital (M)	98.0	98.0	0.0
Reserves (Tier 1)	322.8	316.5	6.4
Total Tier 1	420.8	414.5	6.4
Total Tier 2 Subordinated Debt	114.9	80.4	34.5
Total Equity (M) Tier 1+ Tier 2 (*)	535.7	494.8	40.9
Equity Ratio (Tier 1) (*) (**)	8.0%	7.5%	0.5%
Equity Ratio (Total) (**)	10.1%	9.0	1.2%
R.O.E.	1.5%	-1.8	3.3%
NPL's > 90 days not Including Subjective Non-performing Loans (M)	1,088.7	1,196.5	-107.8
NPL's Subjective Non-performing Loans (M)	362.1	444.6	-82.5
Nº Repossessed Homes Under Management (Spain, Portugal and Greece)	6,220	6,245	-25
Total Provisions on Loans (M)	356.8	372.7	-15.9
Total Generic Provisions (M)	34.9	0.4	34.5
Total Substandard Provisions (M)	14.3	16.2	-1.9
Total Specific Provisions Not Including Subjective Non-performing Loans (M)	282.6	322.5	-39.9
Total Specific Provisions Subjective Non-performing Loans (M)	25.1	33.7	-8.6
Total Provisions on Repossessed Homes (M)	140.3	153.8	-13.4
Total Provisions (M)	497.1	526.5	-29.4
% NPL's on Loans Managed (Balance Sheet + Securitized) > 90 days Not Including Subjective Non-performing Loans	9.69%	10.31%	-62.1
% NPL's Subjetive Non-Performing Loans	3.22%	3.83%	-60.9
% NPL's	12.92%	14.14%	-123.0
NPL > 90 days + Repossessed Homes Coverage	24.60%	25.90%	-1.4%
Cost/Income	27.30%	25.70%	1.6%

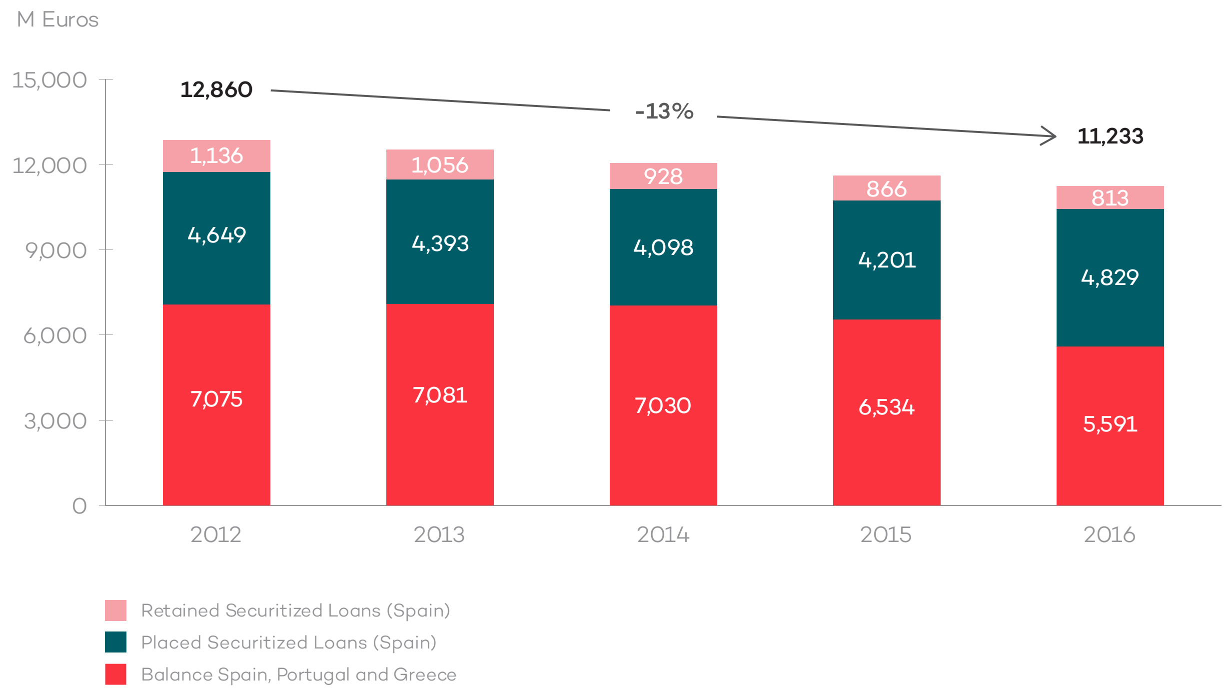
(*) Adding 12m-16 profits in Tier 1

(**) RWA Standard Version + Standard Operational Risk (from dec. 15)

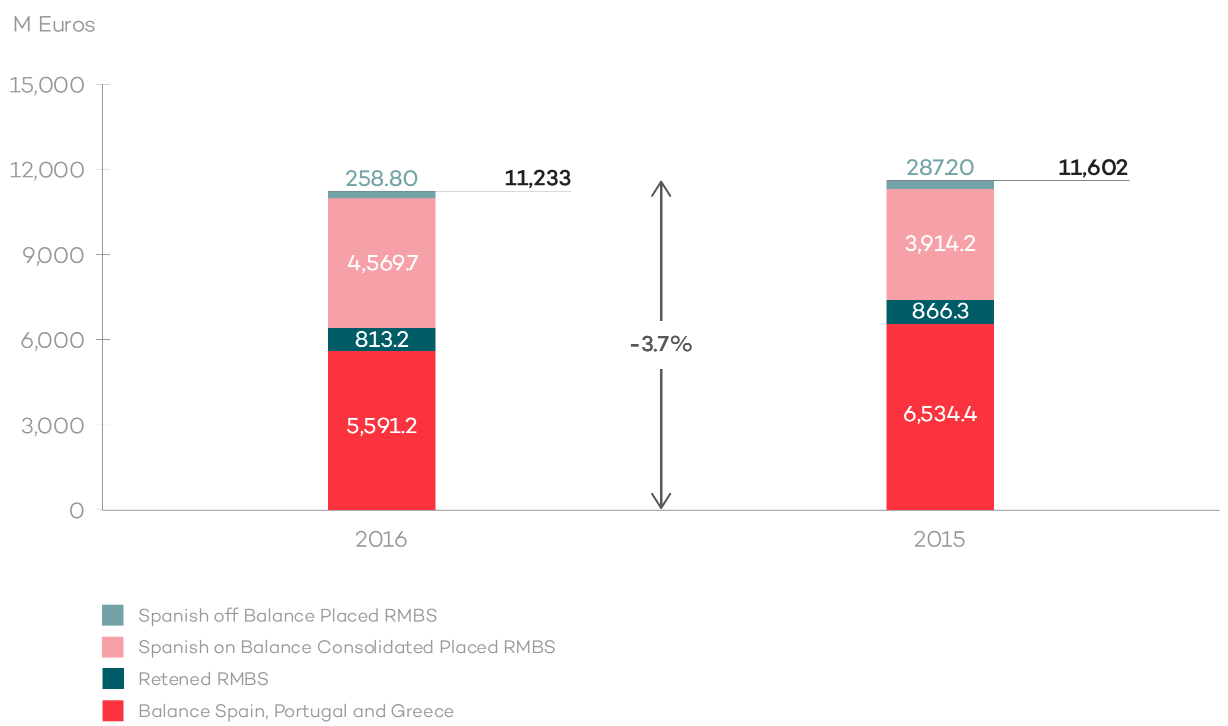
Consolidated Production



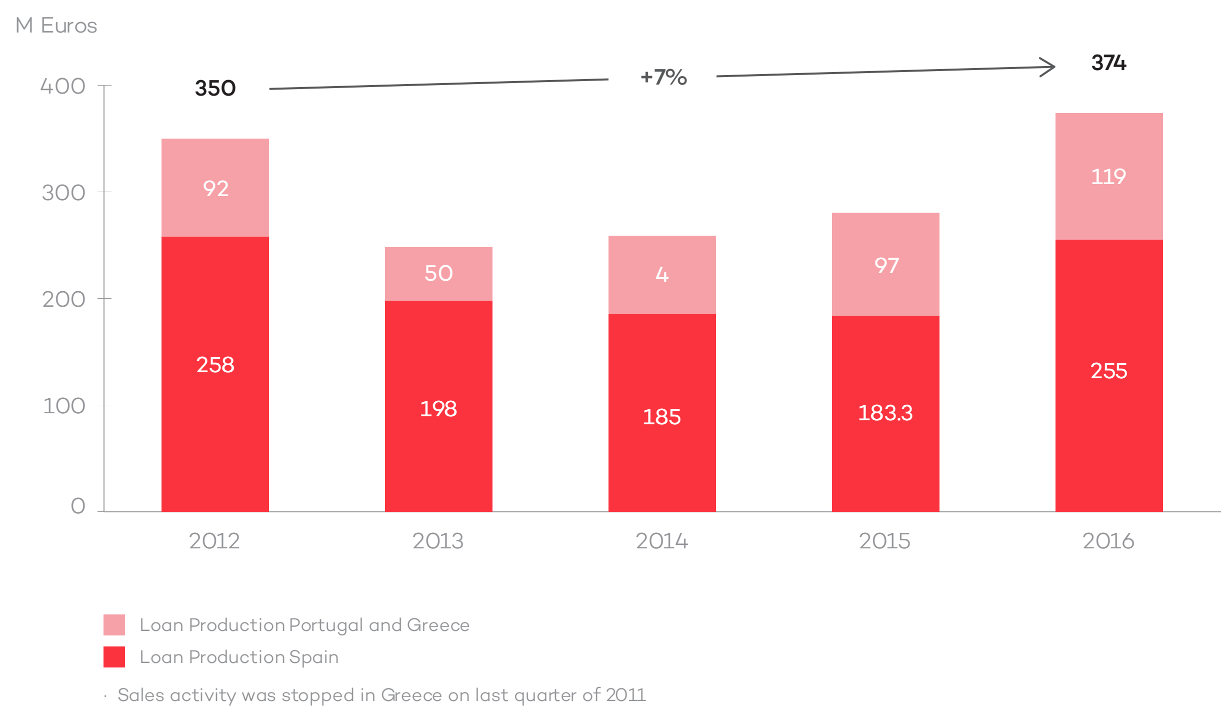
Managed Loans Evolution



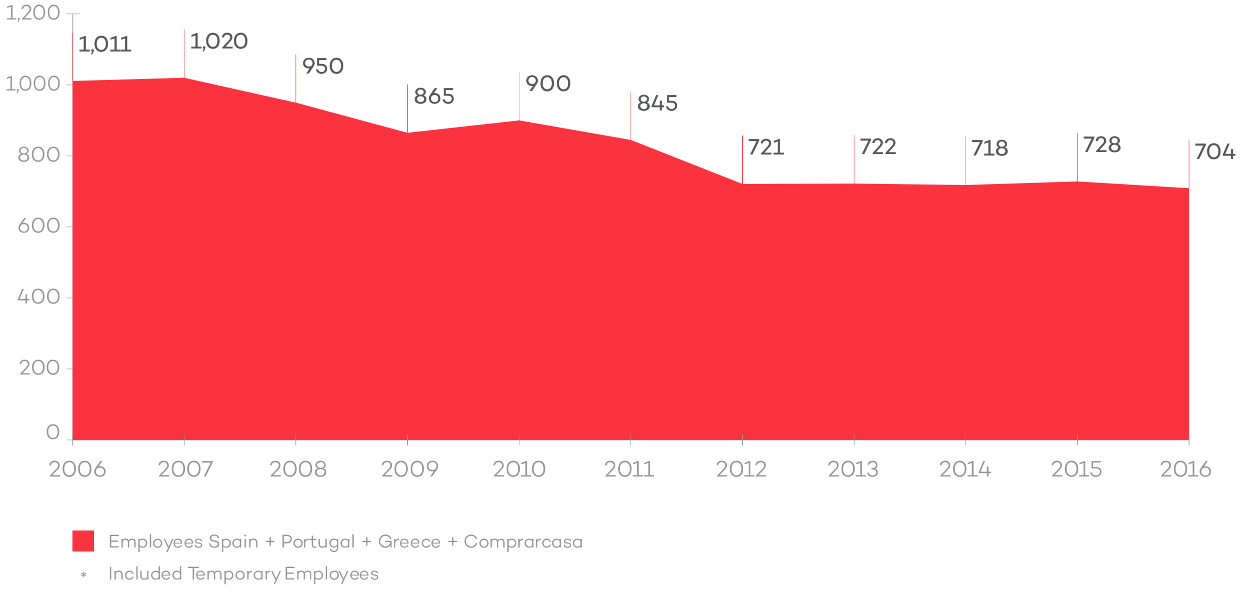
Total Managed Loans



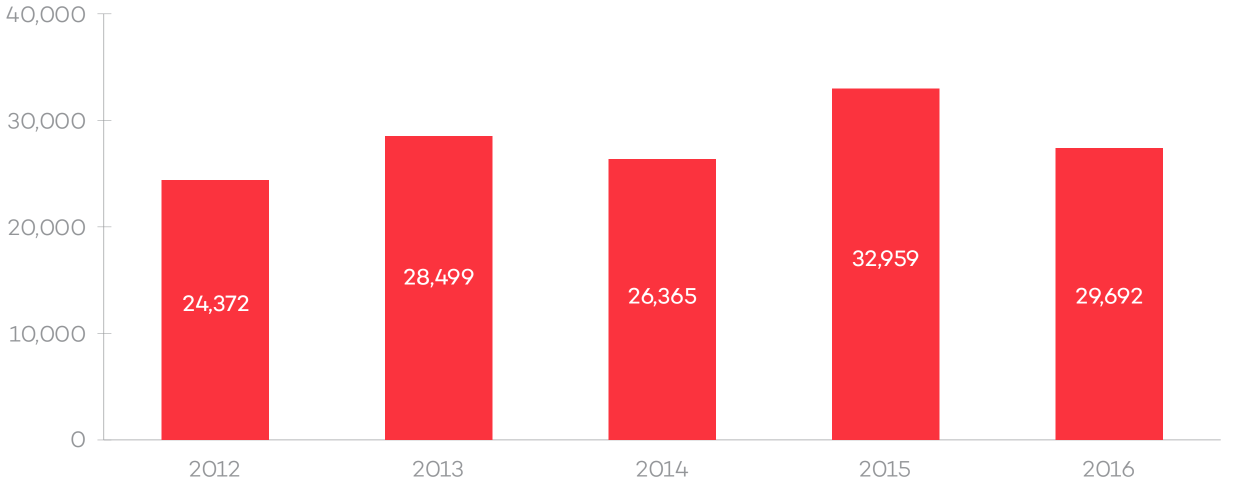
New Production Evolution



Total Employees Spain, Portugal, Greece and UCI SPPI*



Training Hours (hours/year)



World Economic Outlook

The year 2016 was marked by a change in interest rate trends and unexpected political upheavals such as Brexit and the arrival of Donald Trump as President of the USA.

The global economy grew by 1.6% (IMF figure) in 2016, against 2.6% the year before.

Developed economies grew more slowly, at an average rate of 1.6% compared to 2.1% in 2015. This fall was conditioned by the slowdown in some of the most important economies in the world, such as the USA and China, which expanded by 1.6% y 6%, respectively, both down from their growth rates the year before of 2.6% and 6.9%.

The principal factors accounting for this deceleration are the slower growth of domestic consumption in developed economies and falling investment. Added to these are demographic and geopolitical factors, plus the recent rebound in protectionism.

Nevertheless, the main driver of growth in the majority of developed economies was foreign trade, boosted by the low oil price and the dollar's appreciation.

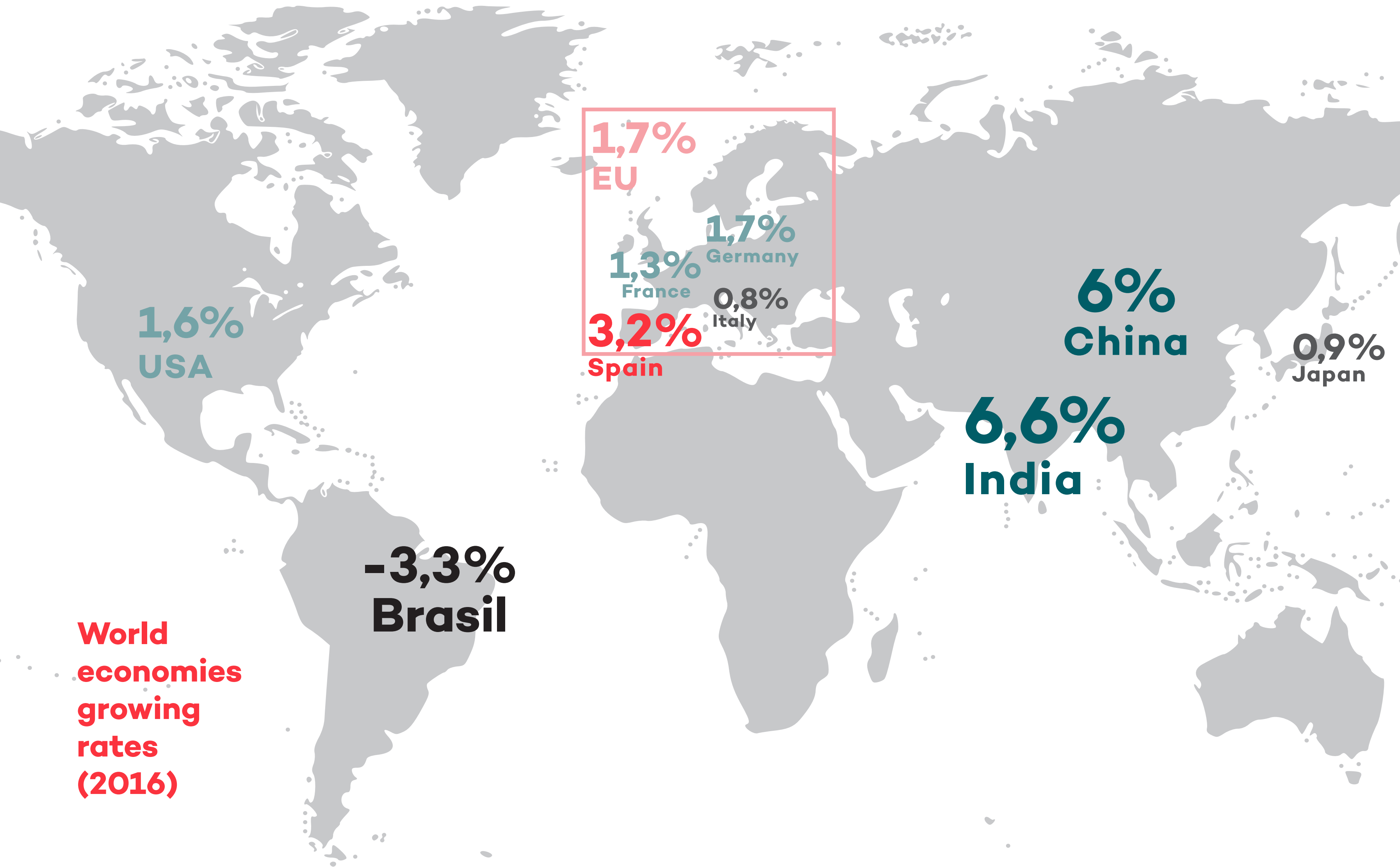
While the US economy experienced growth in internal demand and an improved labour market, the reduction in foreign trade (-3.2%) and investment, caused by uncertainty about the economy's future, provoked a slowdown, which translated into high volatility in the financial markets.

> **The main driver of growth in developed economies was foreign trade.**

The Federal Reserve maintained its stimulus policy until the end of the year, although in December it raised interest rates by 25 bps, the second rise in ten years. The Fed based its decision on the improvement in the labour market, with an unemployment rate down to 4.9%, its best level in three years.

Japan's economy maintained its growth rate at the 2015 level of 0.9% thanks to exports, which remain one of the country's key economic drivers, and to public-sector investment, which played a major role throughout the year due to the Government's economic reform programme.

China grew at a rate of 6%, a little down from 6.9% in 2015. Its government has continued with policies designed to transition towards an economy that is grounded in services and consumer spending, and less dependent on imports of raw materials and machinery, as well as vigorous credit expansion.



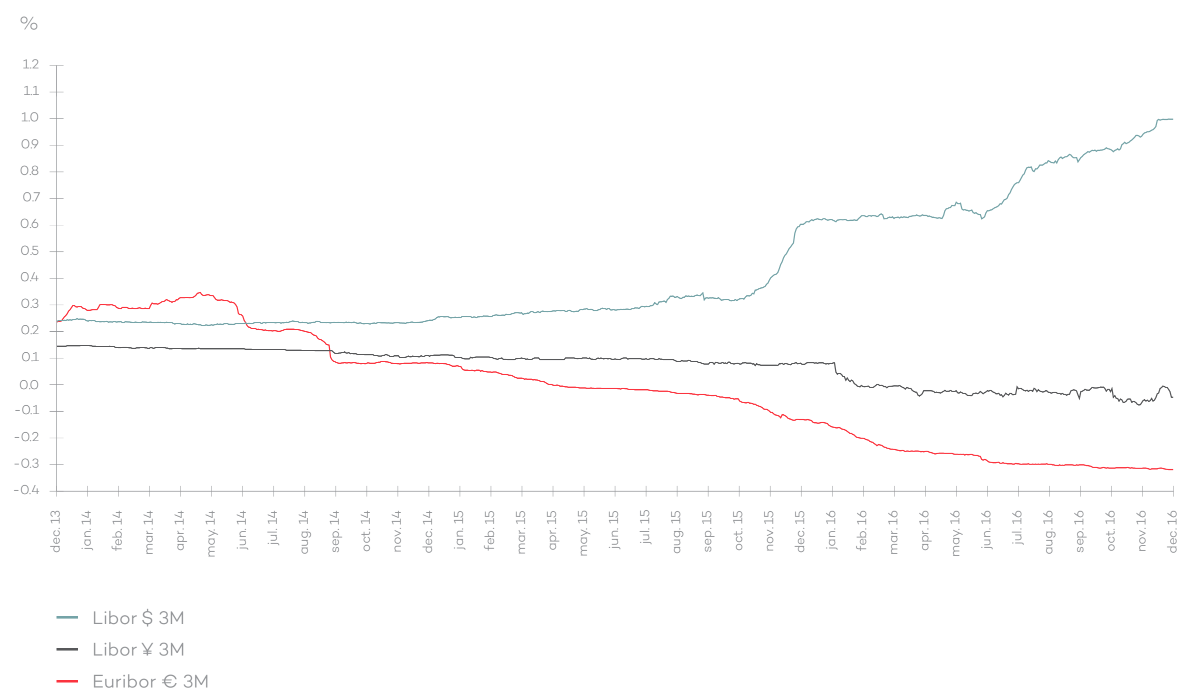
World economies growing rates (2016)

	Average GDP				Annual Variation Stock Exchange			Annual Inflation				Unemployment • Annual Average			
	2013	2014	2015	2016	14/'13	15/'14	16/'15	2013	2014	2015	2016	2013	2014	2015	2016
U.S. (*)	1.7	2.4	2.6	1.6	8%	-2%	13%	1.5	0.8	0.7	2.1	7.4	6.2	5.3	4.9
Japan	2.0	0.2	1.3	1.0	7%	9%	0%	1.6	2.4	0.2	0.3	4.0	3.6	3.4	3.1
EURO Zone	-0.2	1.2	1.9	1.7	1%	4%	1%	0.8	-0.2	0.2	1.1	12.0	11.6	10.9	10.0
Germany (*)	0.6	1.6	1.5	1.8	3%	10%	7%	1.2	0.1	0.2	1.7	5.2	5.0	4.6	4.2
France (*)	0.6	0.7	1.2	1.1	-1%	9%	5%	0.8	0.1	0.3	0.8	10.3	10.3	10.4	10.0
Spain (*)	-1.7	1.4	3.2	3.2	4%	-7%	-2%	0.2	-1.0	0.0	1.4	26.1	24.5	22.1	19.6
Portugal	-1.1	0.9	1.6	1.4	-27%	11%	-12%	0.2	-0.3	0.3	0.9	16.4	14.1	12.6	11.2
Greece	-3.2	0.4	-0.3	0.1	-29%	-24%	2%	-1.8	-2.5	0.4	0.3	27.5	26.5	25.0	23.5

(*) Base 2000

Source: Eurostat + UCI

Short Term Interest Rates 3 Months



Of the Asian economies we would highlight India, which continued to grow at a healthy rate in 2016 (6.6%) thanks, among other factors, to the fall in raw materials prices and the drop in inflation.

But not all emerging economies enjoyed the same performance. Brazil's recession continued, with negative growth of -3.3% in 2016, against -3.8% in 2015. It is experiencing a gradual improvement as the effects of cheaper raw materials and political uncertainty remit somewhat.

The eurozone expanded more slowly than in 2015, from 2.0% down to 1.7% in 2016. By countries, the Spanish economy grew faster than the average for the area, at 3.2%, whereas Germany, France and Italy continued with growth rates similar to those of 2015, at 1.7%, 1.3% and 0.8%, respectively. The reason for these good results was the robust expansion of exports, Spain (+3.5%), Germany (+1.2%) and Italy (+1.1%).

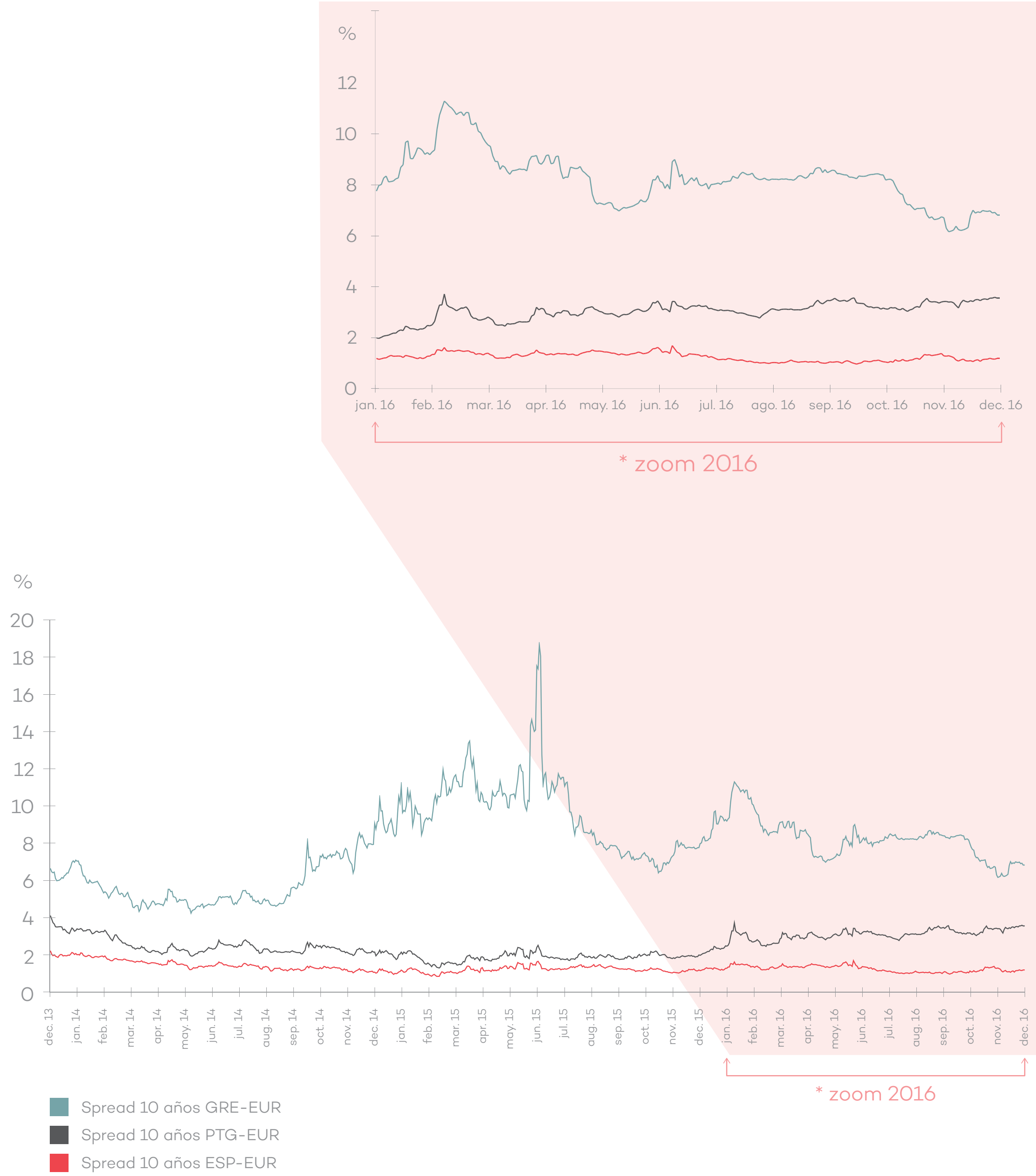
2016 was also the year of changes in interest rate trends, central bank interventions and unexpected political events, in particular Brexit and the arrival of Donald Trump at the White House.

Currency markets saw a year of constant fluctuations. In anticipation of the rise in interest rates by the Fed, the dollar appreciated against the euro, from 1.09 in 2015 to 1.05 at the end of 2016. Sterling reached its lowest value for the last 30 years, affected by the outlook after Brexit and the uncertainty caused.

The European Central Bank's monetary policy did not change significantly, with interest rates and the stimulus measures that have been applied since 2015 continuing, in an environment of low prices (CPI in the Eurozone at the end of 2016 was +1.1%) and moderate global growth.

Long Term Interest Rates 10 Years Bonds

Sovereign Spread 10 Years Spain-Portugal-Greece with German Benchmark



Economic Outlook Spain

Against a global backdrop of economic slowdown, the Spanish economy grew strongly, faster than the rest of the eurozone, at 3.2% over the year as a whole.

This growth is accounted for by the increase in domestic consumption, thanks to greater available income, the increase in external demand, translated into growth in exports and expansion in the tourism sector. Low oil prices also helped to keep the balance of payments in surplus.

Expansionary monetary policies on the part of the European Central Bank (ECB), increased public consumption and the formation of a new government in the second half of the year have also contributed to these results.

Spain's economy posted record exports. By volume, growth in national exports was 3.5%, a rise of 1.7% over 2015.

The general Consumer Price Index (CPI) was at its highest since July 2013, closing the year at 1.4%.

The Spanish economy grew strongly, faster than the rest of the eurozone, at an annual rate of 3.2%.

2016 was also a record year for job creation. 413,900 new jobs were created and average growth was nearly two percentage points higher than in 2015 (1.2%), showing a recovery in nearly all sectors of activity, according to the Labour Force Survey. The momentum in the labour market contributed to the increase in private income, a key component of increased internal demand.

Unemployment fell by 2.3% over 2016 as a whole, standing at 18.6% at year end.

Real estate and mortgage market

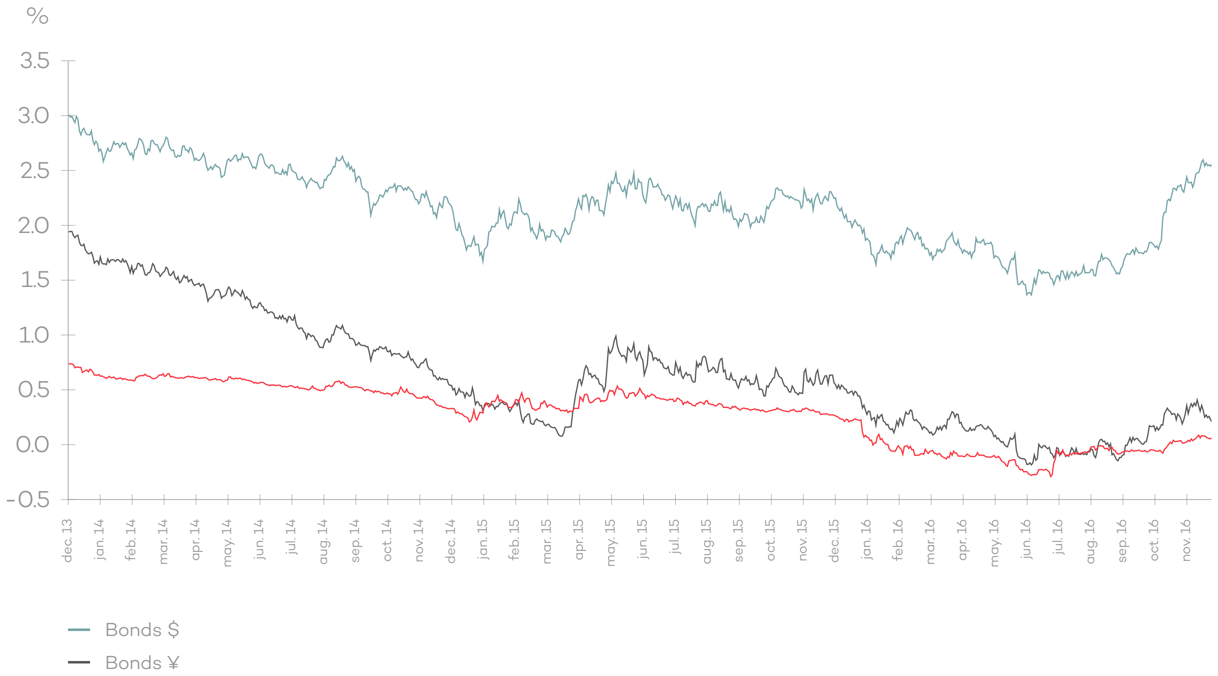
The real estate market continued its steady recovery in 2016. Home sales recorded a jump of 13.6% over the year before, completing 403,900 transactions, the highest figure since 2010.

Housing prices, meanwhile, posted a year-on-year increase of 1.5%, with a square metre costing EUR

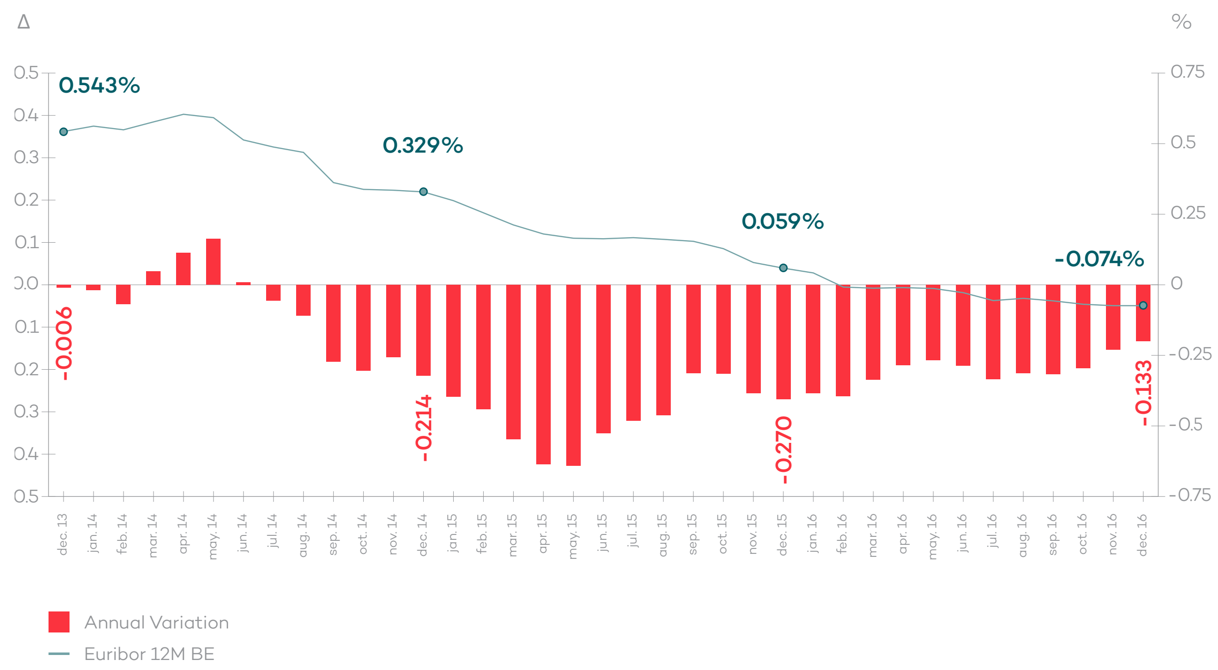
Quarterly Variation GDP

Forex

Long Term Interest Rates 10 Years Bonds



Annual Variation Euribor Bank of Spain



1,512 in the fourth quarter, according to Ministry of Development figures. Nine autonomous regions showed year-on-year increases, with the biggest rises occurring in Madrid (+4.8%), Catalonia (+4.4%) and the Canaries (+3.8%).

The performance of the Spanish mortgage market in 2016 was similar to the year before. The number of home mortgages signed increased by 14%, to 281,328, 20.8% . EUR 30.878 billion in capital was lent to set up mortgage loans on housing, a 17.2% increase from the year before. The average size of new housing mortgages, meanwhile, increased by 2.8% to EUR 109,759, according to National Statistics Institute figures [Instituto Nacional de Estadística].

The number of home mortgages signed increased by 14%, to 281,328.

The outstanding balance on mortgage credit in Spain closed the year at EUR 651.472 billion, a drop of 4.4% over 2015, according to the Spanish Mortgage Association [Asociación Hipotecaria Española].

On the secondary market, the total volume of mortgage securities admitted at year end was EUR 51.014 billion, 22.9% more than those issued in 2015 (EUR 41.508 billion).

The volume of covered bonds, which make up around 53% of the total balance of securities, remained at similar levels to the year before, with an issuance of EUR 31.393 billion by the end of 2016.

Mortgage-backed securitisation issues expanded by 93.6% year on year, with issues totalling EUR 19.621 billion.

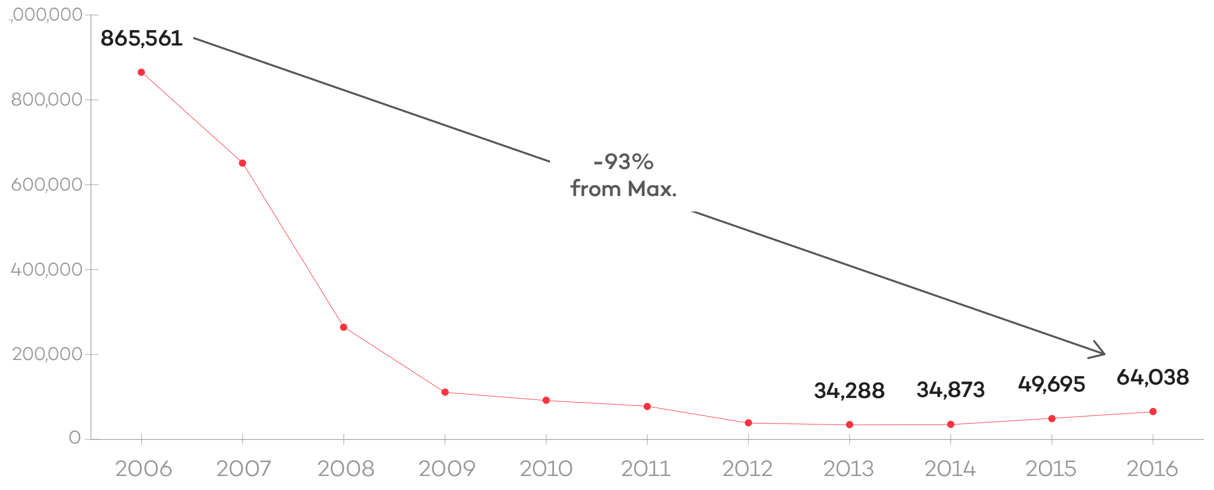
Outstanding balance on mortgage securities stood at EUR 354.934 billion, a fall of -3.4% from 2015, when the balance was EUR 367.375 billion.

Housing Price in Spain

Autonomus Region	New Home (Euro/m²) 2013	2014	2015	2016	dif. 16-15	dif. 16-13	Used Housing (Euro/m²) 2013	2014	2015	2016	dif. 16-15	dif. 16-13
Andalucía	1,445	1,395	1,427	1,467	2.8%	1.5%	1,398	1,338	1,349	1,322	-2.0%	-5.4%
Aragón	1,431	1,354	1,356	1,359	0.2%	-5.0%	1,401	1,343	1,306	1,273	-2.5%	-9.1%
Asturias	1,670	1,569	1,608	1,618	0.6%	-3.1%	1,116	1,047	1,060	1,072	1.1%	-3.9%
Baleares	1,995	1,949	1,857	1,911	2.9%	-4.2%	1,812	1,749	1,768	1,855	4.9%	2.4%
Canarias	1,330	1,292	1,366	1,384	1.3%	4.1%	1,234	1,222	1,212	1,250	3.1%	1.3%
Cantabria	1,539	1,417	1,349	1,357	0.6%	-11.8%	1,545	1,450	1,434	1,416	-1.3%	-8.3%
Castilla La Mancha	1,006	943	989	980	-0.9%	-2.6%	940	888	881	868	-1.5%	-7.7%
Castilla-León	1,176	1,083	1,086	1,064	-2.0%	-9.5%	1,056	1,013	1,003	1,012	0.9%	-4.2%
Cataluña	2,016	1,968	2,063	2,118	2.7%	5.1%	1,748	1,704	1,712	1,788	4.4%	2.3%
Extremadura	1,060	1,005	1,017	1,019	0.2%	-3.9%	871	826	830	838	1.0%	-3.8%
Galicia	1,182	1,125	1,168	1,181	1.1%	-0.1%	1,144	1,116	1,132	1,144	1.1%	0.0%
La Rioja	1,366	1,238	1,217	1,181	-3.0%	-13.5%	1,069	985	985	961	-2.4%	-10.1%
Madrid	1,956	1,908	2,027	2,121	4.6%	8.4%	1,949	1,885	1,938	2,002	3.3%	2.7%
Murcia	1,152	1,109	1,124	1,117	-0.6%	-3.0%	1,001	969	966	965	-0.1%	-3.6%
Navarra	1,659	1,589	1,546	1,522	-1.6%	-8.3%	1,545	1,433	1,390	1,388	-0.1%	-10.2%
País Vasco	2,457	2,380	2,426	2,435	0.4%	-0.9%	2,232	2,131	2,132	2,143	0.5%	-4.0%
Valencia	1,309	1,267	1,315	1,333	1.4%	1.8%	1,085	1,042	1,056	1,062	0.6%	-2.1%
Average Price per m²	**1,515**	**1,447**	**1,467**	**1,480**	**0.9%**	**-2.3%**	**1,362**	**1,302**	**1,303**	**1,315**	**0.9%**	**-3.4%**

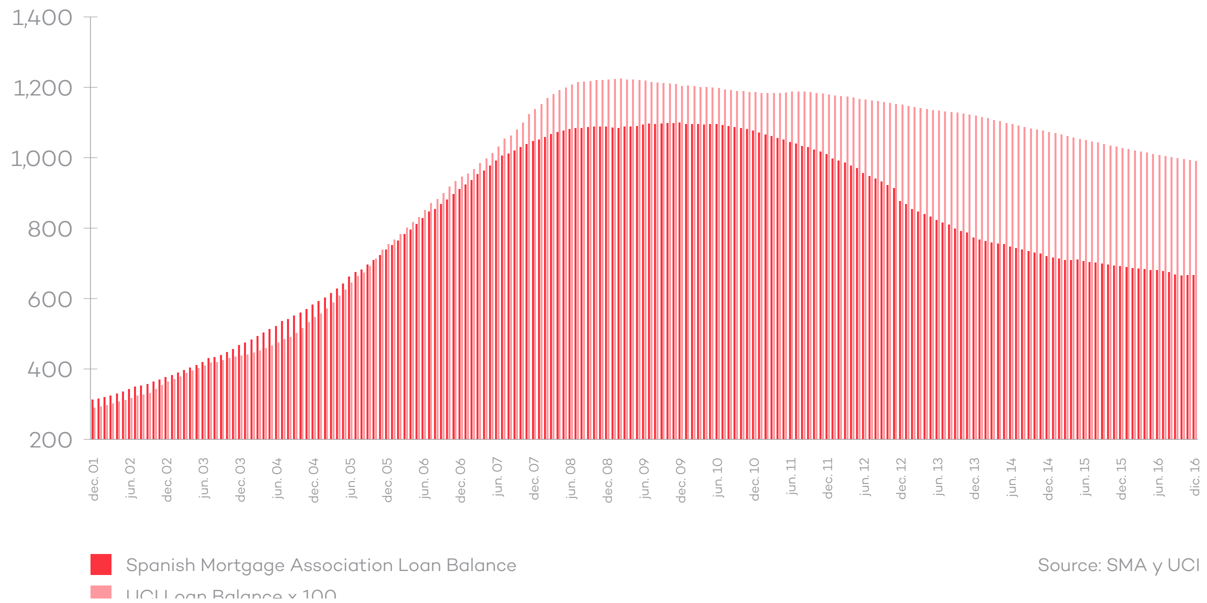
Source: Valtecnic Sociedad de Tasación

Number of Houses Built in Spain



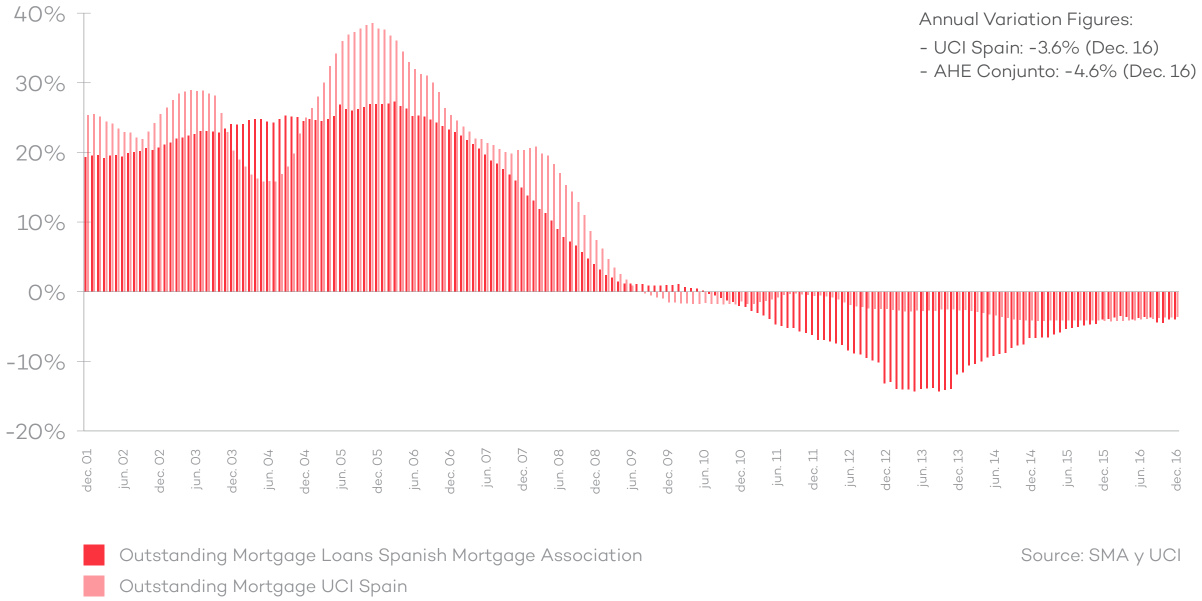
Source: Mº de Fomento

Spanish Mortgage Financing and UCI Spain

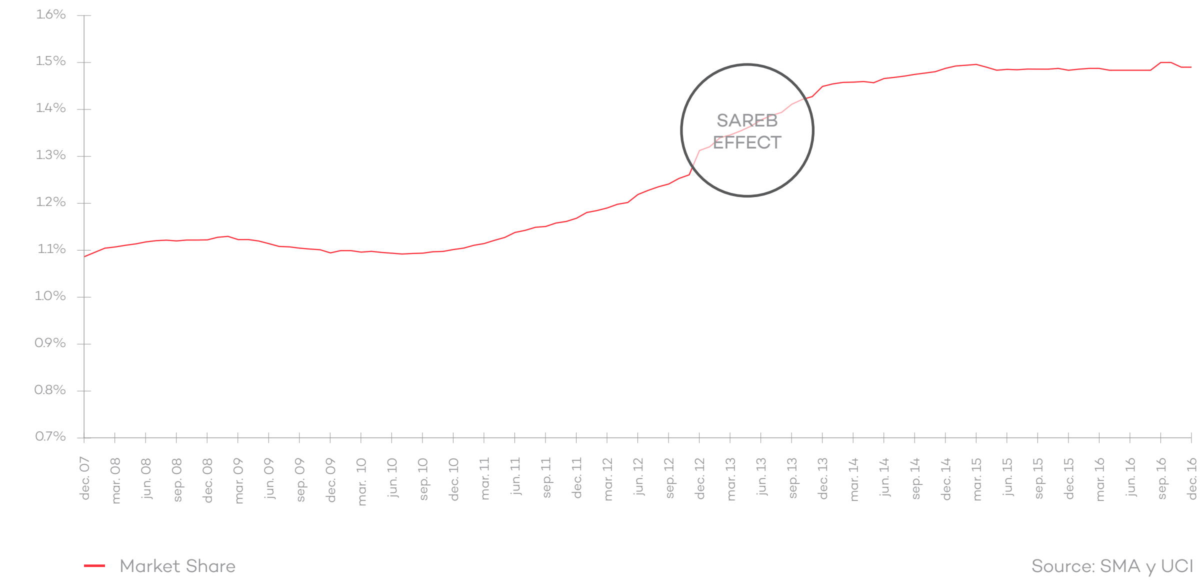


Source: SMA y UCI

Outstanding Mortgage Loans SMA and UCI Spain



UCI Market Share Outstanding (SMA)



Economic Outlook Portugal

The Portuguese economy grew by 1.9% in 2016, beating the Portuguese government's targets by two decimal points.

This positive performance brought with it a significant reduction in unemployment, which closed the year at 10.5%, the lowest rate in the last seven years. Inflation remained stable, at 0.9% according to Eurostat figures.

The positive performance of the Portuguese economy brought with it a significant reduction in unemployment, which closed the year at 10.5%.

Real estate and mortgage market

The Portuguese real estate market continued the course it began in 2015, when more than 100,000 property transactions were completed for the first time since 2012. National Statistics Institute figures report a 20% growth rate in the first three quarters of the year, and the total number of transactions is expected to have surpassed 130,000 by year end.

These figures were determined by three factors: the improvement in the economy, a rise in foreign demand and the shortage of housing in the centres of large cities.

As a result, the construction sector has returned to positive figures, reporting a 15.9% increase in the number of new construction licences issued, with Lisbon, Oporto and Lagoa (Algarve) leading the way.

The mortgage market has followed this positive trend,

The construction sector has returned to positive figures, reporting a 15.9% increase in new construction licences issued, with Lisbon, Oporto and Lagoa leading the way.

with total loans originated worth more than EUR 5.6 billion , according to Portugal's central bank figures.

Housing Price in Portugal

Districts	New Home (Euro/m²)						Used Housing (Euro/m²)					
	2013	2014	2015	2016	dif. 16-'15	dif. 16-'13	2013	2014	2015	2016	dif. 16-'15	dif. 16-'13
Aveiro	757	755	762	770	1.0%	1.7%	725	713	718	726	1.2%	0.2%
Beja	924	925	929	949	2.1%	2.7%	845	821	830	849	2.4%	0.5%
Braga	845	844	850	876	3.1%	3.7%	621	609	618	629	1.8%	1.3%
Bragança	601	605	606	628	3.6%	4.4%	581	564	568	592	4.3%	1.9%
Castelo Branco	662	663	663	677	2.1%	2.2%	596	590	590	603	2.2%	1.1%
Cidade Lisboa	1,710	1,711	1,729	1,795	3.8%	5.0%	1,325	1,356	1,359	1,406	3.5%	6.1%
Cidade Porto	1,295	1,297	1,312	1,333	1.6%	2.9%	1,137	1,117	1,129	1,150	1.9%	1.1%
Coimbra	997	995	997	1,010	1.3%	1.3%	788	789	789	798	1.1%	1.3%
Évora	928	930	932	955	2.5%	2.9%	694	670	676	695	2.8%	0.2%
Faro	1,297	1,295	1,315	1,356	3.1%	4.5%	1,152	1,109	1,125	1,169	3.9%	1.5%
Área Metropolitana Lisboa	872	875	890	926	4.1%	6.2%	723	710	720	756	4.9%	4.5%
Área Metropolitana Porto	852	855	863	910	5.4%	6.8%	709	697	705	744	5.6%	4.9%
Guarda	685	629	628	644	2.6%	-5.9%	528	490	487	499	2.3%	-5.6%
Leiria	778	770	768	772	0.5%	-0.8%	602	599	594	595	0.3%	-1.1%
Madeira	1,255	1,192	1,197	1,208	0.9%	-3.8%	917	856	860	868	1.0%	-5.3%
Portalegre	798	745	746	750	0.5%	-6.1%	619	573	572	575	0.5%	-7.1%
Santarém	722	721	720,85	728	1.0%	0.8%	592	614	612	616	0.7%	4.0%
Setúbal	725	708	709	724	2.2%	-0.1%	591	563	564	576	2.2%	-2.5%
Viana do Castelo	785	780	781	782	0.2%	-0.3%	624	603	603	603	0.1%	-3.3%
Vila Real	828	818	818	824	0.7%	-0.5%	684	658	658	647	-1.8%	-5.4%
Viseu	782	733	735	739	0.6%	-5.4%	715	685	679	657	-3.2%	-8.1%
Average price per m²	**909.4**	**897.4**	**902.4**	**921.7**	**2.1%**	**1.3%**	**750.9**	**732.7**	**736.0**	**750.2**	**1.9%**	**-0.1%**

Source: QUALITAS Sociedade de Avaliações Técnicas LDA

Economic Outlook Greece

In 2016 the Greek economy was held back by political uncertainty and lack of consumer confidence. The fourth quarter shrank by 1.2% from the previous three-month period, when it had grown by six decimal points.

Nevertheless, the economic adjustment programmes pushed through in the last few years have been successfully tackling the Greek economy's structural deficiencies, giving greater potential for growth in the medium- and long term. The primary fiscal deficit has gone, the cost of labour has fallen substantially and exports have increased significantly.

Greek GDP shrinks by 1.2%.

In addition, the tourism sector has once again become an industry of reference for the country's growth, with improvement forecast in 2017.

Real estate and mortgage market

Downward pressure continued throughout 2016 on market securities, prices and rentals from both residential and commercial properties.

The average price of residential and commercial properties fell by 2.2%, three decimal points less than in 2015.

Demand for ownership remained weak for the whole year, due to the unemployment rate (23.2%), the drop in disposable income and taxes.

Nevertheless, the real estate market began to show signs of stabilising and the average price of residential and commercial properties slipped by 2.2%, three decimal points less than in 2015.

In Greece the expectation is that this trend will continue in 2017, since the recovery of this market depends to a large degree on household incomes and on terms of financing.

Housing Price in Greece

Districts	New Home (Euro/m²)						Used Housing (Euro/m²)					
	2013	2014	2015	2016	dif. 16-'15	dif. 16-'13	2013	2014	2015	2016	dif. 16-'15	dif. 16-'13
Aitolokarnania	1,235	1,175	1,100	1,075	-2.3%	-13.0%	825	780	710	725	2.1%	-12.1%
Argolidos	1,340	1,280	1,200	1,125	-6.3%	-16.0%	975	885	800	819	2.4%	-16.0%
Attika	1,495	1,365	1,280	1,350	5.5%	-9.7%	1,075	970	910	945	3.8%	-12.1%
Axaia	1,490	1,310	1,250	1,165	-6.8%	-21.8%	825	755	685	632	-7.7%	-23.4%
Boiotia	1,310	1,200	1,170	1,100	-6.0%	-16.0%	870	775	775	780	0.6%	-10.3%
Dodekanisos	1,480	1,325	1,320	1,240	-6.1%	-16.2%	1080	990	990	979	-1.1%	9.4%
Eboia	1,400	1,275	1,250	1,175	-6,0%	-16.1%	885	770	710	690	-2.8%	-22.0%
Fokida	1,385	1,266	1,260	1,219	-3.3%	-12.0%	895	810	800	798	-0.2%	-10.8%
Fthiotida	1,455	1,298	1,175	1,157	-1.5%	-20.5%	1,015	910	820	755	-7.9%	-25.6%
Halkidiki	1,205	1,144	1,100	1,050	-4.5%	-12.9%	1,000	900	840	829	-1.3%	-17.1%
Ionian	1,580	1,503	1,400	1,400	0.0%	-11.4%	1,160	1,060	1,000	980	-2.0%	-15.5%
Korinthos	1,280	1,200	1,180	1,150	-2.5%	-10.2%	870	789	760	756	-0.5%	-13.1%
Mesinias	1,575	1,461	1,340	1,290	-3.7%	-18.1%	830	800	744	755	1.5%	-9.0%
Thessaloniki	1,240	1,135	1,060	1,100	3.8%	-11.3%	820	725	685	710	3.6%	-13.4%
Average price per m²	**1,391**	**1,281**	**1,220**	**1,185**	**-2.9%**	**-14.8%**	**938**	**851**	**802**	**797**	**-0.7%**	**-15.0%**

Source: Adriática

Economic outlook Brazil

Brazil suffered a period of crisis and political instability in 2016 which reached its tipping point in September, with the impeachment of the Head of State.

GDP shrank by 3.3% but inflation ended the year at 6.7%, four percentage points lower than the figure at the end of 2015 (10.7%). The country's benchmark interest rate, the Selic, began to fall from its peak of 14.25%, closing the year at 13.75%. The Brazilian real recovered strongly through the year, closing at USD/BRL 3.25 compared to 4.15 in January 2016.

The financial intermediation sector grew by 3.6%.

The balance of trade was in surplus again in 2016, closing at USD 47.7bn, up from USD 13.7bn in 2015, the result of USD 185.25bn in exports and USD 137.55bn in imports.

The unemployment rate remained stable at 11.90%. Against this backdrop, activity rose in the financial intermediation and insurance sector by 3.6%.

Real estate and mortgage market

TAfter a tough year, in the final four months of the year the first signs of an improvement in the economic environment began to be visible, as a consequence of the fall in inflation and the expectation of major drops in interest rates.

Originated loans funded by savings (poupança) fell by -38.3% over the year as a whole compared with 2015, with total volumes of BRL 46.61bn in total.

Nevertheless, the trend was to the upside in December. 199,700 property goods were financed in 2016, 41.5% less than in 2015 (341,500), of which 20,400 were financed in December, to a value of BRL 5.38bn, 35.2% up on the previous month and the highest total in 16 months.

Deposits in savings accounts were higher than withdrawals by BRL 9 billion in December.

Another significant indicator of the change in trend seen in the final months of the year was in savings account (poupança) deposits. The total balance in December was over BRL 9bn, the highest figure in December for the last 3 years.

Reinventing ourselves

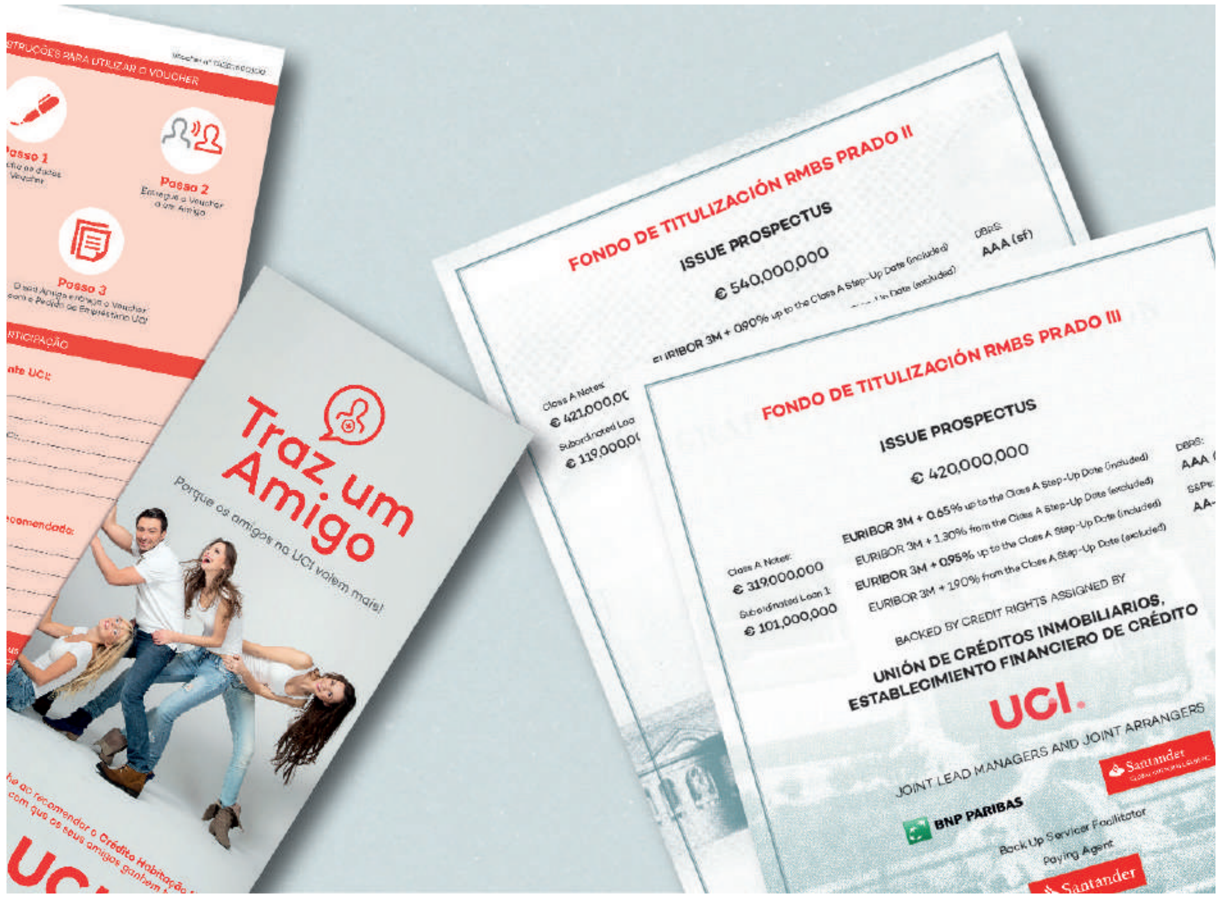
The company's most significant achievement in 2016 was the process of reinventing its commercial activity.

The company's most significant achievement in 2016 was the process of reinventing its commercial activity.

UCI implemented a new Customer relationship model that is aligned with its new sales methods. Intrinsic to this model are the concepts of mentoring the client and transparency, from the very first discussions about mortgage financing and purchasing the property, to the decisions taken after the signing, which have a major impact on the customer's personal finances. The institution aspires not only to maximum customer satisfaction, but also to be the reference point for important financial decisions relating to customers' homes.

All the work and projects carried out throughout the year were designed within the framework of the brand's three key promises: We stay with you, You choose and Responsible Purchasing. In line with this strategy, UCI concentrates on in-depth knowledge of customers' needs and experiences, becoming a company that can create value for people, something that distinguishes its activity from competitors.

In 2016 UCI continued with its fixed rate financing strategy –one of the keystones of responsible purchasing and credit – and of consolidating its positioning as the only player in the market that does not factor linked contracting of other products into the price calculation of its mortgages. This strategy has been widely welcomed by clients, who have increased the number of contracts signed through



different channels, an area where Hipotecas.com has been particularly successful, growing its business since 2015 by over 80%.

In order to reinforce security and transparency, as well as the value added by teams in direct contact with the client, the company continued to digitise its business processes, making more widespread use of the digital signature in the initial phase of the financing application and the contracting of personal loans by clients already in the portfolio.

As well as this, customer loyalty and recommendation campaigns were run in both Spain and Portugal: the Member Get Member campaign, the aim of which was to earn a recommendation and the UCI Contigo, Cliente Prime campaign in Portugal, with special offers and discounts to portfolio clients.

UCI Portugal followed the premise of its own slogan “Crescer simplificando” [Grow by simplifying things] and also worked on making the mortgage contract process faster, more straightforward and transparent for clients.

After reopening the mortgage securitisation market in Spain in May 2015, with the Prado II and III Asset Securitisation Funds, UCI succeeded in securitising over EUR 1.4 billion in mortgage loans, getting EUR 1 billion of new financing and reappraising the value of the bonds on the secondary market.

Another company milestone this year was the change in the corporate identity and its logotype, with a graphic design that transmits the brand values and is aligned with the firm’s transformation plan.

UCI Servicios para Profesionales Inmobiliarios

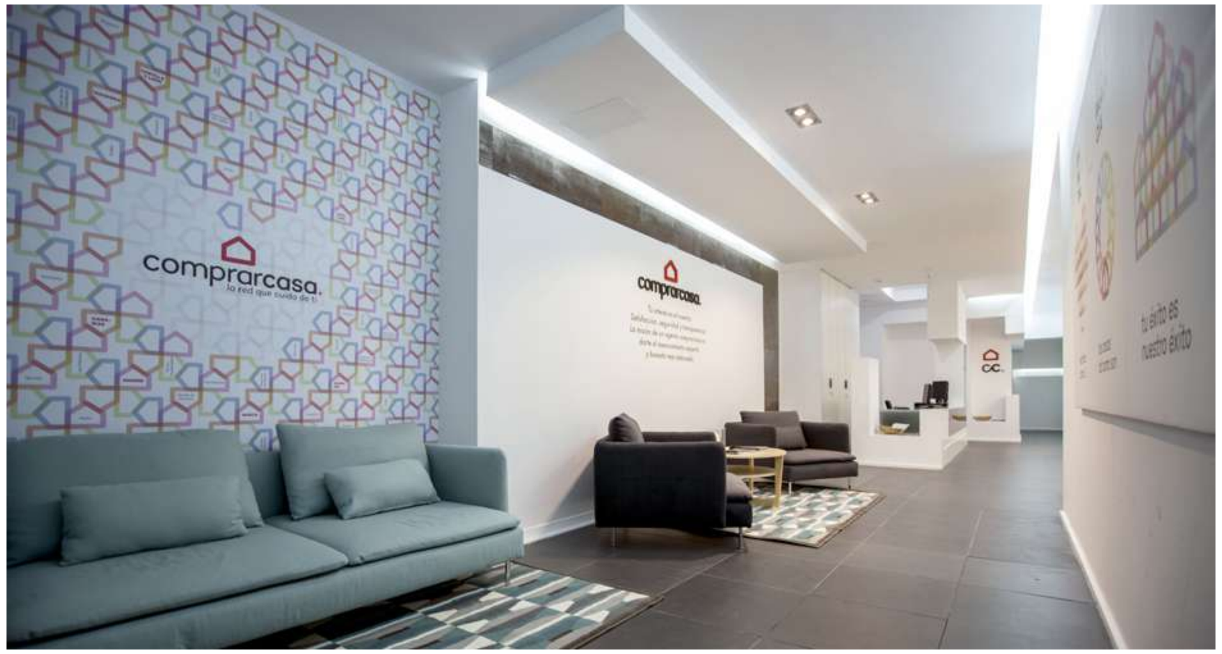
Comprarcasa network

In 2016, the Comprarcasa network focused its attention on offering more and better services to its network, concentrating on three components: branding, know-how and consulting.

In branding, the company launched its new Network identity, a detailed design template for its offices and of its internal systems, integrated in the “Comprarcasa DNA” concept.

The company produced a brandbook, containing the firm’s Vision, Mission and Values, supported by procedures, methods, tools and training for implementation.

Finally, the company’s expansion and consulting functions were redefined. 22 new offices joined the network; with the offices leaving and those being rationalised, the total number of agencies came to 106 by the end of the year.



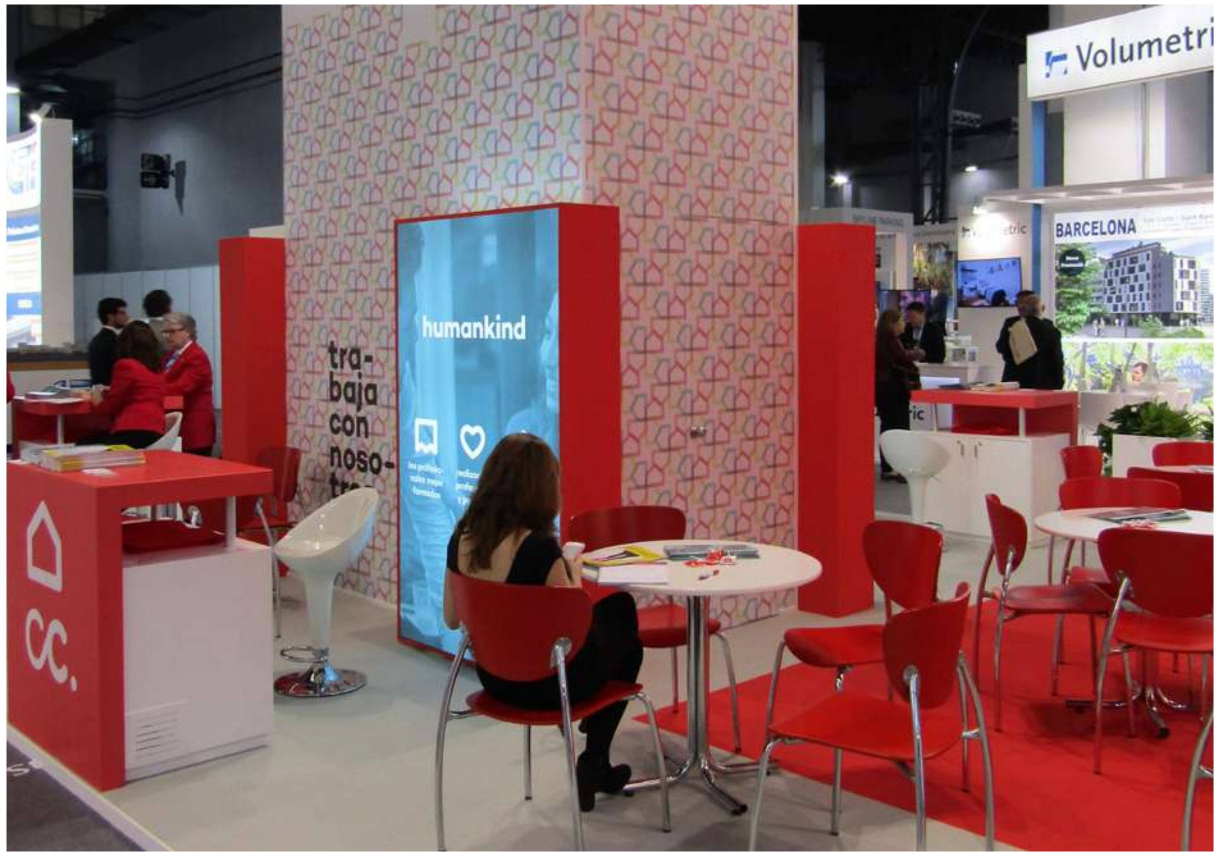
Professional services

UCI SPPI's second core activity in 2016 was the training it gave to real estate professionals, mainly through the agreements the UCI Group has with NAR (National Association of Realtors) and with CRS (Council of Residential Specialists) in USA. 115 courses were run throughout the year with a total of 3,823 attendees and gross turnover of EUR 0.6 million; in June the seventh edition of the real estate trade fair Inmociónate took place, attended by over 700 real estate professionals.

In 2016, UCI SPPI signed an advertising and promotion agreement with Unión de Créditos Inmobiliarios, SA, EFC, to support UCI SPPI's activities. Billings in 2016 were EUR 0.17 million.

UCI SPPI signed an advertising and promotion agreement with Unión de Créditos Inmobiliarios, SA, EFC, to support UCI SPPI's activities.

As part of its new professional service development, the company licensed an external accounting firm to use its credit billing software, and sold consulting services, which reported gross billings of EUR 0.20 million during the year.



Comprarcasa Portugal

Comprarcasa Portugal focused in 2016 on increasing and improving the services it provides its network: web improvements, training courses, associations and suppliers.

Comprarcasa attended key sector events and trade fairs, such as the SIL and tht APEMIP.

Throughout the year, the network promoted a number of themed events, creating brand images that help associates position themselves in their markets. Like its Spanish opposite number, the Portuguese division launched the new visual identity that will help the brand's positioning in the national market.

Once again, Comprarcasa attended key sector events and trade fairs, such as the Lisbon Real Estate Salon (SIL) and the Portuguese Association of Professional Real Estate Agents (APEMIP), in order to raise awareness of the brand and its sector footprint.

Comprarcasa Portugal closed 2016 with 51 ComprarCasa points of sale.

Throughout the year, its website generated over 6.4 million visits from over 921,000 unique visitors. These figures have grown by 72% and 87% respectively from 2015.

Corporate Social Responsibility

UCI uses a customer-oriented business model, designed to meet their needs and focusing on responsible purchasing. The company's professional activity has a financial, ethical and social impact; it satisfies the expectations of the different stakeholders, from employees, clients, property agents, shareholders, suppliers and society at large.

Property agents

To provide training for real estate sector professionals, in 2016 UCI SPPI signed an agreement with NAR, under which it has become the organisation's representative in Spain, through the Spanish International Realty Alliance (SIRA) club, which awards the REALTOR® quality mark. CRS and SIR have thus become prestigious designations that differentiate the country's best professionals.

2016 also marked ten years of working agreements with CRS-Council of Residential Specialists. UCI Servicios Para Profesionales Inmobiliarios gave 115 CRS courses, attended by a total of 3,823 agents.

UCI organised professional trips to both entities in the United States to attend the CRS and NAR conferences. This enabled

CRS and SIR have thus become prestigious designations that differentiate the country's best professionals.

around a hundred Spanish professionals to create international connections and attend conferences and skills workshops on the issues and tools that are currently shaping the sector.

In June around 800 professionals visited the seventh edition of Inmociónate, held in Sitges. The trade fair, sponsored by UCI and offering a wide range of training and information sessions on professional ethics in the property sector, has become the largest professional event in the property brokerage sector.

During the event, the brand Inmosolidarios was launched, under whose banner social responsibility programmes will be run by real estate professionals; these will be publicised to position property professionals in the social responsibility arena.

Employees

Some of UCI's key programmes are designed to promote its employees' ongoing training and professional development. Thus, the company has an annual training plan covering a broad range of areas: techniques,

In all, 32 UCI employees volunteered on 18 of the project's programmes.

languages, regulatory compliance and skills; in 2016 it ran 33 training courses. As well as face-to-face courses, the company has an online platform and an internal training catalogue with over 50 courses available to its associates.

Financial education is a cornerstone for UCI; that is why it joined forces with BNP Paribas in 2016 to do its bit to extend financial literacy by taking part in "Your finances, your future" programme, an initiative developed by the Spanish Banking Association (AEB) and the Junior Achievement (JA) Foundation, that drives financial education in secondary schools throughout Spain, explaining the importance of planning, saving and access to information as the basis for taking financial decisions. In all, 32 UCI employees volunteered on 18 of the project's programmes.

In order to implement practices to improve employee health, the regular annual medical check-up, medical insurance and vaccination campaigns against winter flu all took place in 2016. As part of these, to promote healthy habits within the company, the "Danacol Challenge" campaign against cardiovascular disease was launched and in collaboration with the Juan XXIII Foundation, the company celebrated a Fruit Day, promoting the benefits of eating fruit.

To celebrate National Heart Week, the Spanish Heart Foundation organised several activities, amongst them the VII Heart Race in which 27 UCI runners took part to raise awareness about the importance of physical exercise as a way of preventing cardiovascular illness.

Furthermore, in order to drive a culture of social commitment and shared values among employees, the company made things possible for staff to access solidarity and volunteering activities.

Social programmes

UCI has been working with Juegaterapia, a non-profit foundation that set up the "My Hospital garden" programme in 2013, with the purpose of remodelling the roofs of hospitals to create spaces where children suffering from cancer can play. UCI associates donated EUR 4,561 that, together with UCI's donation, came to EUR 14,122, which was used to create a playground on the roof of the La Fe Hospital in Valencia.

There were also humanitarian actions for places affected by natural catastrophes. Fundraising events were organised in response to the serious earthquake in Ecuador (7.8 on the Richter scale) and Hurricane Matthew which hit Haiti especially hard, still recovering from the 2010 earthquake. In the case of Ecuador, EUR 17,700 was donated to the Red Cross, while for Haiti EUR 16,560 was shared between the Red Cross and Doctors without Borders. In both cases, the sums raised were a combination of employee contributions and from UCI itself.

Through the Valora Foundation, merchandising articles were donated to be used in a number of institutions, five of them in Spain: Futuro Cierto Charitable Association, El Árbol Sports Club, Spanish Leukodystrophy Association, Sagrado Corazón College (Vallecas) and the Foundation Education for Creativity (EDUCREA), plus three in other countries: Coprodeli Foundation, Children of the World Federation and Humanitarian Mission NGO.

A solidarity cinema day was held to provide toys for children and young people at risk of social exclusion, collecting around 500 toys.

During the Christmas season, a solidarity cinema day was held in in Madrid together with the Valora Foundation and the Avanza NGO to provide toys for children and young people at risk of social exclusion. Volunteers from other cities such as Barcelona, Valencia, Jerez and Las Palmas joined this initiative, collecting around 500 toys.

UCI also supported other causes during 2016 through its participation in fun runs: it was very visible in the "Up and running against cancer" run, with 56 registered runners, and also the Liberty race "A goal for all", a sporting event promoting social integration, with 31 runners from UCI.

The company also played a part in "Give & Gain Day 2016", part of the International Week of corporate volunteering. UCI employees went with their family members to the Juan XXIII Roncalli Foundation's Orchard in Madrid to take part in an organic-awareness day with a group of people with learning difficulties.

At the companies' Solidarity Day, 66 UCI volunteers joined up with a number of charity organisation in volunteering, environmental awareness and social solidarity projects.

Companies' Solidarity Day, in which 66 UCI volunteers, consisting of 3 teams in Madrid, 1 in Barcelona, 1 in Valencia and another in Seville, took part. The teams joined up with a number of charity organisation in volunteering, environmental awareness and social solidarity projects.

UCI Portugal organised the UCI Running initiative, bringing together property agents, clients and the organisation's employees, which was held in both Lisbon and Oporto in 2016.

The year ended with a solidarity Christmas card sent to clients, associates and suppliers, and a solidarity banner posted on the UCI website. For every click on the card, UCI donated EUR 0.50 to the Portuguese NGO Crescer Ser, which looks after disadvantaged minors.

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CERTIFICADO DE RESPONSABILIDAD SOCIAL CORPORATIVA

AUTOCONTROL (Asociación para la Autorregulación de la Comunicación Comercial), es una asociación sin ánimo de lucro establecida en 1996 que se encarga de gestionar el sistema de autorregulación en España. Está formada por los principales anunciantes, agencias, medios y asociaciones sectoriales y su objetivo es contribuir a que la publicidad constituya un instrumento particularmente útil en el proceso económico, velando por el respeto a la ética publicitaria y a los derechos de los consumidores, con la exclusión de la defensa de intereses personales.

AUTOCONTROL forma parte de EASA (*European Advertising Standards Alliance*) y, además, ha acreditado el cumplimiento de los requisitos establecidos por la Ley de Competencia Desleal para los sistemas de autorregulación.

UNIÓN DE CRÉDITOS INMOBILIARIOS, S.A., E.F.C.

Calidad de Asociado

Es socio de pleno derecho de AUTOCONTROL y mantuvo su calidad de asociado durante el período comprendido entre el 1 de enero y el 31 de diciembre de 2016, como así consta en la relación de asociados que publicamos en nuestra memoria anual de 2016.

Cumplimiento de Códigos Deontológicos

Se compromete a cumplir en todas sus comunicaciones comerciales el Código de Conducta Publicitaria de AUTOCONTROL, basado en el Código de Prácticas Publicitarias de la International Chamber of Commerce.

Actividad de control previo de la licitud y corrección deontológica de la publicidad

Puede, con anterioridad a su difusión, solicitar el asesoramiento del Gabinete Técnico de AUTOCONTROL en aquellos casos en los que tenga dudas acerca de la licitud y corrección deontológica de sus comunicaciones comerciales, con el fin de garantizar las mismas.

Sometimiento al Jurado de la Publicidad

Se compromete, así mismo, a cumplir las resoluciones emitidas por el Jurado de la Publicidad como resultado de eventuales reclamaciones presentadas ante este órgano de resolución extrajudicial de controversias, ya sea por parte de consumidores u asociaciones de consumidores, empresas de la competencia u otros sectores, u organismos de la Administración.

Para que así conste, firmo el presente certificado, en Madrid, a 24 de febrero de 2017

José Domingo Gómez Castallo
Director General

R. N. A. nº 147.584, C.I.F. G-81 234247

AUTO CON TROL

CERTIFICADO DE RESPONSABILIDAD SOCIAL CORPORATIVA

INFORME DE ACTIVIDAD

Solicitado por

UNIÓN DE CRÉDITOS INMOBILIARIOS, S.A., E.F.C.

Nº de consultas previas (Copy Advice ®) solicitadas por la empresa durante el período comprendido entre el 1 de enero y el 31 de diciembre de 2016 al Gabinete Técnico de AUTOCONTROL relativos a publicidad de la que es responsable la Empresa:	88
Nº de consultas previas (Copy Advice ®) solicitadas por intermediarios durante el período comprendido entre el 1 de enero y el 31 de diciembre de 2016 al Gabinete Técnico de AUTOCONTROL relativos a publicidad de la que es responsable la Empresa:	0
Resultado de las consultas:	
- **Positivos** (No se aprecian inconvenientes al contenido del anuncio).............	84
- **Con modificaciones** (Se ha recomendado introducir cambios en el nuncio)...	0
- **Negativos** (Se ha desaconsejado la difusión del anuncio).........................	4
Nº de consultas legales atendidas durante el período comprendido entre el 1 de enero y el 31 de diciembre de 2016 por el Gabinete Técnico de AUTOCONTROL con relación a la publicidad de la que es responsable la Empresa:	21
Nº de casos resueltos durante el período comprendido entre el 1 de enero y el 31 de diciembre de 2016 por el Jurado de la Publicidad de AUTOCONTROL iniciados por reclamaciones iniciadas a instancias de la propia Empresa:	0
Nº de casos resueltos durante el período comprendido entre el 1 de enero y el 31 de diciembre de 2016 por el Jurado de la Publicidad de AUTOCONTROL iniciados por reclamaciones dirigidas contra una publicidad de la que es responsable la Empresa:	0
Nº de consultas técnicas y jurídicas de cookies (Cookie Advice ®) solicitadas por la empresa durante el período comprendido entre el 1 de enero y el 31 de diciembre de 2016 al Departamento Digital de AUTOCONTROL:	0

Madrid, a 24 de febrero de 2017

José Domingo Gómez Castallo
Director General

AUTO CON TROL

CERTIFICADO DE RESPONSABILIDAD SOCIAL CORPORATIVA

A LOS EFECTOS DE CONCESIÓN DEL DISTINTIVO "IGUALDAD EN LA EMPRESA"

UNIÓN DE CRÉDITOS INMOBILIARIOS, S.A., E.F.C.

A los efectos que procedan y, en particular, en relación a las exigencias previstas por el artículo 6.1.b) del Real Decreto 1615/2009, de 26 de octubre – que ha sido modificado por el Real Decreto 850/2015, de 28 de septiembre - por el que se regula la concesión y utilización del distintivo «Igualdad en la Empresa», desarrollando el artículo 50 de la Ley Orgánica 3/2007, de 22 de marzo, para la igualdad efectiva de mujeres y hombres.

El citado precepto dispone: *"Documentación. 1. Las candidaturas* [de concesión del distintivo "Igualdad en la Empresa"] *además de la documentación acreditativa de los extremos citados en el artículo 4, deberán ir acompañadas de la siguiente documentación: (...) b) El balance o informe sobre las medidas o planes de igualdad implantados en la empresa conforme al artículo 4.2.g). En aquellas entidades con la obligación legal o convencional de tener aprobado un plan de igualdad abordará aspectos relacionados con las condiciones de trabajo, el modelo organizativo, la responsabilidad social de la empresa o la difusión y publicidad de los productos y servicios ofrecidos por la misma"*.

Nº de casos resueltos durante el período comprendido entre el 1 de enero y el 31 de diciembre de 2016 por el Jurado de la Publicidad de AUTOCONTROL iniciados por reclamaciones dirigidas contra una publicidad de la que es responsable la Empresa por razón de discriminación sexual:	0
Resultado de los casos:	
- Aceptación de la reclamación:	0
- Acuerdo de mediación:..	0
- Resolución de jurado:..	0
• Estimación:..	0
• Estimación parcial:..	0
• Desestimación:..	0

Madrid, a 24 de febrero de 2017

José Domingo Gómez Castallo
Director General

choose the right mortgage for you.

your choice

3 Economic and Financial Report

Management Report for the Year 2016

Ended at 31 December 2016.

UCI Group's consolidated financial statements have been formulated according to Financial Information International Standards adopted by the EU, and taking into consideration Circular 4/2004 of Bank of Spain, and successive evolutions.

Sales Activity Credits to Customers

The relative improvement of the economic environment of the Iberian Peninsula has allowed the development of the sales activity of Unión de Créditos Inmobiliarios SA EFC in the Iberian Peninsula throughout 2016 in more favourable conditions than in previous years.

The consolidated production of new mortgage credits, around 373 million Euros, grew by 33% with regards to 2015. The activity in Spain reached 255 million, 39% more than 2015. The figure in Portugal reached 118 million, with a growth of 23%.

In Spain, the commercial offer in UCI has followed the two key trends marked since 2015. On the one hand, UCI has continued developing the brand hipotecas.com, under which it has formalized 20% of production signed in Spain in 2016 (15% in 2015), implying an increase of 80%. Production under the brand UCI through intermediaries, particularly professionals from the real estate sector, was of 32% in Spain. In parallel, UCI has maintained under its two brands its strategy of responsible credit which, in financial terms, has implied a majority weight of fixed-rate credits throughout the loan's life and mixed-rate credits, with a first long period at fixed-rate (86% of annual production, 61% in 2015).

Both in Spain and in Portugal, the proportion of financial consultants on the commercial activity has continued increasing (+56% in Spain, 49% in Portugal, +53% as a whole).

In Greece, due to the adverse economic environment, UCI, during the last quarter of 2011, temporarily ceased trading new loans. Until 2016, an exception had been held in relation to financing operations associated to the sale of foreclosed assets, which exception ended in 2016. The total amount of managed credits, at the end of 2016, is of 244 million Euros, discounting products in suspense and before provisions, equivalent to a reduction of 4% with regards to 2015.

Global managed credit investment on the set of the three countries, including securitized loans written off from the balance sheet, at 2016 closing, has amounted to 11,229 million Euros, discounting products in suspense and before provisions. This amount implies a slight decrease of -3.2% with regards to the previous closing, due to portfolio's amortizations above the granting of new credits. The portfolio managed in Spain, 10,132 million, is lower by 3.5% than the final volume of 2015, although the portfolio managed in Portugal (1,080 million) has increased by +0.8%.

Gross margin

The consolidated gross margin obtained by the Group amounted to 216.0 million Euros, an increase of 33.5 million (+18%) with regards to 2015. This increase derives from three causes.

The first cause has been the increase, during 2015 and 2016, of the impact of restructuring operations of the Group's liabilities by 42 M€. During 2016, UCI has performed several repurchases of Funds' Securitization Bonds originated by UCI. The difference between the price agreed with investors and these securities' nominal value has generated a positive difference in valuation by 47.1 M€ in 2016, incorporated to gross margin. During 2015, the equivalent amount had been of 5.1 M€.
With regards to the credit portfolio, two aspects have caused a slightly negative evolution: the first reason was the reduction of the managed portfolio, which reduced its contribution by 6 million Euros. In turn, unit margin per managed credit has also decreased, leading, among several factors, to the progressive standardization of the Spanish market, and the increase of competition, and the flattening of the interest rate range. This lower unit margin has reduced margin by an additional 4 million Euros with regards to 2015.

UCI has maintained and developed its active programme for the assignment of credit rights to new Assets' Securitization Funds. After the operation Prado 1, for an amount of 450 million Euros, which in May 2015 implied for UCI and for the Spanish market the first pubic real estate credit securitization operation subscribed by third parties after the beginning of the financial crisis, UCI has created, on March 2016, Prado 2 (540 million) and, on October, Prado 3 (420 million).

The improvement of these operations' financial cost, as well as historically minimum levels of interest rates in the Euro area, have enabled obtaining financial resources in satisfactory conditions, which in turn have allowed the growth of new credits.

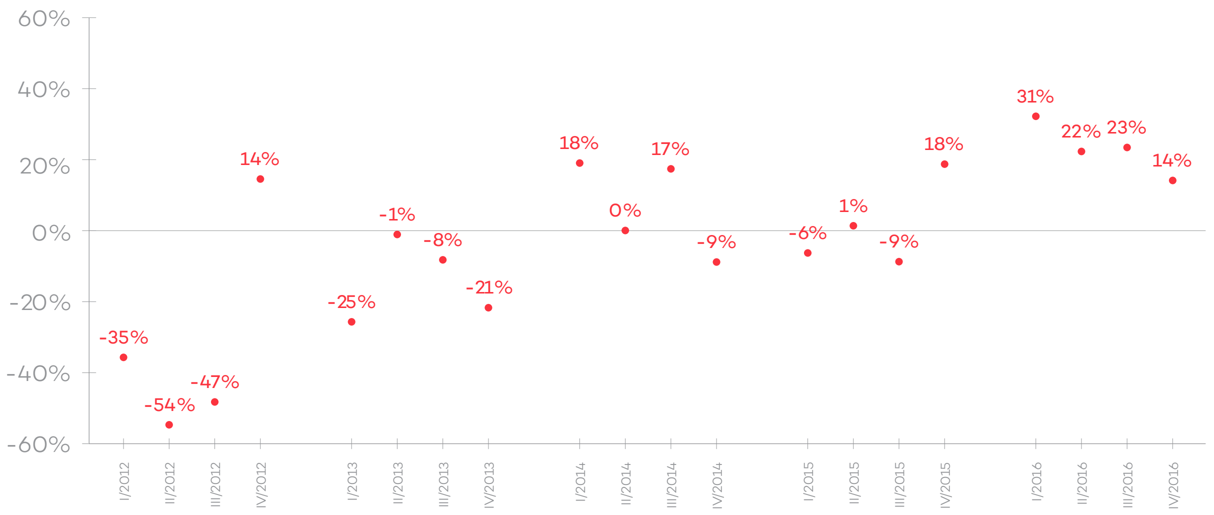
Overheads

In 2016, UCI has maintained its contention policy in internal expenses, compatible with the management efficiency and increase of productivity. Expenses, which do not include commissions paid to intermediaries, reflect the increase of the commercial action on the two brands, UCI and hipotecas.com, and amounted to 45.8 million Euros (+1.5% with regards to 2015).

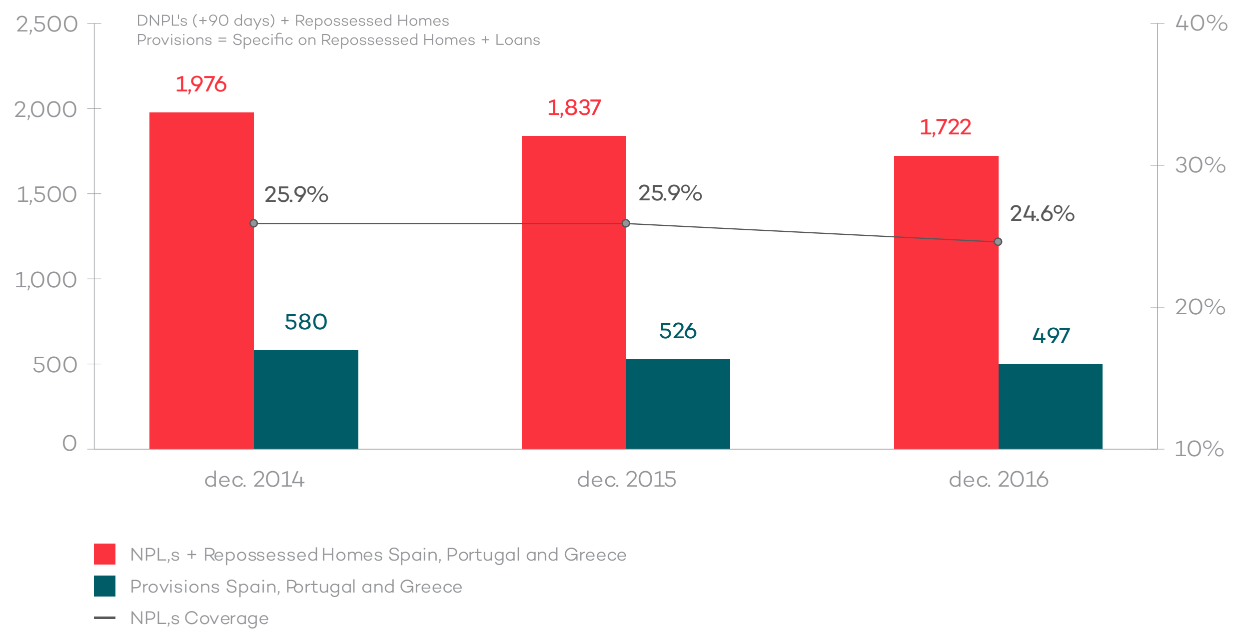
The Group's personnel have decreased with regards to the highest figure of the previous year: the number of employees of UCI Group has been of 704 collaborators at 2016 closing, vs. 721 on the previous year, and 714 at 2014 closing.

UCI maintained and consolidated, in 2016, its strong connection with its main distribution channel: the real estate mediation professionals, supporting the sector's training, in particular through the collaboration with two of the main actors of the real estate market in the USA: CRS (Council of Residential Specialist), and NAR (National Association of Realtors).
It decided to re-group its activities in the company UCI Servicios para Profesionales Inmobiliarios, new corporate name of Comprarcasa Servicios Inmobiliarios,

New Credits Increase Spain and Portugal (%Annual Variations)



NPL Coverage (Spain, Portugal & Greece)



which continues managing the brand and the network of real estate agencies of Comprarcasa.

These business developments in UCI in Spain implied a limitation to the increase of expenses by 0.9%, up to 38.9 million Euros. Overheads in UCI Group in Portugal in 2016 amounted to 4.9 million (+3.2% with regards to 2015), whereas UCI Greece decreased internal costs down to 1.81 million Euros (-0.6% with regards to 2015).

The efficiency ratio in the UCI Group, in 2016, reached a level of 27.3%, calculated without considering the impact of the abovementioned liabilities' restructuring operations. In 2015, with a more favourable behaviour of the financial margin, the efficiency ratio had amounted to 25.7%, calculated with the same bases.

Defaults and Hedging

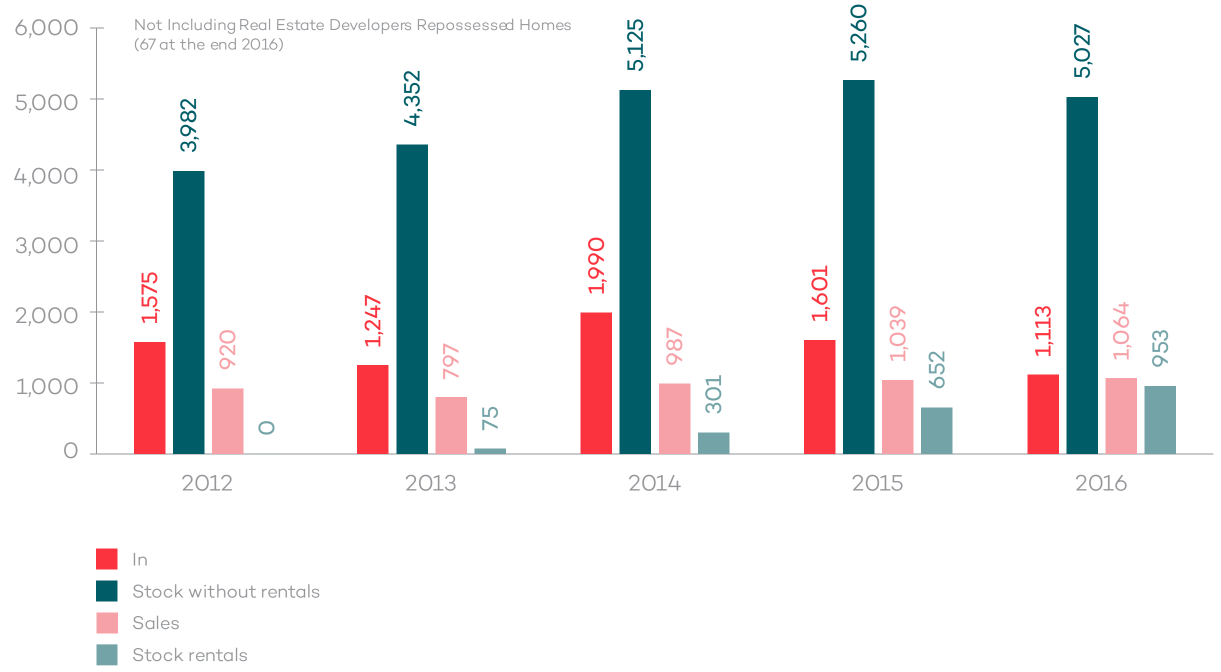
The default rate, excluding subjective doubtful, in assets managed by UCI in Spain decreased from 10.94% at 2015 closing to 10.36% at 2016 closing. This decrease of ratio on a decreasing balance reflects a reduction of default by 98 million Euros throughout the year. Furthermore, the balance of subjective doubtful without payment delays of 90 days or more decreased by 82 million Euros, 19% of the balance at 2015 closing. Likewise, Portugal experienced a decrease of its late-payment rate (from 4.74% to 3.93%) and its defaulted balance (-8.4 million Euros, 30% of the previous year's balance). In Greece, the defaulted balance decreased by 2 million Euros, down to 20.0 million, in a delicate macroeconomic environment. As a consequence, despite the structural reduction of the outstanding balance, the rate of default decreased from 8.63% to 8.31%. These figures mark a net reduction with regards to values booked at mid-year 2015 (peak of the political and financial uncertainty in the country) when they respectively reached 9.1% and a balance of 23.8 M€.

In short, the percentage of total doubtful credits, including those which did not present delay in payment of 90 days or more, decreased by more than one percentage point: from 14.15% to 12.92% for the UCI Group, and from 15.27% to 14.01% for the portfolio managed in Spain. The percentage of credits with delays of 90 days or more decreased from 10.31% to 9.69%.

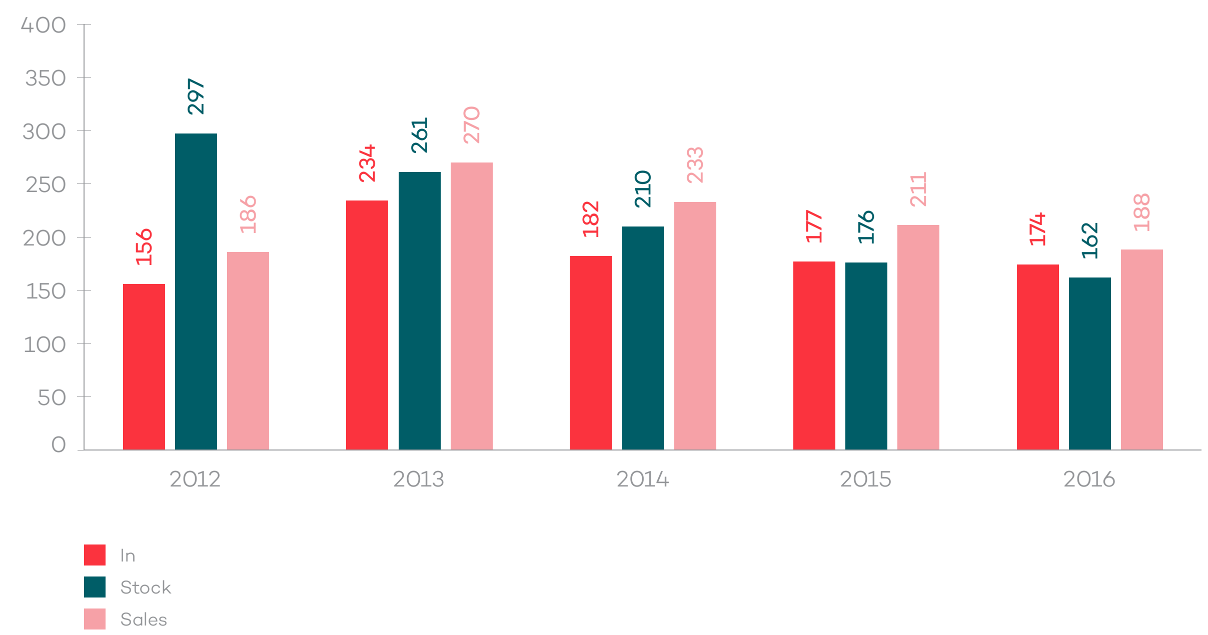
UCI has maintained its main axis in the area of recoveries throughout 2016 have focused in the analysis and detailed follow-up of the credit portfolio, as well as the efficient divestment of foreclosed assets, leading to a reduction of the delay rates in the three countries. Both in 2016 and in previous years, the risk profile for new operations formalized, within a general responsible credit policy, has been characterized, as in previous years, by a low risk profile.

The portfolio's favourable evolution, as well as the confirmation of the turning point of housing prices that began in 2015, has enabled a reduction of allocations for coverage of insolvency risk: 22 million Euros in allocations on specific and substandard provisioning vs. 42 million in 2015. There was a reduction of items of allocations to coverages on transient properties, and for results in their sales (34.4 million in 2016 with regards to 38.2 million in 2015).

UCI Spain: Nº REO Homes



UCI Portugal: Nº REO Homes



During 2016, UCI increased generic provisions, with stock by 34.9 million Euros and an allocation of 34.5 million on the year.

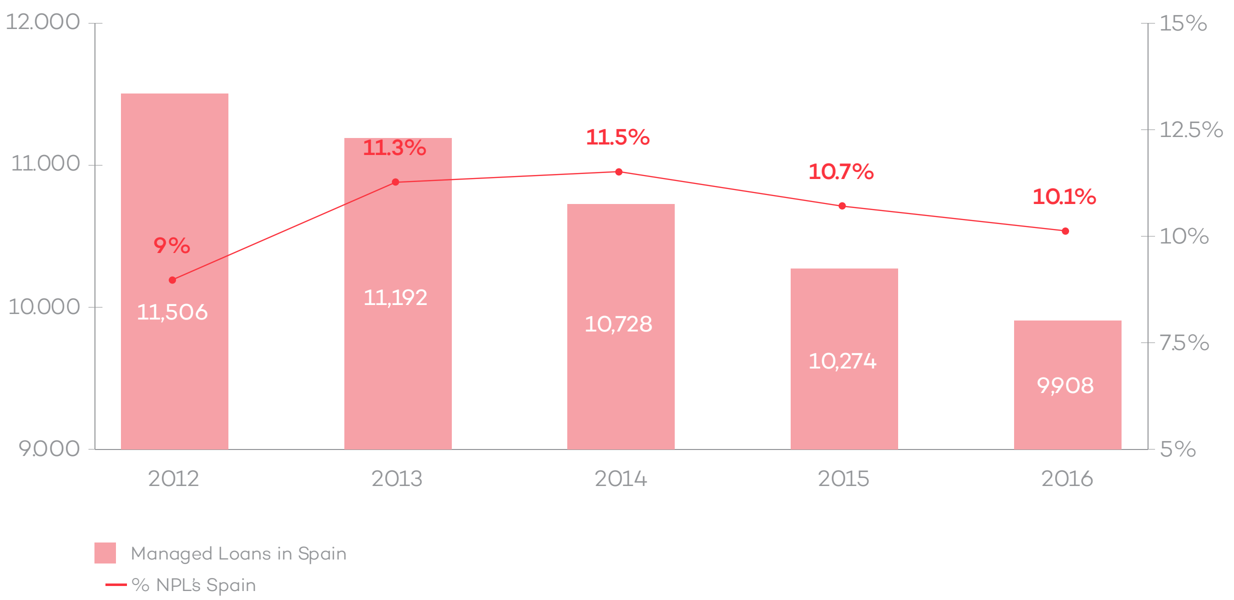
At 2016 closing, UCI has covered provisioning requirements arisen from the current drafting of Circular of Bank of Spain 4/2004, RDL 2/2012 and 18/2012, and of the Letter from the General Directorate of Regulation of Bank of Spain, of April 30, 2013.

Thus, the doubtful portfolio's coverage rate in the balance of UCI Spain, according to its current definition, amounted to 21.3%, with regards to 21.9% in 2015. Within it, the coverage of portfolio showing payment delays of 90 days or more in the Entity's balance in Spain was virtually stable at 2016 closing, by 26.3%, with regards to 27.6% in 2015, an evolution that derives from the inflection experienced in the evolution of house prices. These percentages do not consider the additional protection contributed by mortgage guarantees.

If the additional coverage provided by mortgage guarantees was included, the coverage rate for provisions of the set of doubtful portfolio of individuals of the company in Spain would amount to 134%, above the 128% of 2015 and 2014, considering guarantees' appraisal values updated according to official indexes by the Ministry of Development.

UCI's foreclosed assets in Spain, classified as assets held for sale, had a value at 2016 closing net of provisions of 384.8 million Euros, vs. 410.1 million at 2015 closing. This decrease derives from good results achieved in the trading of foreclosed estates, as well as from the development of the lease policy in a portion of estates, launched at the end of 2014 and developed throughout 2015.

NPL's > 180 Days Total Managed Loans



The Estates Trading Network in Spain has sold 1,073 properties (+2% over 2015). With a net balance of foreclosed assets of 12.2 million Euros, the trading activity in UCI Portugal has experienced a decrease of the stock value by 17% with regards to 2015. In Greece, the portfolio of foreclosed goods has decreased, maintaining very low levels: 0.4 million Euros after the 1.5 million Euros in 2015.

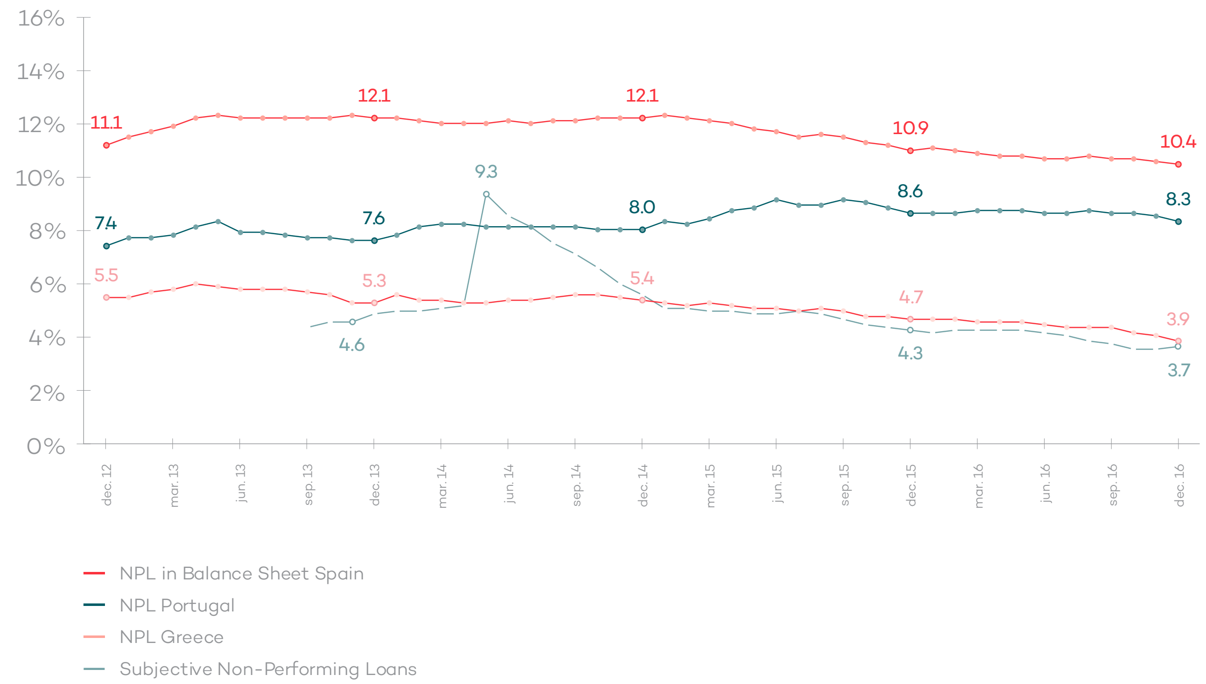
Consolidated Results

In 2016, the Group has generated positive results of 6.3 million Euros, after losses by 7.8 million Euros in 2015 and of 19.4 million in 2014. The ongoing improvement of results essentially derives from the reduction of provisioning needs in the year and the positive impact on margin of liabilities' restructuring operations in the Group.

UCI branch in Portugal closed 2016 with a positive net contribution of 2.2 million Euros, 1.7 million Euros in 2015. Meanwhile, the Greek branch, despite the country's macroeconomic difficulties and the structural reduction of its outstanding balance, reached with its portfolio's efficient management an almost balanced result (-60 K€) after losses by 1.5 million in 2015, in a year characterized in Greece by a strong instability at political, macroeconomic and banking level.

UCI SPPI recorded a balanced result of 6 K€, after the strong reorientation of the company's activity in 2015. Comprarcasa Portugal again approached a deadlock, with -0.07 million Euros after -0.06 million Euros in 2015.

%NPL's (+ 90 days) in Balance Sheet UCI



UCI.

The main risks and uncertainties are the following:

- Credit risk: due to the retail nature of the UCI Group's business, and to the derived large dispersion, risks from the credit balance and housing stock do not present high concentrations in relation to the Group's equity level.
- Market risk: the Group is subject to the juncture of financial, mortgage and real estate markets in the countries where it operates, which have generically shown signs of improvement in 2016.
- Operational risk: operational risks are essentially framed within risk systems of Unión de Créditos Inmobiliarios, S.A, EFC, since they have the same fixtures, the same computer servers and access and security levels to systems. Within the consumption of equity in UCI Group, the valuation of its impact amounts to 24.9 million Euros, out of which 24.8 million are generated by the company Unión de Créditos Inmobiliarios, EFC.

During 2016, the average period of payment to UCI's suppliers has been of 15 days, within the legally established term of 60 days. Due to the Entity's activity, there are no relevant environmental questions.

Throughout the year, the Entity has not carried out investments in research and development, although the Group performs IT developments within the innovation frame, translated in overheads.
The Entity has not acquired equity stock during 2016.

There are no relevant subsequent events after the year-end closing.

Equity and Solvency Ratios

UCI has preserved its solid capital base and held, at 2016 closing, an equity solvency with comfortable capital ratios.
At December 2016, UCI Group's computable equity amounted to 536 million Euros, which implies an excess by 112 million Euros with regards to the abovementioned regulation's criteria, including positive results in the year (6.3 million Euros), out of which 80 million correspond to subordinated debt, which are recorded as second-category capital.
The Operating Risk implies a consumption of 24.9 M€ with the standard method, essentially generated by the company UCI, SA, EFC. Deferred tax assets amounted to 72.17 million Euros.

Thus, the UCI Group's solvency ratio amounted, at 2016 closing, to 10.11%.

MAZARS

Informe de Auditoría Independiente de Cuentas Anuales Consolidadas

A los accionistas de
UCI, S.A.

Informe sobre las cuentas anuales consolidadas

Hemos auditado las cuentas anuales consolidadas adjuntas de **UCI, S.A.** (la Entidad dominante) y **Sociedades Dependientes** que integran, junto con la Entidad Dominante, el **Grupo UCI**, que comprenden el balance de situación consolidado al 31 de diciembre de 2016, la cuenta de pérdidas y ganancias consolidada, el estado de ingresos y gastos reconocidos consolidado, el estado total de cambios en el patrimonio neto consolidado, el estado de flujos de efectivo consolidado y la memoria consolidada correspondientes al ejercicio anual terminado en dicha fecha.

Responsabilidad de los Administradores en relación con las cuentas anuales consolidadas

Los Administradores de la Entidad Dominante son responsables de formular las cuentas anuales consolidadas adjuntas, de forma que expresen la imagen fiel del patrimonio, de la situación financiera y de los resultados consolidados de Grupo UCI, de conformidad con las Normas Internacionales de Información Financiera, adoptadas por la Unión Europea, y demás disposiciones del marco normativo de información financiera aplicable al Grupo en España, que se identifica en la Nota 2 de la memoria consolidada adjunta, y del control interno que consideren necesario para permitir la preparación de cuentas anuales consolidadas libres de incorrección material, debida a fraude o error.

Responsabilidad del auditor

Nuestra responsabilidad es expresar una opinión sobre las cuentas anuales consolidadas basada en nuestra auditoría. Hemos llevado a cabo nuestra auditoría de conformidad con la normativa reguladora de la auditoría de cuentas vigente en España. Dicha normativa exige que cumplamos los requerimientos de ética, así como que planifiquemos y ejecutemos la auditoría con el fin de obtener una seguridad razonable de que las cuentas anuales consolidadas están libres de incorrecciones materiales.

Una auditoría requiere la aplicación de procedimientos para obtener evidencia de auditoría sobre los importes y la información revelada en las cuentas anuales consolidadas. Los procedimientos seleccionados dependen del juicio del auditor, incluida la valoración de los riesgos de incorrección material en las cuentas anuales consolidadas, debida a fraude o error. Al efectuar dichas valoraciones del riesgo, el auditor tiene en cuenta el control interno relevante para la formulación por parte de la Entidad Dominante de las cuentas anuales consolidadas, con el fin de diseñar los procedimientos de auditoría que sean adecuados en función de las circunstancias, y no con la finalidad de expresar una opinión sobre la eficacia del control interno de la Entidad. Una auditoría también incluye la evaluación de la adecuación de las políticas contables aplicadas y de la razonabilidad de las estimaciones contables realizadas por la dirección, así como la evaluación de la presentación de las cuentas anuales consolidadas en su conjunto.

Consideramos que la evidencia de auditoría que hemos obtenido proporciona una base suficiente y adecuada para nuestra opinión de auditoría.

C/ Alcalá, 63 28014 Madrid Teléfono: +34 915 624 030 Fax: +34 915 610 224 e-mail: auditoria@mazars.es
Oficinas en: Alicante, Barcelona, Bilbao, Madrid, Málaga, Valencia, Vigo.

MAZARS Auditores, S.L.P. Domicilio Social: Calle Diputació, 260 - 08007 Barcelona
Registro Mercantil de Barcelona, Tomo 30.734, Folio 212, Hoja B-180111, Inscripción 1ª, N.I.F. B-61622262
Inscrita con el número S1189 en el Registro Oficial de Auditores de Cuentas (ROAC)

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

MAZARS

Opinión

En nuestra opinión, las cuentas anuales consolidadas expresan, en todos los aspectos significativos, la imagen fiel del patrimonio consolidado y de la situación financiera consolidada del **Grupo UCI** al 31 de diciembre de 2016, así como de sus resultados consolidados y flujos de efectivo consolidados correspondientes al ejercicio anual terminado en dicha fecha, de conformidad con las Normas Internacionales de Información Financiera, adoptadas por la Unión Europea, y demás disposiciones del marco normativo de información financiera que resultan de aplicación en España.

Informe sobre otros requerimientos legales y reglamentarios

El informe de gestión consolidado adjunto del ejercicio 2016 contiene las explicaciones que los Administradores de la Entidad Dominante consideran oportunas sobre la situación del Grupo, la evolución de sus negocios y sobre otros asuntos y no forma parte integrante de las cuentas anuales consolidadas. Hemos verificado que la información contable que contiene el citado informe de gestión consolidado concuerda con la de las cuentas anuales consolidadas del ejercicio 2016. Nuestro trabajo como auditores se limita a la verificación del informe de gestión consolidado con el alcance mencionado en este mismo párrafo y no incluye la revisión de información distinta de la obtenida a partir de los registros contables de UCI, S.A. y Sociedades Dependientes.

AUDITORES
INSTITUTO DE CENSORES JURADOS DE CUENTAS DE ESPAÑA

MAZARS AUDITORES, S.L.P

Año 2017 Nº 01/17/00986
SELLO CORPORATIVO: 96,00 EUR

Informe de auditoría de cuentas sujeto a la normativa de auditoría de cuentas española o internacional

Madrid, 21 de marzo de 2017

MAZARS AUDITORES, S.L.P.
ROAC Nº S1189

Carlos Marcos

2

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

UCI, S.A. and Subsidiaries (UCI Group)

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2016 AND 2015 (Expressed in thousands of Euros)

ASSETS	Note	2016	2015 (*)
Cash and deposits with central banks		6	8
Financial assets held for trading		-	-
Deposits with credit entities		-	-
Credits to customers		-	-
Debt securities		-	-
Capital instruments		-	-
Trading derivatives		-	-
Memorandum item. Loaned or advanced as collateral		-	-
Other financial assets designated at fair value through profit and loss		-	-
Deposits with credit entities		-	-
Credits to customers		-	-
Debt securities		-	-
Capital instruments		-	-
Memorandum item. Loaned or advanced as collateral		-	-
Financial assets available for sale		-	-
Debt securities		-	-
Other capital instruments		-	-
Memorandum item. Loaned or advanced as collateral		-	-
Credit investments	16	10,728,003	11,029,130
Deposits with credit entities		126,277	106,054
Credits to customers		10,601,726	10,923,076
Debt securities		-	-
Memorandum item. Loaned or advanced as collateral		-	-
Investments held to maturity		-	-
Memorandum item. Loaned or advanced as collateral		-	-
Changes in the fair value of the hedged items in portfolio hedges of interest rate risk		-	-
Hedging derivatives		-	-
Non-current assets held for sale	17	397,541	426,039
Investments		-	-
Associates		-	-
Jointly controlled entities		-	-
Insurance contracts linked to pensions		-	-
Tangible assets		97,254	71,504
Property, plants and equipment	18	3,046	2,611
For own use		3,046	2,611
Other assets leased out under an operating lease		-	-
Investment properties	19	94,208	68,893
Memorandum item. Acquired under a finance lease		-	-
Intangible assets		572	604
Goodwill		-	-
Other intangible assets		572	604
Tax assets	20	73,490	69,405
Current		1,317	784
Deferred		72,173	68,621
Other assets	20	453,891	454,348
TOTAL ASSETS		**11,750,757**	**12,051,038**
Memorandum item			
Contingent risks	28	-	-
Contingent commitments		11,242	11,551

(*) Presented, solely and exclusively, for comparison purposes.

LIABILITIES AND EQUITY	Note	2016	2015 (*)
LIABILITIES			
Financial liabilities held for trading		-	-
Deposits from central banks			
Deposits on credit institutions		-	-
Deposits from other creditors		-	-
Debt certificates including bonds		-	-
Trading derivatives		-	-
Short positions		-	-
Other financial liabilities		-	-
Other financial liabilities at fair value through profit or loss		-	-
Deposits from central banks		-	-
Deposits on credit institutions		-	-
Deposits from other creditors		-	-
Debt certificates including bonds		-	-
Trading derivatives			
Other financial liabilities		-	-
Financial liabilities at amortized cost	22	11,290,937	11,604,712
Deposits from central banks			
Deposits on credit institutions		7,590,361	8,167,056
Deposits from other creditors		2,715,073	3,075,508
Debt certificates including bonds		905,165	281,796
Subordinated liabilities		80,338	80,352
Other financial liabilities		-	-
Changes in the fair value of the hedged items in portfolio hedges of interest rate risk		-	-
Hedging derivatives	23	16,852	25,917
Hedging derivatives liabilities associated with non-current assets held for sale		-	-
Hedging derivatives liabilities associated with non-current assets held for sale		2,049	3,422
Provisions for pensions and similar obligations		-	-
Provisions for taxes and other legal contingencies		-	-
Provisions for contingent exposures and commitments		-	-
Other provisions		2,049	3,422
Tax liabilities	20	6,220	1,636
Current		6,220	1,636
Deferred		-	-
Other liabilities	21	24,464	17,620
TOTAL LIABILITIES		**11,340,522**	**11,653,307**
EQUITY		410,235	397,731
Own funds	25	421,368	415,069
Capital or endowment fund		98,019	98,019
Issued		98,019	98,019
Less: unpaid and uncalled		-	-
Share premium		-	-
Reserves		317,052	324,796
Other equity instruments		-	-
Equity component of compound financial instruments		-	-
Other equity instruments		-	-
Less: Treasury shares		-	-
Profit or loss attributed to the parent company		6,297	-7,746
Less: Dividends and remuneration		-	-
Valuation adjustments	24	-11,133	-17,338
Financial assets held for sale		-	-
Cash flow hedges		-11,133	-17,338
Hedge for net investment in foreign		-	-
Exchange differences		-	-
Non-current assets held for sale		-	-
Other valuation adjustments		-	-
Non-controlling interests		-	-
TOTAL EQUITY AND LIABILITIES		**11,750,757**	**12,051,038**

(*) Presented, solely and exclusively, for comparison purposes.

UCI, S.A. and Subsidiaries (UCI Group)

CONSOLIDATED PROFIT AND LOSS ACCOUNTS AT 31 DECEMBER 2016 AND 2015 (Expressed in thousands of Euros)

	Note	2016	2015(*)
Interests and similar income	29	232,629	265,292
Interests and similar charges	30	82,493	100,998
NET INTEREST INCOME		150.136	164,294
Return on equity instruments		-	-
Share of profit or loss of entities accounted for using the equity method		-	-
Fee and commission income		11,498	12,614
Fee and commission expenses		2,811	2,264
Net gains (losses) on financial assets and liabilities		46,955	4,879
Held for trading		-121	-250
Other financial instruments at fair value through profit or loss			
Other financial instruments not at fair value through profit or loss		-	-
Liabilities at amortized cost		47,076	5,129
Rest			
Net exchange differences			
Other operating income		10,185	2,967
Other operating expenses			
GROSS INCOME		215,963	182,490
Administration expenses			
Personnel expenses	31	32,548	31,957
Other administrative expenses	32	52,346	45,459
Depreciation and amortization		1,449	3,570
Provisioning expense (net)		114	1,689
Impairment losses on financial assets (net)		81,204	70,741
Loans and receivables		81,204	70,741
Other financial instruments not at fair value through profit or loss		-	-
NET OPERATING INCOME		48,302	29,074
Impairment losses on other assets (net)		641	504
Goodwill and other intangible assets		-	-
Other assets		641	504
Gains (losses) on derecognized assets not classified as non-current assets held for sale		-	-
Negative goodwill		-	-
Gains (losses) on non-current assets held for sale not classified as discontinued operations		-41,050	-37,769
INCOME BEFORE TAX		6,611	-9,199
Income tax	27	-314	-1,453
INCOME FROM CONTINUING TRANSACTIONS		6,297	-7,746
Income from discontinued transactions (net)			
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		6,297	-7,746
Net income attributed to non-controlling interests		-	-
NET INCOME ATTRIBUTED TO THE GROUP		6,297	-7,746

(*) Presented, solely and exclusively, for comparison purposes.

UCI, S.A. and Subsidiaries (UCI Group)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME CORRESPONDING TO YEARS ENDED AT 31 DECEMBER 2016 AND 2015 (Expressed in thousands of Euros)

	2016	2015(*)
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	6,297	-7,746
OTHER RECOGNIZED INCOME (EXPENSES)	6,205	6,939
Financial assets held for sale		
Revaluation gains/(losses)		
Amounts transferred to the income statement		
Other reclassifications		
Cash flow hedges	8,864	9,913
Revaluation gains/(losses)	8,864	9,913
Amounts transferred to the income statement		
Amounts transferred to the initial carrying amount of the hedged items		
Other reclassifications		
Hedge of net investment in foreign operations		
Revaluation gains/(losses)		
Amounts transferred to the income statement		
Other reclassifications		
Exchange differences		
Revaluation gains/(losses)		
Amounts transferred to the income statement		
Other reclassifications		
Non-current assets held for sale		
Revaluation gains/(losses)		
Amounts transferred to the income statement		
Other reclassifications		
Actuarial profit/(loss) in post-employment plans		
Rest of recognized income and expenses	-2,659	-2,974
Income tax		
TOTAL RECOGNIZED INCOME/EXPENSES	12,502	-807

(*) Presented, solely and exclusively, for comparison purposes.

UCI, S.A. and Subsidiaries (UCI Group)

CONSOLIDATED STATEMENTS OF CHANGES IN NET EQUITY CORRESPONDING TO YEARS ENDED AT 31 DECEMBER 2016 AND 2015 (Expressed in thousands of Euros)

	EQUITY									
	Common stock	Share premium	Reserves	Other equity instruments	Profit/ (loss) for the year	Less: dividends and remuneration	Non-controlling interests	Total Stockholders' Funds	VALUATION ADJUSTMENTS	TOTAL NET EQUITY
1. Adjusted closing balance 31/12/2015	98,019		324,796		-7,746		-	415,069	-17,338	397,731
2. Total recognized income/expenses			-		12,502		-	12,502	-	12,502
3. Other variations in net equity	-	-	-7,744	-	1,541	-	-	-6,203	6,205	2
3.1 Capital increases										
3.2 Capital decreases										
3.3 Conversion of financial liabilities into capital										
3.4 Increase of other equity instruments										
3.5 Reclassification of financial liabilities to other equity instruments										
3.6 Reclassification of equity instruments to financial liabilities										
3.7 Dividend distribution										
3.8 Transactions including treasury stock and other equity instruments (net)										
3.9 Transfers among total equity entries			-7,746		7,746			-		-
3.10 Increase/ reduction due to business combinations										
3.11 Payments with equity instruments										
3.12 Rest of increases/ reductions in total equity					-6,205			-6,205	6,205	-
3.13 Exchange differences			2					2		2
4. Closing balance at 31/12/2016	98,019		317,052		6,297		-	421,368	-11,133	410,235

UCI, S.A. and Subsidiaries (UCI Group)

CONSOLIDATED STATEMENTS OF CHANGES IN NET EQUITY CORRESPONDING TO YEARS ENDED AT 31 DECEMBER 2014 AND 2015 (Expressed in thousands of Euros)

	EQUITY									
	Common stock	Share premium	Reserves	Other equity instruments	Profit/ (loss) for the year	Less: dividends and remuneration	Non-controlling interests	Total Stockholders' Funds	VALUATION ADJUSTMENTS	TOTAL NET EQUITY
1. Adjusted closing balance 31/12/2014	98,019		344,474		-19,486		-	423,007	-24,277	398,730
2. Total recognized income/expenses			-		-807		-	-807	-	-807
3. Other variations in net equity	-	-	-19,678	-	12,547	-	-	-7,131	6,939	-192
3.1 Capital increases										
3.2 Capital decreases										
3.3 Conversion of financial liabilities into capital										
3.4 Increase of other equity instruments										
3.5 Reclassification of financial liabilities to other equity instruments										
3.6 Reclassification of equity instruments to financial liabilities										
3.7 Dividend distribution										
3.8 Transactions including treasury stock and other equity instruments (net)										
3.9 Transfers among total equity entries			-19,486		19,486			-		-
3.10 Increase/ reduction due to business combinations										
3.11 Payments with equity instruments										
3.12 Rest of increases/ reductions in total equity					-6,939			-6,939	6,939	-
3.13 Exchange differences			-192					-192		-192
4. Closing balance at 31/12/2015	98,019		324,796		-7,746		-	415,069	-17,338	397,731

UCI, S.A. and Subsidiaries (UCI Group)
CONSOLIDATED CASH-FLOW STATEMENTS CORRESPONDING TO YEARS ENDED AT 31 DECEMBER 2016 AND 2015
(Expressed in thousands of Euros)

	2016	2015 (*)
A. CASH FLOWS FROM OPERATING ACTIVITIES	52,323	158,313
Profit or loss for the period	6,297	-7,746
Adjustments to profit or loss	114,713	149,985
Depreciation and amortization	1,449	3,571
Other adjustments	113,264	146,414
Net increase/decrease in operating assets	236,518	219,431
Financial assets held for trading	-	-
Other financial assets designated at fair value through profit or loss	-	-
Financial assets held for sale	-	-
Loans and receivables	240,146	235,183
Other operating assets	-3,628	-15,752
Net increase/decrease in operating liabilities	-303,277	-204,81
Financial assets held for trading	-	-
Financial liabilities at amortized cost	-313,775	-197,193
Other operating liabilities	10,498	-7,617
Collections/payments for income tax	-1,928	1,453
B. CASH FLOWS FROM INVESTING ACTIVITIES	-32,102	-114,368
Investment	-127,367	-172,415
Tangible assets	-1,501	-2,239
Intangible assets	-351	-42
Investments	-	-
Non-current assets held for sale and associated liabilities	-125,515	-170,06
Divestments	95,265	58,047
Tangible assets	3,33	-
Non-current assets held for sale and associated liabilities	91,935	58,047
C. CASH FLOWS FROM FINANCING ACTIVITIES	-	-
Investment		
Dividends		
Divestments		
D. EFFECT OF EXCHANGE RATE CHANGES		
E. NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (A+B+C+D)	20,221	43,945
F. CASH OR CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	106,062	62,117
G. CASH OR CASH EQUIVALENTS AT END OF THE PERIOD	126,283	106,062
MEMORANDUM ITEM:		
COMPONENTS OF CASH AND EQUIVALENTS AT END OF THE PERIOD		
Cash	6	8
Balance of cash equivalent in central banks		
Other financial assets	126,277	106,054
Total cash or cash equivalents at end of the period	106,283	106,062

(*) Presented, solely and exclusively, for comparison purposes.

Annual Accounts

UCI, S.A. and Subsidiaries (UCI Group)
Consolidated notes to the financial statements for the year ended at 31st December 2016.

1. Activity of the Company

UCI, S.A. is the Parent Company of the Participated Group of Affiliated Entities which form part of UCI, S.A. and Subsidiaries (hereinafter, UCI Group). UCI, S.A. was incorporated, for an indefinite period of time, in 1988, when it was inscribed in the Mercantile Registry. Its corporate and tax address is located in Madrid.

The Group's main activity is granting mortgage loans. Its corporate purpose also allows it to carry out the activities of a Financial Credit Establishment.

On November 1999, the Group opened a Branch in Portugal for distributing mortgage loans to individuals. Additionally, in 2004, the Group opened a new Branch in Greece, where production was paralyzed in 2011.

The Parent Company is under the obligation of drawing up its own individual consolidated financial statements, which are also subject to mandatory audit, together with the consolidated financial statements for the Group which include, where applicable, the corresponding holdings in Subsidiaries. The Group's Entities are involved in activities related with the financing of loans.

At December 31, 2016 and 2015, total assets, net equity and results for the year of the Subsidiary UNION DE CREDITOS INMOBILIARIOS S.A. E.F.C. represent almost all of the same concepts within the Group.

Summarized below are the individual balance sheet, the individual income statement, the individual statement of recognized income and expenses, individual statement of changes in net equity and individual cash-flow statement for the aforementioned Subsidiary, corresponding to the financial years ended at December 31, 2016 and 2015, prepared in accordance with the same accounting principles and rules and valuation criteria applied to these consolidated financial statements for the Group:

Unión de Créditos Inmobiliarios, S.A.

Entidad Financiera De Crédito Sociedad Unipersonal.

BALANCE SHEETS AT 31 DECEMBER 2016 AND 2015

(Expressed in thousands of Euros)

ASSETS	2016	2015
Cash and balances with central banks	6	8
Financial assets held for trading	-	-
Loans and advances to credit institutions	-	-
Loans and advances to other debtors	-	-
Debt securities	-	-
Equity instruments	-	-
Trading derivatives	-	-
Memorandum item. Loaned or advanced as collateral	-	-
Other financial assets designed at fair value through profit or loss	-	-
Loans and advances to credit institutions	-	-
Loans and advances to other debtors	-	-
Debt securities	-	-
Equity instruments	-	-
Memorandum item. Loaned or advanced as collateral	-	-
Financial assets held for sale	-	-
Debt securities	-	-
Other equity instruments	-	-
Memorandum item. Loaned or advanced as collateral	-	-
Loans and receivables	11,158,282	11,280,360
Loans and advances to credit institutions	73,541	86,903
Loans and advances to other debtors	11,084,741	11,193,457
Debt securities	-	-
Memorandum item. Loaned or advanced as collateral	-	-
Investments held to maturity	-	-
Memorandum item. Loaned or advanced as collateral	-	-
Changes in the fair value of the hedged items in portfolio hedges of interest rate risk	-	-
Hedging derivatives	-	-
Non-current assets held for sale	359,343	379,776
Investments	-	-
Associates	-	-
Jointly controlled entities	-	-
Group entities	-	-
Insurance contracts linked to pensions	-	-
Tangible assets	95,186	69,455
Property, plants and equipment	2,783	2,345
For own use	2,783	2,345
Other assets leased out under operating lease		
Investment properties	92,403	67,110
Memorandum item. Acquired under a finance lease	-	-
Intangible assets	570	603
Goodwill	-	-
Other intangible assets	570	603
Tax assets	57,333	50,323
Current	773	156
Deferred	56,560	50,167
Other assets	470,843	458,012
TOTAL ASSETS	12,141,563	12,238,537
Memorandum item		
Contingent risks	-	-
Contingent commitments	11,242	11,551

LIABILITIES AND NET EQUITY	2016	2015
LIABILITIES		
Financial assets held for trading	-	-
Deposits from central banks		
Deposits from credit institutions	-	-
Deposits from other creditors	-	-
Debt certificates including bonds	-	-
Trading derivatives	-	-
Short positions	-	-
Other financial liabilities	-	-
Other financial liabilities at fair value through profit or loss	-	-
Deposits from central banks	-	-
Loans and advances to credit institutions	-	-
Deposits from other creditors	-	-
Debt certificates including bonds	-	-
Trading derivatives		
Other financial liabilities	-	-
Financial liabilities at amortized cost	11,714,688	11,797,179
Deposits from central banks	-	-
Deposits from credit institutions	7,590,361	8,167,056
Deposits from other creditors	3,963,820	3,469,559
Debt certificates including bonds	-	-
Subordinated liabilities	160,507	160,564
Trading derivatives	-	-
Other financial liabilities	-	-
Changes in the fair value of the hedged items in portfolio hedges of interest rate risk	-	-
Hedging derivatives	16,852	25,917
Hedging derivatives liabilities associated with non-current assets held for sale	-	-
Provisions	1,285	2,851
Provisions for pensions and similar obligations	-	-
Provisions for taxes and other legal contingencies	-	-
Provisions for contingent exposures and commitments	-	-
Other provisions	1,285	2,851
Tax liabilities	1,962	1,550
Current	1,962	1,550
Deferred	-	-
Other liabilities	33,690	25,251
TOTAL LIABILITIES	**11,768,477**	**11,852,748**
NET EQUITY	**373,086**	**385,789**
Own funds	384,219	403,127
Capital or endowment fund	38,280	38,280
Issued	38,280	38,280
Less unpaid and uncalled	-	-
Share premium	-	-
Reserves	334,198	362,198
Other equity instruments	-	-
Equity component of compound financial instruments	-	-
Other equity instruments	-	-
Less: Treasury shares		
Profit or loss for the period	11,741	2,649
Less: Dividends and remunerations		
Valuation adjustments	-11,133	-17,338
Financial assets held for sale	-	-
Cash flow hedges	-11,133	-17,338
Hedge of net investment in foreign operations	-	-
Exchange differences	-	-
Non-current assets held for sale	-	-
Other valuation adjustments	-	-
TOTAL NET EQUITY AND LIABILITIES	**12,141,563**	**12,238,537**

Unión de Créditos Inmobiliarios, S.A.
Entidad Financiera De Crédito Sociedad Unipersonal.
INCOME STATEMENTS AT 31 DECEMBER 2016 AND 2015
(Expressed in thousands of Euros)

	2016	2015
Interests and similar income	232,708	266,201
Interests and similar charges	82,567	101,168
NET INTEREST INCOME	150,141	165,033
Return on equity instruments	-	-
Fee and commission income	11,479	12,595
Fee and commission expenses	2,811	2,264
Net gains (losses) on financial assets and liabilities	46,955	4,876
Financial assets held for trading	-121	-254
Other financial instruments at fair value through profit or loss	-	-
Liabilities at amortized cost	-	-
Financial instruments not at fair value through profit or loss	47,076	5,129
Other	-	-
Exchange differences (net)	-	-
Other operating income	8,263	1,326
Other operating expenses	-	-
GROSS INCOME	214,027	181,566
Administration expenses		
Personnel expenses	31,805	31,054
Other administrative expenses	46,786	40,970
Amortization	1,399	3,489
Provisioning expense (net)	114	1,689
Impairment losses on financial assets (net)	82,104	65,254
Loans and receivables	82,104	65,254
Other financial instruments not at fair value through profit or loss	-	-
NET OPERATING INCOME	51,819	39,110
Impairment losses on other assets (net)	600	444
Goodwill and other intangible assets	-	-
Other assets	600	444
Gains (losses) on derecognized assets not classified as non-current assets held for sale	-	-
Negative goodwill	-	-
Gains (losses) on non-current assets held for sale not classified as discontinued operations	-37,932	-33,277
RESULT BEFORE TAX	13,287	5,389
Income tax	1,546	2,740
PROFIT OR LOSS FOR THE PERIOD FROM CONTINUING TRANSACTIONS	11,741	2,649
Income from discontinued transactions (net)		
PROFIT OR LOSS FOR THE PERIOD	11,741	2,649

Unión de Créditos Inmobiliarios, S.A.
Entidad Financiera De Crédito Sociedad Unipersonal.
COMPREHENSIVE INCOME STATEMENT CORRESPONDING TO YEARS ENDED AT 31 DECEMBER 2016 AND 2015.
(Expressed in thousands of Euro)

	2016	2015
PROFIT OR LOSS FOR THE PERIOD	11,741	2,649
OTHER RECOGNIZED INCOME (EXPENSES)	6,205	6,939
Financial assets held for sale		
Revaluation gains/(losses)		
Amounts transferred to the income statement		
Other reclassifications		
Cash flow hedges	8,864	9,913
Revaluation gains/(losses)	8,864	9,913
Amounts transferred to the income statement		
Amounts transferred to the initial carrying amount of the hedged items		
Other reclassifications		
Hedge of net investment in foreign operations	-	-
Revaluation gains/(losses)		
Amounts transferred to the income statement		
Other reclassifications		
Exchange differences	-	-
Revaluation gains/(losses)		
Amounts transferred to the income statement		
Other reclassifications		
Non-current assets held for sale	-	-
Revaluation gains/(losses)		
Amounts transferred to the income statement		
Other reclassifications		
Actuarial profit/(loss) in post-employment plans	-	-
Rest of recognized income and expenses	-	-
Income tax	-2,659	-976
TOTAL RECOGNIZED INCOME/EXPENSES	17,946	9,588

Unión de Créditos Inmobiliarios, S.A.

Entidad Financiera De Crédito Sociedad Unipersonal.

STATEMENT OF CHANGES IN EQUITY CORRESPONDING
TO YEARS ENDED AT 31 DECEMBER 2016 AND 2015
(Expressed in thousands of Euros)

	EQUITY									
	Common stock	Share premium	Reserves	Other equity instruments	Profit/ (loss) for the year	Less: dividends and remuneration	Non-controlling interests	Total Stockholders' Funds	VALUATION ADJUSTMENTS	TOTAL NET EQUITY
1. Closing balance at (31/12/2015)	38,28	-	362,198			2,649	-	403,127	-17,338	385,789
2. Adjusted opening balance	38,28	-	362,198			2,649	-	403,127	-17,338	385,789
3. Total recognized income/expenses	-	-	-	-	-	17,946	-	17,946	-	17,946
4. Other variations in net equity	-	-	-28			-8,854	-	-36,854	6,205	-30,649
4.1 Capital increases										
4.2 Capital decreases										
4.3 Conversion of financial liabilities into capital										
4.4 Increase of other equity instruments										
4.5 Reclassification of financial liabilities to other equity instruments										
4.6 Reclassification of equity instruments to financial liabilities										
4.7 Dividend distribution			-30,649					-30,649		-30,649
4.8 Transactions including treasury stock and other equity instruments (net)										
4.9 Transfers among total equity entries	-	-	2,649	-	-	-2,649	-	-	-	-
4.10 Increase/reduction due to business combinations										
4.11 Payments with equity instruments										
4.12 Rest of increases/reductions in total equity	-	-	-	-	-	-6,205	-	-6,205	6,205	-
5. Closing balance at (31/12/2016)	38,28	-	334,198			11,741	-	384,219	-11,133	373,086

Unión de Créditos Inmobiliarios, S.A.

Entidad Financiera De Crédito Sociedad Unipersonal.

STATEMENT OF CHANGES IN EQUITY CORRESPONDING
TO YEARS ENDED AT 31 DECEMBER 2015 AND 2014
(Expressed in thousands of Euros)

	EQUITY									
	Common stock	Share premium	Reserves	Other equity instruments	Profit/ (loss) for the year	Less: dividends and remuneration	Non-controlling interests	Total Stockholders' Funds	VALUATION ADJUSTMENTS	TOTAL NET EQUITY
1. Closing balance at (31/12/2014)	38,280	-	364,865			-2,667	-	400,478	-24,277	376,201
2. Adjusted opening balance	38,280	-	364,865			-2,667	-	400,478	-24,277	376,201
3. Total recognized income/expenses	-	-	-	-	-	9,588	-	9,588	-	9,588
4. Other variations in net equity	-	-	-2,667			-4,272	-	-6,939	6,939	-
4.1 Capital increases										
4.2 Capital decreases										
4.3 Conversion of financial liabilities into capital										
4.4 Increase of other equity instruments										
4.5 Reclassification of financial liabilities to other equity instruments										
4.6 Reclassification of equity instruments to financial liabilities										
4.7 Dividend distribution										
4.8 Transactions including treasury stock and other equity instruments (net)										
4.9 Transfers among total equity entries	-	-	-2,667	-	-	2,667	-	-	-	-
4.10 Increase/reduction due to business combinations										
4.11 Payments with equity instruments										
4.12 Rest of increases/reductions in total equity	-	-	-	-	-	-6,939	-	-6,939	6,939	-
5. Closing balance at (31/12/2015)	38,280	-	326,198			2,649	-	403,127	-17,338	385,789

Unión de Créditos Inmobiliarios, S.A.

Entidad Financiera De Crédito Sociedad Unipersonal.

CASH-FLOW STATEMENTS CORRESPONDING TO YEARS ENDED AT 31 DECEMBER 2016 AND 2015 (Expressed in thousands of Euros)

	2016	2015
A. CASH FLOWS FROM OPERATING ACTIVITIES	56,297	112,784
Profit or loss for the period	11,741	2,649
Adjustments to profit or loss	114,285	137,146
Depreciation and amortization	1,399	3,489
Other adjustments	112,886	133,657
Net increase/decrease in operating assets	6,771	87,024
Financial assets held for trading	-	-
Other financial assets designated at fair value through profit or loss	-	-
Financial assets held for sale	-	-
Loans and receivables	26,612	101,106
Other operating assets	-19,841	-14,082
Net increase/decrease in operating liabilities	-76,500	-114,035
Financial assets held for trading	-	
Financial liabilities at amortized cost	-82,491	-84,987
Other operating liabilities	5,991	-29,048
Collections/payments for income tax	-	-
B. CASH FLOWS FROM INVESTING ACTIVITIES	-39,012	-80,004
Investment	-120,363	-158,975
Tangible assets	-1,453	-2,094
Intangible assets	-351	-101
Investments	-118,559	-156,780
Non-current assets held for sale and associated liabilities	81,351	78,971
Divestments	2,010	
Tangible assets	-	-
Non-current assets held for sale and associated liabilities	79,341	78,971
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Investment		
Dividends	-30,649	
Divestments		
D. EFFECT OF EXCHANGE RATE CHANGES		
E. NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (A+B+C+D)	-13,364	32,780
F. CASH OR CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	86,911	54,131
G. CASH OR CASH EQUIVALENTS AT END OF THE PERIOD	73,547	86,911
MEMORANDUM ITEM:		
COMPONENTS OF CASH AND EQUIVALENTS AT END OF THE PERIOD		
Cash	6	8
Balance of cash equivalent in central banks		
Other financial assets	73,541	86,903
Total cash or cash equivalents at end of the period	73,547	86,911

2. Bases of presentation of the consolidated financial statements and consolidation principles

a. Bases of presentation of the consolidated financial statements

The financial reporting framework applicable to the Group is established by International Financial Reporting Standards adopted by the European Union at December 31, 2016 (hereinafter “IFRS-EU”), taking into consideration Circular 4/2004, and successive modifications, except for modifications introduced by Circular 4/2016 with regards to annex IX, not applicable to Financial Credit Establishments, which constitute the development and adaptation of the International Financial Reporting Standards adopted by the European Union to the sector of Spanish credit entities.

The consolidated financial statements corresponding to 2016 have been formulated by the Directors on the meeting held by the Board of Directors on February 28, 2017. The Group’s consolidated financial statements and the Group Companies’ financial statements corresponding to 2016 will be subject to approval by the General Shareholders’ Meeting to be held on the first half of 2017. Nevertheless, the Board of Directors understands that such consolidated financial statements will be approved without changes.

The consolidated financial statements corresponding to 2015 were formulated by the Directors in the Board of Directors’ meeting held on February 18, 2016, and approved by the General Shareholders’ Meeting held on February 18, 2016.

The consolidated financial statements have been prepared taking into account all accounting principles and standards, as well as compulsory valuation criteria which have a significant effect therein, so that they show a true and fair view of the Group’s consolidated equity and financial position at December 31, 2016 and results of its transactions, consolidated recognized income and expenses, consolidated changes in net equity and cash flows during the year ended at such date.

The legal system applicable to Credit Financial Establishments has been specifically developed with the corresponding adaptations for them to continue with their current activity.

These notes to the financial statements use acronyms «IAS» and «IFRS» to refer to International Accounting Standards and to International Financial Reporting Standards, respectively, approved by the European Union, on the basis of which these consolidated financial statements have been elaborated. They also use acronyms «IFRIC» and «IFRSC» to refer to the International Financial Reporting Standards Committee.

In 2016, the following modifications of the IFRS and their interpretations (hereinafter, “IFRIC”) entered into force, which have not had a significant impact on the Group’s consolidated Annual Accounts.

- IFRS 11 modified – “Joint agreements”. Modifications to IFRS11 introduce registration guidelines for acquisitions of interests in joint operations which activity constitutes a business, according to which these must be registered by application of principles in IFRS 3 – Business combinations.
- IAS 16 modified – “Property, Plant and Equipment” and IAS 38 modified – “Intangible assets”. Modifications to IAS 16 and IAS 38 exclude, in general, among assets’ depreciation and amortization methods, those based on income, on the basis that, except for very exceptional cases, these methods do not reflect the pattern according to which the entity is expected to consume the asset’s economic benefits.

- IAS 27 modified – "Consolidated and separate financial statements". Modifications to IAS 27 allow entities to use the equity method to register investments in subsidiaries, joint businesses and associates on their separate financial statements.

- IAS 1 modified – "Presentation of financial statements". Modifications to IAS 1 encourage companies to apply professional judgment in the determination of the information to be disclosed in their financial statements, in the determination of which items to be detailed, and headings and additional sub-totals to be included in the balance sheet and income statement of the period and other comprehensive income, and in the determination of where to present disclosures, and in what order.

- IFRS 10 modified - "Consolidated financial statements", IFRS 12 modified – "Disclosures of interests in other entities" and IAS 28 modified – "Investments in associates and joint businesses". Modifications to IFRS 10, IFRS 12 and IAS 28 introduce clarifications on registration requirements for investment entities, in three aspects:

  › They confirm that a parent company that is subsidiary of an investment entity has the possibility to apply the exemption to file consolidated financial statements.

  › They clarify that, if an investment entity has a subsidiary which is not an investment entity and whose main purpose is to support the parent company's investment activities, by providing services or activities related to the parent company or third parties' investment activity, the investment entity must consolidate the subsidiary; however, if said subsidiary is an investment entity, the parent company must register the subsidiary at fair value through profit and loss.

  › They require an investing entity which is not an investment entity to hold, when applying the equity method, the measurement at fair value applied by an associate or joint business which is an investment entity to its shares in subsidiaries.

At the date of formulation of the enclosed consolidated accounts, new International Financial Reporting Standards and interpretations had been published, which compliance was not compulsory at December 31, 2016. Although, in certain cases, the IASB allows the application of modifications prior to their effective date, the Group has not introduced them yet, since they are currently analyzing their effects.

- IFRS 9 - "Financial instruments". On July 24, 2014, the IASB issued the IFRS 9, which will substitute the IAS 39 in the future and includes requirements for the classification and measurement of financial assets and liabilities, the impairment of financial assets and the hedge accounting.

  › Classification and measurement of financial assets and liabilities. The classification of financial assets will depend on the entity's business model for its management, and on characteristics of contractual cash flows and will result in the measurement of financial assets at amortized cost, at fair value through accumulated other comprehensive income, or at fair value through profit and loss. The combined effect of the application of the business model and the contractual cash flows' characteristics could result in differences in the population of financial assets valued at amortized cost or fair value in comparison with the IAS 39, although the Group does not expect relevant changes in this sense. In relation to financial liabilities, classification categories proposed by the IFRS 9 are similar to those in the IAS 39, so that there should not be very relevant differences, except for the requirement to register variations in fair value related to the credit risk as an equity component, in the case of financial liabilities measured at fair value.

  › Impairment of financial assets. Impairment requirements will be applicable to financial assets valued at amortized cost and at fair value through other accumulated comprehensive income, and for lease agreements and certain loan commitments and financial guarantee agreements. At initial recognition, a provision is required for expected losses resulting from impairment events which will likely occur in coming 12 months ("expected losses at 12 months"). In the case of a significant increase of credit risk, a provision is required for all possible impairment events expected throughout the financial instrument's life ("expected loss throughout the operation's life"). The valuation of whether the credit risk has significantly increased since initial recognition must be performed, for each reporting period, considering the change in risk of breach throughout the financial instrument's remaining life. The credit risk's valuation and the estimation of expected losses must be performed in a way to result on a weighted non-bias estimation, and must incorporate all information available that is relevant for the valuation, including information on past events, current conditions and reasonable and justified forecasts of future events and economic conditions at reporting date. As a result, the objective is that the impairment recognition and valuation must be performed in a more anticipating and prospective manner than under the current model of incurred losses on IAS 39. Initially, an increase is expected in the total level of provisions for impairment, since all financial assets will imply at least a provision for expected losses for 12 months, and the population of financial assets to which a provision for expected losses will be applied through which the operation's life is expected to be higher than the population for which there is objective evidence of impairment under IAS 39.

  › Hedge accounting. General hedge accounting will imply changes, since the standard's approach differs from the current IAS 39, when trying to align the accounts with the risk's economic management. Additionally, IFRS 9 will allow the application of hedges to a higher variety of risks and e hedging instruments. The standard does not deal with the accounting of the so-called macro-hedging strategies. In order to avoid all conflicts between the current accounting of macro-hedging and the new general hedging accounting system, IFRS 9 includes an option of accounting policy to continue applying hedge accounting under IAS 39.

- IFRS 7 modified - "Financial Instruments: Disclosures". The IASB modified the IFRS 7 in December 2011 to introduce new disclosures on financial instruments, to be presented by entities in the first year of application of the IFRS 9.

- IFRS 15 – "Revenue from contracts with customers". IFRS 15 establishes principles to be applied by an entity to register revenue and flows from funds derived from contracts to sell goods or services to customers.

Under this new standard, entities will recognize income originated on a contract with clients when they have satisfied the obligations to transfer goods or render services to their clients, as agreed by contract, and it is considered that the good or service has been transferred when the client obtains its control. The amount to be recognized will be the one reflecting the payment to which it is expected to have right for the transferred goods or services.

- IFRS 15 substitutes IAS 18 – "Income from ordinary activities", IAS 11 – "Construction contracts", IFRIC 13 – "Customer loyalty programmes", IFRIC

15 – "Agreements for the construction of real estates", IFRIC 18 – "Transfers of assets from customers" and SIC 31 – "Revenue – Barter Transactions Involving Advertising Services". This standard will be applicable to years beginning from January 1, 2018, although early application is allowed.

- IFRS 15 - "Clarifications of IFRS 15 Revenue from contracts with customers"; the modifications of IFRS 15 clarify the application of certain principles of the new Standard, in particular:

  › How to identify an execution obligation (promise to transfer a good or service to a customer) on a contract;

  › How to determine whether an entity is acting as principal (supplier of a good or service) or an agent (responsible for the organization to transfer the good or service); and

  › How to determine whether the income from a licence's concession must be recognized at a given moment or throughout time.

Also, two modifications are included to reduce the cost and complexity of the first-time application of the new Standard.

Modifications will be applicable at the same time as IFRS 15, that is to say, to years beginning from January 1, 2018, although early application is allowed.

- IFRS 10 modified – "Consolidated financial statements" and IAS 28 modified – "Investments in associates and joint businesses". Modifications to IFRS 10 and IAS 28 establish that, one an entity sells or contributes assets which constitute a business (including consolidated subsidiaries) to an associate or joint business, the entity must recognize profits and losses from the transaction as a whole. However, when assets sold or contributed do not constitute a business, the entity must recognized profits and losses to the extent of interests in the associate or joint business of other investors not related to the entity. These modifications will be applicable to years beginning from effective date, still to be determined, although early application is allowed

- IAS 12 modified – "Income taxes. Recognition of deferred tax assets for unrealized losses". Modifications to IAS 12 clarify requirements to recognize deferred tax assets for unrealized losses in debt instruments measured at fair value. Clarified aspects are the following:

  › An unrealized loss on a debt instrument measured at fair value will lead to a deductible temporary difference, regardless of whether the holder expects to recover the carrying value through sale or maintenance to maturity.

  › The entity will assess the use of a deductible temporary difference in combination with other deductible temporary differences. When tax laws restrict the use of tax losses, the entity must value their use in relation to other appropriate temporary differences.

  › The estimation of future tax gains shall contemplate benefits derived from the assets' recovery for an amount above the carrying value, as long as there is sufficient evidence that this is the likely amount for which the asset will be recovered.

  › The estimation of future tax gains excludes tax deductions originated from the reversion of deductible temporary differences.

Modifications will be applicable to years starting from January 1, 2017, although early application is allowed.

- IFRS 16 – "Leases". On January 13, 2016, the IASB issued the IFRS 16, which will substitute the IAS 17 "Leases". The new standard introduces one single accounting model for the lessee and requires it to recognize assets and liabilities for all lease agreements with a period above 12 months, unless the underlying asset's value is low. The lessee must recognize a right of use in the asset, representing their right to use the leased asset, and a lease liability, representing their obligation to settle lease payments.

With regards to the lessor's accounts, the IFRS 16 substantially maintains accounting requirements of IAS 17. Consequently, the lessor will continue classifying leases as operational or financial leases, and will register each one of these lease agreements in a different manner.

This standard will be applicable to years starting from January 1, 2019, although early application is allowed as long as IFRS 15 is also applied.

- IAS 7 - "Statement of Cash Flow. Initiative on Disclosures". Modifications to IAS 7 introduce the following new disclosures related to changes in liabilities originated from financing activities, in the necessary measure for users of financial statements to be able to assess changes in these liabilities: changes in financing cash flows; changes derived from obtaining or losing control of subsidiaries or other businesses; the effect of changes in exchange rates; changes in fair value; and other changes. Liabilities originated in financing activities are liabilities for which cash flows were, or for which future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. Also, disclosure requirements are also applied to changes in financial assets if financial assets' cash flows were, or if future cash flows will be, included in cash flows from financing activities.

Modifications will be applicable to years beginning from January 1, 2017, although early application is allowed.

- IFRS 2 - "Classification and measurement of transactions with share-based payments". Modifications to IFRS 2 establish requirements to be applied in three aspects:

  › In the measurement of the fair value of a share-based payment paid in cash, vesting conditions other than market conditions will be considered to adjust the number of shares to be included in the transaction's amount.

  › When, in a transaction to be classified as share-based payment that is liquidated with equity instruments, an entity holds a number of equity instruments that equals the monetary value of the tax withholding legal obligation, the transaction as a whole will be classified as a share-based payment liquidated with equity instruments.

  › When a share-based payment liquidated in cash becomes classified as share-based payment to be liquidated with equity instruments, the modification will be registered by writing off the original liability and recognizing in equity the fair value of the granted equity instruments, for which goods or services have been received at modification date; differences will be immediately recognized on the income statement.

Modifications will be applicable to years beginning from January 1, 2018, although early application is allowed.

- IFRS 4 modified "Insurance contracts". Modifications to IFRS 4 tackle the accounting consequences derived from the application of IFRS 9 before applying the future standard on insurance contracts, through the introduction of two solutions which application is optional:

  › Deferral or temporary exemption approach, which allows entities whose main activities are related to the insurance activity to defer the application of IFRS 9 and continue applying IAS 39 until 2021.

› Overlay approach, which allows all entities which issue insurance contracts to register in equity, instead of in the income statement, the additional accounting volatility arisen from the application of IFRS 9 in comparison to IAS 39 before applying the future standard on insurance contracts.

Modifications will be applicable to years beginning from January 1, 2018, although early application is allowed.

- IFRIC 22 – Transactions in foreign currency and advance considerations. The Interpretation refers to how to determine the transaction's date and, therefore, the exchange rate to be used in order to exchange the related asset, expense or income at initial recognition, in circumstances where a non-monetary asset for early payments or a non-monetary liability for deferred income have been previously recognized derived from the advance payment or collection of the consideration, and establishes that the transaction's date will be the date when the entity initially recognizes the non-monetary asset or non-monetary liability.

If there are several advance payments or collections, the entity will determine a transaction date for each consideration's advance payment or collection.

Modifications will be applicable to years beginning from January 1, 2018, although early application is allowed.

- IAS 40 Modified – Investment properties. Modifications establish that an entity will transfer a property to, or from, investment properties only when there is a change in the property's use supported by the evidence of said change. A change in use will take place when the property starts or ceases to comply with the definition of investment property.

Modifications will be applicable to years beginning from January 1, 2018, although early application is allowed.

The main accounting and valuation principles and criteria applied in the preparation of the 2016 consolidated financial statements are indicated on Note 11. All accounting principles and valuation criteria which had a significant effect on said financial statements have been applied on their preparation.

b. Comparison of information

According to the corporate law, the Directors present, solely and exclusively for comparison purposes, together with the information related to 2016, the amounts referred to 2015.

The present consolidated financial statements, unless otherwise noted, are presented on thousands of Euros.

c. Consolidation principles

Subsidiaries

Subsidiaries are entities on which the Group has control. In general, this capacity is stated, although not exclusively, by ownership, direct or indirect, of at least 50% of the political rights on investees or, if such percentage was below 50% or null, if, for example, there are agreements with their shareholders who grant such control to the Group. Control is understood to be the power to manage the financial and operational policies of an entity in which there is a holding, so as to obtain profits from its activities.

Dependent entities are considered as those on which the Group holds control. This capacity is generally stated, although not solely, through direct or indirect ownership of, at least, 50% of political rights on investees or, if this percentage was lower or nil, if, for example, there are agreements with their shareholders which grant such control to the Group. Control is understood as the power to direct financial and operative policies in an entity, for the purpose of obtaining profits from its activities.

It is understood that an entity controls an investee when it is exposed or has right to variable yields from its involvement in the investee, and has capacity to influence in such yields through the power exercised on the investee. The following must concur in order to consider the existence of control:

Power: an investor has power on an investee when the investor holds rights in force which provide it with the capacity to direct relevant activities, which are those which significantly affect the investee's yields.

Yields: an investor is exposed or has right to variable yields for its involvement in the investee when yields obtained by the investor for such involvement can vary in the basis of the investee's economic evolution. The investor's yields shall be only positive, only negative or simultaneously positive and negative.

Relation between power and yields: an investor controls an investee if the investor does not only hold power on the investee and is exposed or has right to variable yields for its involvement in the investee, but also has the capacity to use its power to influence yields obtained for such involvement in the investee.

The financial statements of subsidiaries are consolidated with those of the Group by applying the full consolidation method. Consequently, all significant balances and transactions among consolidated entities and such entities and the Group are eliminated within the consolidation process. At acquisition of a subsidiary, its assets, liabilities and contingent liabilities are registered at their fair value at acquisition date. Positive differences between the acquisition cost and fair values of identifiable net assets acquired are recognized as goodwill. Negative differences are allocated to profit and loss at acquisition date.

Additionally, the shareholding by minority shareholders on the Group's equity is presented under "Minority shareholders" on the consolidated balance sheet. Their shareholding on the results for the year is presented on the caption "Results attributed to minority shareholders" on the consolidated income statement.

The consolidation of results generated by entities acquired during a certain year only takes into account results related to the period comprised between the acquisition date and that year's closing. In parallel, the consolidation of results generated by entities disposed of during a certain year only takes into account those results related to the period from the opening of the year and the date of disposal.

Associates

Associates are those over which the Group holds a significant influence, although not a control or joint control. It is assumed that there is a significant influence when 20% or more of voting rights are held, directly or indirectly, on an investee, unless it is possible to clearly demonstrate that there is not such influence.

On consolidated financial statements, associates are valued by the "equity method", that is to say, by the fraction of its net equity representing the Group's shareholding on its capital, after considering dividends perceived from them and other equity eliminations. In the case of transactions with an associated entity, the corresponding profit or loss is eliminated on the Group's percentage over its capital.

The relevant information on the shareholdings in Group's Subsidiaries at December 31, 2016 is as follows:

NAME AND ADDRESS	SHARE CAPITAL (in thousands of Euros)	SHAREHOLDING PERCENTAGE	ACTIVITY
UNIÓN DE CRÉDITOS INMOBILIARIOS, S.A. ESTABLECIMIENTO FINANCIERO DE CREDITO Sociedad Unipersonal C/ Retama 3 - Madrid	38,280	100%	Property financing loans
UCI SERVICIO PARA PROFESIORES INMOBILIARIOS, S.A. (antes COMPRARCASA SERVICIOS INMOBILIARIOS, S.A. Sociedad Unipersonal) C/ Retama 3 - Madrid	635	100%	The provision of all types of services related with the property/IT market
RETAMA REAL ESTATE (antes U.C.I. SERVICIOS INMOBILIARIOS Y PROFESIONALES, S.L. Sociedad Unipersonal) C/ Retama 3 - Madrid	2,578	100%	Advice, Management, direction and assistance for companies, as well as the acquisition and sale of real estate
ComprarCasa, Rede de Serviços Inmobiliários, SA	275	99,9%	Development of IT activities and services related to the real estate sector, both through Internet and other technologies
UCI–Mediação de Seguros Unipessoal Lda	5	100%	Insurance brokerage
UCI Holding Brasil Lda	1,986	100%	Holding entity It holds 50% of COMPANHIA PROMOTORA UCI
UCI Hellas Credit and Loan Receivables Servicing Company S.A.	100	100%	Management and maintenance of loans granted by financial entities.

Such information is the same as for 2015, except for the incorporation of UCI Hellas in 2016.

The contribution to the Group's results from each entity during 2016 has been the following:

Unión de Créditos Inmobiliarios, SA. EFC

UCI, SA	Business in Spain	Business in Portugal and Greece	ComprarCasa, Rede de Serviços Imobiliários, SA	UCI Servicios para profesionales inmobiliarios S.A. (former Comprarcasa Servicios Inmobiliarios, SA.)	Retama Real Estate	UCI Mediación de seguros	UCI Holding Ltda	Total Consolidated
-907	9,632	2,109	-71	6	-4,205	7	-274	6,297

The contribution to the Group's results from each entity during 2015 has been the following:

Unión de Créditos Inmobiliarios, SA. EFC

UCI, SA	Business in Spain	Business in Portugal and Greece	ComprarCasa, Rede de Serviços Imobiliários, SA	UCI Servicios para profesionales inmobiliarios S.A. (former Comprarcasa Servicios Inmobiliarios, SA.)	Retama Real Estate	UCI Mediación de seguros	UCI Holding Ltda	Total Consolidated
-310	2,465	184	-62	-479	-9,007	7	-544	-7,746

In the consolidation process, the full integration procedure has been applied for the statutory accounts of the Subsidiaries.

Consequently, all significant balances and transactions among the consolidated Entities have been written-off during the consolidation process.

3. Changes and errors in accounting criteria and estimations

The information included in these consolidated financial statements is the responsibility of the Parent Entity's Directors. In these consolidated financial statements, use has been made, where applicable, of estimations for valuing certain assets, liabilities, income, charges and commitments which have been made by the Parent Entity's Senior Management and ratified by its Directors. These estimations correspond to the following:

- Losses from impairment of certain financial assets.
- Assumptions used to quantify certain provisions.
- Periods of useful life and impairment losses applied to tangible and intangible fixed assets.
- The fair value of certain unlisted assets.
- The recoverability of deferred tax assets.

Given that these estimates were made on the basis of the best information available at December 31, 2016 and 2015, in respect of the items affected, it is possible that future events could make it necessary to modify these in each direction in coming financial years. Such modification will be made in a prospective manner, as applicable, recognizing the effects of the change to the estimate in the corresponding consolidated income statement.

4. Distribution of results

The Parent Company's Board of Directors will propose to the General Shareholders' Meeting the approval of income for the year, as well as their transfer and application to Reserves.

5. Rinimum equity

Until December 31, 2013, Circular 3/2008 of Bank of Spain, of 22 May, and successive updates, on the determination and control of minimum equity, regulated minimum equity requirements to be held by Spanish credit entities – both at individual and consolidation level – and the way to determine such equity.

On June 27, 2013, the European Union's Official Gazette published the new regulation on capital requirements (called CRD IV), applicable from January 1, 2014, comprised by the following:

- Directive 2013/36/EU, of 26 June, of the European Parliament and Council, related to the access to the activity by credit entities and investment companies, and the prudential supervision of credit entities and investment companies, modifying Directive 2002/87/EC and derogating Directives 2006/48/EC and 2006/49/EC.
- Regulation EU 575/2013, of 26 June, of the European Parliament and Council, on prudential requirements for credit entities and investment companies, modifying Regulation EU 648/2012.

Directives must be transposed to the Spanish legal system, whereas the European Union's regulations are immediately applicable since their entry in force. In Spain, Royal Decree Law 14/2013, of 29 November, on urgent measures to adapt the Spanish law to the European Union regulation in supervision and solvency of financial entities, performed a partial transposition of Directive 2013/36/EU to the Spanish law and empowered Bank of Spain, in its final fifth provision, to use options allocated to national competent authorities in Regulation EU 575/2013.

Therefore, since January 1, 2014, provisions of Circular 3/2008 of Bank of Spain contrary to the abovementioned European regulation have been derogated. Additionally, on February 5, 2014, Circular 2/2014 of Bank of Spain was published, whereby Bank of Spain used some of the permanent regulatory options foreseen by Regulation.

Also, Law 10/2014, of 26 June, on regulation, supervision and solvency of credit entities, has continued the transposition of CRD IV to the Spanish legal system.

All the above constitutes the current regulation in force on minimum equity to be held by Spanish credit entities, both at individual and consolidation levels, and the way to determine such equity, as well as several capital self-assessment processes to be applied.

Minimum equity requirements established in the abovementioned Circulars are calculated on the basis of the Group's exposure to the credit and dilution risk (based on assets, commitments and other suspense accounts which present risks, according to their amounts, characteristics, counterparts, guarantees, etc.), to the counterparty risk, position risk, and liquidation risk corresponding to the trading portfolio, to the exchange risk (based on the net global exchange position) and operative risk. Additionally, the Group is subject to risk concentration limits established by Regulation.

At December 31, 2016 and 2015, and during such years, computable individual and consolidated equity exceeded those required by the regulation in force at each date

6. Información por segmento de negocio e información adicional

a. Segmentation by business lines:

The UCI Group's main business is mortgage lending, without other significant business lines.

b. Segmentation by geographical area:

The Group counts with a branch in Portugal (production of 117.86 and 95.63 at December 31, 2016 and 2015, respectively) and in Greece (0.68 and 0.94 M€ at December 31, 2016 and 2015, respectively). The remaining activity is held in Spain.

c. Agency contracts:

Neither at 2016 and 2015 closings, nor throughout such years, has the Entity held "agency contracts" in force on the way they are contemplated under article 22 of the Royal Decree 1245/1995, of July 14, of the Ministry of Economy and Treasury.

d. Coefficient of minimum reserves

At December 31, 2016 and 2015, the Group complied with the minimum required for this coefficient by the applicable Spanish regulation.

7. Remuneration and duty to loyalty of the entity's directors and key management personnel

The remuneration for members of the Board of Directors is included under the heading Personnel Costs in the enclosed consolidated income statement for an amount of 144 thousand Euros (203 thousand Euros in 2015).

At the date of formulation of the annual accounts, the Board members of UCI, S.A. and persons related to them, as defined in article 231 of the Capital Corporation Act, have not communicated to other Board members any situation of conflict, direct or indirect, with the Entity's interest.

Remuneration of key personnel and Board members as Directors

Salary remunerations perceived in 2016 by professionals comprised on the Entity's key personnel and by Board Members as Directors amounted to 3,448 thousand Euros, fully corresponding to fixed remuneration.

Salary remunerations perceived in 2015 by professionals comprised on the Entity's key personnel and by Board Members as Directors amounted to 2,417 thousand Euros, fully corresponding to fixed remuneration.

There have not been any severance payments to key personnel in 2016 or 2015.

For the purposes of the enclosed date, key personnel refers to employees who meet the requirements indicated on section 1.d) of the 62nd Regulation of Circular 4/2004.

Commitments for pensions, insurances, credits, guarantees and other concepts

The Group's Directors have not been granted with commissions for pensions, credits, guarantees or other concepts.

8. Environmental impact

The Group considers that it has adopted the appropriate measures with regard to the protection and improvement of the environment and the minimization, as applicable, of environmental impact, complying with the regulations on this aspect. During 2016 and 2015, the Group has not made any significant investment of an environmental nature and neither has it considered it necessary to register any provision for risks and charges of an environmental nature, neither does it consider that there any material contingencies with regard to the protection and improvement of the environment.

9. Audit fees

Fees for the audit of the Group's accounts, included under the heading of External Services in the enclosed 2016 consolidated Income statement amount to 62,080 Euros (62,391 Euros in 2015). Additionally, this heading includes additional fees corresponding to other services, which have been rendered by the audit firm itself or by associates, for an amount of 10,070 Euros.

10. Subsequent events

Since the year-end closing until the date of preparation of these Annual Accounts by the Company's Board of Directors, there has not been any worth-mentioning significant event.

11. Applied accounting principles and standards and valuation criteria.

The most significant accounting policies and rules and measurement basis applied in drawing up these consolidated financial statements are described below:

a. Principle of accrual

These consolidated financial statements, except as applicable in respect of the cash flows statements, have been drawn up in function of the real flow of goods and services, regardless of their date of payment or receipt.

b. Other general principles

The consolidated financial statements have been drawn up on the historic cost basis, although modified by financial assets and liabilities (including derivatives) at fair value.

The preparation of the consolidated financial statements requires the use of certain accounting estimates. Likewise, this requires Management to exercise its judgement in the process of applying the Group's accounting policies. These estimates could affect the amount of the assets and liabilities and the breakdown of contingent assets and liabilities at the date of the consolidated financial statements and the amount of income and costs during the period for the consolidated financial statements. Although these estimates are based on Management's best knowledge of the current and foreseeable circumstance, the end results might differ from these estimates.

c. Financial derivatives

Financial derivatives are instruments that, in addition to providing a profit or a loss, can allow, under certain conditions, compensation of all or part of the credit and/or market risks associated with balances and transactions, using as underlying components interest rates, certain indices, prices of some securities, cross rates of exchange for different currencies or other similar references. The Group uses traded financial derivatives in organized markets (OTC).

Financial derivatives are used for trading with customers who request this, for the Management of the risks in the Group's own positions (hedging derivatives) or to benefit from changes in the prices of these. Financial derivatives that cannot be considered as being for hedging are considered as trading instruments. The following are the conditions for a financial derivative to be considered as being for hedging:

I. The financial derivative must cover the risk of variations in the value of assets and liabilities as a result of changes in the interest rate and/or exchange rate (cover for fair values), the risk of alterations to the estimated cash flows originating in financial assets and liabilities, highly probable foreseen commitments and transactions (cash flow hedge) or the risk of net investment in a foreign business (hedge of net investments in foreign business).

II. The financial derivative should effectively eliminate any some risk inherent to the component or position covered throughout the full period of hedging. Consequently, it is to have prospective effectiveness, effectiveness at the time of contracting the hedging under normal conditions, and retrospective effectiveness, sufficient evidence that the effectiveness of the hedging is to be maintained throughout the life of the component or position hedged.

The effectiveness of the hedging provided by the derivatives defined as hedge, is to be duly documented by means of the tests of effectiveness, which is the tool that proves that the differences produced by changes in market prices between the hedged component and its hedging is maintained at reasonable parameters throughout the life of the operations, thereby complying with the forecasts established at the moment of contracting.

If this is not the case at any moment, all associated operations in the hedging group are to be transferred to trading instruments and be duly reclassified in the balance sheet.

III. It is adequately documented in the effectiveness tests that the contracting of the financial derivative took place specifically to serve as hedging for certain balances or transactions and the form in which it was intended to achieve and measure this effective hedging, provided that this is form is consistent with the management of the Group's own risks.

Hedging may be applied to individual components or balance or to portfolios of financial assets and liabilities. In this last case, the set of financial assets or liabilities to be hedged should share the same type of risk, this being understood to be complied with when the sensitivity to changes in the interest rate for the individual components hedged is similar. It is considered that the hedging is highly effective when it is expected, both prospective and retrospectively, at the beginning and throughout its life, that the changes in cash in the hedged item that is attributable to the hedged risk are almost fully offset by changes in the fair value or in the cash flows for the hedging instrument. A hedging is considered to be highly effective when the hedging results have oscillated within a range of variation of 80% to 125% with regard to the result for the item hedged.

The Group normally uses interest rate swaps and Call Money Swaps for hedging variations in interest rates, mainly with the Group's shareholders.

Hedges are performed by homogeneous groups with a derivative for each transactions or hedged group of transactions, and under the same conditions of reference, term, etc., as the hedged component.

d. Financial assets

Financial assets are classified in the consolidated balance sheet in accordance with the following criteria:

I. Cash at hand and deposits in central banks that correspond to cash balances and the balances held in the Bank of Spain and in other central banks.

II. Trading portfolio, including the financial assets acquired for disposal in the short term which are part of the portfolio of financial instruments identified and managed jointly for which recent transactions have been carried out for obtaining profits in the near term or are derivative instruments that are not designated as hedge accounting instruments.

III. Other financial assets at fair value with changes in the consolidated income statement that include financial assets that, not forming part of the trading portfolio, are considered as hybrid financial assets and are valued wholly at their fair value and those that are managed jointly with liabilities for insurance contracts valued at fair value or with financial derivatives that have as their purpose and effect significantly reducing their exposure to fluctuations in their fair value or that are managed jointly with financial liabilities and derivatives in order to reduce significantly the overall exposure to interest rate risk.

IV. Financial assets available for sale corresponding to debt instruments not classified as "held-to-maturity instruments", as "financial instruments at fair value through consolidated profit and loss", as credit investments or as trading portfolio, and equity instruments issued by entities other than Subsidiaries, associated and jointly controlled entities and not classified as financial assets held for trading or as other financial assets at fair value with changes in consolidated profit and loss.

V. Loan investments, which include financial assets that, not being traded on an active market or being obligatorily valued at their fair value, their cash flows are for a determined of determinable amount and for which all of the amount paid out by Group will be recovered, except for reasons attributable to the borrower's solvency. This includes both the investment from the typical loan activity such as the cash amounts provide and pending reimbursement by customers by way of loan or deposits loaned to other entities, whatever their legal instrumentation, and unlisted debt securities, as well as the debtors contracted by purchasers of goods or service users that form part of the Group's business.

VI. Portfolio of investments held-to-maturity corresponding to securities representing debt with fixed maturity dates and determined cash flow amounts that the Group has decided to maintain until their maturity date because, basically, there is the financial capacity to hold them or because they have linked financing.

VII. Adjustments to financial assets for macro-hedging that correspond to the balancing entry for the amounts credited to the corresponding consolidated income statement with their origin in the valuation of the financial instruments portfolio that are effectively hedged against interest rate risks through hedging derivatives at fair value

VIII. Hedging derivatives that include the financial derivatives acquired or issued by the Group that qualify by being considered as being accounting hedges.

IX. Non-current assets available for sale of a financial nature that correspond to the book value of the individual items, integrated in an available Group or which form part of a business unit that is to be disposed of (interruption operations) and for which it is highly probable that the sale will take place under the current conditions of these assets, within the period of one year as from the date to which the consolidated financial statements refer. Consequently, it is foreseeable that the recovery of the book value of these items of a financial nature will take place through the price obtained in their disposal.

X. Holdings that include capital instruments in Subsidiaries, Multigroup or Associates.

XI. Insurance contracts linked to pensions that correspond to the return rights callable from insurance entities on the one hand or the whole of the reimbursement required for cancelling a defined benefits obligation when the insurance policies do not comply with the conditions for being considered as a Chart asset.

In general, financial assets are initially recorded at their acquisition cost. Their subsequent valuation at each accounting period ending is carried out in accordance with the following criteria:

I. Financial assets are valued at fair value except for loans and receivables, held-to-maturity investments, equity instruments whose fair value cannot be determined in a sufficiently objective manner, holdings in Subsidiaries, Multigroup and Associates and financial instruments that have these equity instruments as their underlying asset and are settled by delivery of those instruments.

II. The fair value of a financial asset on a given date is taken to be the amount for which it could be bought or sold between two duly knowledgeable parties in an arm's length transaction. The best reference for fair values is the list price on an active, organized, transparent and deep market.

Whenever there is not a market price for a certain financial asset, in order to estimate its fair value, the one established in recent transactions with analogous instruments or, otherwise, sufficiently contrasted valuation models, shall be used. Additionally, the specific characteristics of the asset to be valued shall be taken into account and, specially, the different types of risks associated to the financial asset. Nevertheless, the limitations related to the valuation models developed and possible inaccuracies in assumptions required by these models could lead to the fact that the fair value of a financial asset does not fully coincide with the price at which it could be purchased or sold at valuation date.

III. Fair value of financial derivatives with quotation value on an active market and included on the trading portfolio is its daily quotation price and when, as an exception, its quotation cannot be established at a given date, methods similar to the ones used to value OTC financial derivatives will be used.

Fair value of OTC financial derivatives is the sum of future cash flows originated on the instrument and discounted at valuation date, using methods recognized by financial markets.

IV. Loans and receivables and the held-to-maturity investment portfolio are measured at their amortized cost, using the effective interest rate method. Amortized cost is understood to be the acquisition cost of a financial asset as corrected by repayments of the principal and the amount attributed in the consolidated income statement through the use of the effective interest rate method, of the difference between the initial cost and the corresponding maturity repayment amount, less any value reduction due to directly recognized impairment as a reduction in the asset's value or through a value correction account. In the case of these fair value operations being hedged, the changes in the fair value related to the risk or risks being hedged are recognized.

The effective interest rate is the discount rate that exactly matches the value of a financial amount of a financial instrument to its estimated cash flows during the expected life of the instrument, based in its contractual conditions such as options for early repayment but without considering losses for future credit risks. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date plus, where applicable, the commissions that, because of their nature, can be assimilated with an interest rate. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing for all items up until the date on which the reference interest rate is due to be reviewed once more.

V. Equity holdings in other entities for which the fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those instruments as their underlying assets and are settled by delivery of those instruments are maintained at their acquisition cost and adjusted, as appropriate, by any related impairment loss.

VI. Holdings in the capital of Subsidiaries, Multigroup and Associates are included at their cost of acquisition adjusted, where applicable, by any related impairment losses.

Fluctuations in the book value of financial assets are recognized, in general, with balancing entry in the consolidated income statement, with a differentiation made between those that have their origin in the accrual of interest and similar items, which are recorded in the heading for interest and similar income, and those corresponding to other causes, at their net amount in the heading for Results from financial operations in the consolidated income statement.

Nonetheless, the fluctuations in the book value of the instruments included under the heading of Available-for-sale financial assets are recorded on a transitory basis under the heading for Adjustments for the valuation of Net Assets, except when these come from exchange differences. The amounts included under the heading for valuation adjustments remain part of Net Equity until their cancellation from the assets in the consolidated balance sheet in which they arise until they are cancelled against the consolidated income statement.

Likewise, the fluctuations in the book value of the components included under the heading for non-current assets available for sale are reflected with their counterpart in the heading for Net Equity valuation adjustments.

In financial assets designated as hedged items and with accounting hedging, the value differences are reflected taking the following criteria into account:

I. On fair value hedging, the difference arising both from the hedging components and the components hedged and in which the hedged risk is referred to, this is recognized directly in the consolidated income statement.

II. The valuation differences corresponding to the ineffective portion of cash flow and net investments in foreign operations are recognized directly in the consolidated income statement.

III. In cash flow hedges, the effective portion of the valuation differences arising on the value of the hedging instrument is recognized temporarily under the heading for valuation adjustments in Net Equity.

IV. In hedges for net investment in foreign operations, the valuation differences arising from the effective hedging of the items hedged are recognized temporarily in Equity under valuation adjustments.

In these last two cases the valuation differences are not recognized as results until the gain or loss on the hedged item are recognized in the consolidated income statement or until the maturity date of the item hedged.

For interest rate risk fair value hedging in a financial instruments portfolio, the gains or losses that arise from the valuation of the hedging instruments are recognized directly in the consolidated income statement, whereas gains or losses due to fluctuations in the fair value of the amount hedged, and with regard to risk hedged, are recognized in the consolidated income statement using as counter entry the heading for Adjustments to financial assets through macro-hedging.

In cash flow hedges for the interest rate risk in a financial instruments' portfolio, the effective portion of the change in value of the hedging instrument is recognized temporarily under the heading for Adjustments to Net Equity until the moment at which the forecast transactions take place, from which time these are recorded in the consolidated income statement. The fluctuations in value in hedging derivatives for the ineffectiveness of these are reflected directly in the consolidated income statement.

Reclassification between portfolios of financial instruments

Reclassifications between portfolios of financial instruments are exclusively performed according to the following assumptions:

- Except in the case of the exceptional circumstances indicated on letter d) below, financial instruments classified as "At fair value through profit or loss" cannot be reclassified within or outside this category of financial instruments after being acquired, issued or assumed.
- If a financial asset, as a consequence of a change in the intention or financial capacity, is no longer classified on the portfolio of investment at maturity, it would be reclassified into the category of "Financial assets held for sale". In this case, the same treatment would be applied to all financial instruments classified on the portfolio of investment at maturity, unless such reclassification is included on the assumptions permitted by the applicable regulation (sales very close to maturity or once almost all the financial asset's principal has been collected, etc.).
- As a consequence of a change in the Group's intention or financial capacity or, after the two years of penalty established by the applicable regulation for the assumption of sale of financial assets classified on the portfolio of investment at maturity, financial assets (debt instruments) included on the category of "Financial assets held for sale" shall be reclassified into the "portfolio of investment at maturity". In this case, the fair value of these financial instruments at transfer date becomes its new amortized cost and the difference between such amount and its reimbursement value is allocated to the income statement by applying the effective interest rate method during the instrument's residual life.
- A financial asset which is not a derivative financial instrument shall be classified outside financial assets held for trading if it is no longer held for sale or repurchase at short term, as long as any of the following circumstances occurs:
  - › In rare and exceptional circumstances, unless they are assets subject to be included under the category of loans and receivables. For these purposes, rare and exceptional circumstances are those which arise from a particular event, which is unusual and highly improbable to be repeated on a foreseeable future.
  - › When the entity holds the intention and financial capacity to hold the financial asset on a foreseeable future or to maturity, as long as, at initial recognition, it had met the definition of credit investment.

  In these situations, the asset's reclassification is performed at fair value at the date of reclassification, without reverting results, and considering such value as its amortized cost. Assets thus reclassified are no reclassified in any case again into the category of "financial assets held for trading".

During 2016, there has not been any reclassification as the ones described above.

e. Financial liabilities

Financial liabilities are classified in the consolidated balance sheet in accordance with the following criteria:

I. The trading portfolio, including the financial liabilities acquired for disposal in the near term which are part of the portfolio of financial instruments identified and managed jointly for which recent transactions have been carried out for obtaining near term profits or are derivative instruments that are not designated as hedge accounting instruments or have originated as a result of the firm sale of financial assets acquired temporarily or received on loans.

II. Other financial liabilities at fair value with changes through profit and loss corresponding to those that are not part of the Trading portfolio have the substance of hybrid financial instruments and it is not possible to determine reliably the fair value for the implicit derivative they contain.

III. Fair value financial liabilities with changes in net equity that include the available-for-sale financial assets originating as a result of the transfer of assets in which the transferring entity neither transfers nor substantially retains the risks and gains thereof.

IV. Financial liabilities at amortized cost that correspond to the financial liabilities not included under the remaining consolidated balance sheet headings and which respond to the typical funds capturing activities of financial entities, whatever their instrument form and maturity date.

V. Adjustments to financial liabilities for macro-hedging that correspond to the balancing entry for the amounts credited to the corresponding consolidated income statement with their origin in the valuation of the financial instruments portfolio that are effectively hedged against interest rate risks through fair value hedging derivatives.

VI. Hedging derivatives that include the financial derivatives acquired or issued by the Entity that qualify by being considered as being accounting hedging.

VII. Liabilities associated with non-current assets available for sale that correspond to creditor balances arising in non-current available-for-sale assets.

VIII. Equity having the substance of a financial liability including the amount of the financial instruments issued by the entity that, although equity for legal purposes, do not meet the requirements for classification as net equity and which correspond basically to non-voting shares issued and with their yield established in function of a rate of interest, fixed or variable. Financial liabilities are measured at their amortized cost unless the Entity has designated these as fair value financial liabilities should they meet the conditions for it.

Financial liabilities are reflected at their amortized cost except in the following cases:

I. Financial liabilities included under Financial liabilities held for trading, Other financial liabilities at fair value through consolidated profit and loss and Financial liabilities at fair value through equity are measured at fair value. Hedged financial liabilities in fair value hedging operations are adjusted, with the fluctuations in their fair value with regard to the risk hedged in the operation.

II. Financial liabilities that have underlying equity instruments for which the fair value cannot be determined in a sufficiently objective manner and settled by their delivery are valued at cost.

Fluctuations in the book value of financial liabilities are recognized, in general, with their balancing entry in the consolidated income statement, with a differentiation made between those that have their origin in the accrual of interest and similar items, which are recorded in the heading for interest and similar income, and those corresponding to other causes, at their net amount in the heading for Results from financial operations in the consolidated income statement.

Nonetheless, the fluctuations in the book value of the instruments included under the heading of Financial Liabilities at fair value through equity are recorded on a transitory basis under the heading for Adjustments for the valuation of Net equity. The amounts included under the heading for valuation adjustments remain part of Net Equity until their cancellation from the liabilities in the consolidated balance sheet in which they arise until they are cancelled against the consolidated income statement.

Consequently, the fair value of financial instruments at December 31, 2016 and 2015, broken down by types of financial assets and liabilities, is presented under the following levels:

Level 1: Financial instruments which fair value has been determined by taking their listing on active markets, without performing modifications on such assets.

Level 2: Financial instruments which fair value has been estimated on the basis of prices listed on organized markets for similar instruments or through the use of other valuation techniques, where all significant inputs are based on directly or indirectly observable market data.

Level 3: Instruments which fair value has been estimated through the use of valuation techniques where a significant input is not based on observable market data. An input is considered as significant when it is important when determining the fair value as a whole.

Thousands of Euros

	2016				2015			
	Carrying value	LEVEL 1	LEVEL 2	LEVEL 3	Carrying value	LEVEL 1	LEVEL 2	LEVEL 3
Financial assets								
Cash and balances with central banks	6		6	-	8		8	-
Other financial assets designed at fair value through profit or loss	-	-	-	-	-	-	-	-
Financial assets held for sale	-	-	-	-	-	-	-	-
Loans and receivables	10,728,003		10,728,003		11,029,130		11,029,130	
Non-current assets held for sale	397,541	-	397,541	-	426,039	-	426,039	-
Investment at maturity	-	-	-	-	-	-	-	-
Financial liabilities								
Financial liabilities held for trading	-				-			
Financial liabilities at amortized cost	11,290,937	-	11,290,937	-	11,604,712	-	11,604,712	-
Hedging derivatives	16,852	-	16,852	-	25,917	-	25,917	-

f. Transfers and write off of financial instruments from the consolidated balance sheet

Transfers of financial instruments are accounted for by taking into account the form under which the transfer of the risks and rewards associated with the financial instruments transferred on the basis of the following criteria:

I. If the risks and benefits are substantially transferred to third parties, as in unconditional sales, sales with an agreement to repurchase them at their fair value at the repurchase date, sales of financial assets with a purchased call option or written put option that is deeply out of the money, securitizations of assets in which the transferor does retain a subordinated debt or grant any type of credit enhancement to new holders, etc., the financial instrument is derecognized in the consolidated balance sheet with simultaneous recognition of any right or obligation retained or created in the transfer.

II. If the rights and benefits associated with the transferred financial instrument are substantially retained, as in the sale of financial assets under an agreement to repurchase these for a fixed price or the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, etc., the financial instrument transferred is not derecognized in the consolidated balance sheet and continues to be measured under the same criteria used before the transfer. However, an associated financial liability is recognized for an amount equal to the consideration received, which is measured subsequently at its amortized cost, as is the income for the transferred financial asset and not derecognized and the costs of the new financial liability.

III. If neither the risks nor benefits associated with the transferred financial instrument are neither transferred or substantially retained, as in the sale of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitizations in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the transferred asset, etc., a distinction is made between the following:

› Where the Group does not retain control over the financial instrument transferred, in which case the transferred financial instrument is derecognized and any right or obligation retained or created as a consequence of the transfer is recognized.

› Where the Group retains the control over the transferred financial instrument, in which case it continues to recognize the transferred financial asset for an amount equal to its exposure to value changes that might be experience and a financial liability associated with the transferred financial asset is recognized. The net amount of the transferred asset and the associated liability shall be the amortized cost of the rights and obligations retained, if the transferred asset is measured at amortized cost or the fair value of the rights and obligations retained, if the transferred asset is valued at fair value.

Accordingly, financial assets are only derecognized in the consolidated balance sheet when the cash flows they generate have been extinguished or when their inherent risks and benefits are substantially transferred. Similarly, financial liabilities are only derecognized when the obligations they generate have been extinguished or when they are acquired with the intention of either cancelling or re-placing them.

The accounting treatment indicated is applicable to all asset transfers since January 1, 2004, and not to previous ones.

g. Value impairment of financial assets

In general, the carrying value of financial assets is corrected with a charge to the consolidated income statement if there exists objective evidence of an impairment to their value, which occurs when:

I. In the case of debt instruments, understood as being loans and debt securities, when there is an event following initial recognition or the combined effects of various events that represent a negative impact on their future cash flows.

II. In the case of equity instrument when, following the initial recognition, there occurs an event or there arises the combined effect of various events that mean that their book value will not be recovered.

As a general rule, the adjustment to the book value of financial instruments due to impairment is charged to the consolidated income statement for the period in which the impairment becomes evident and the recovery of an previously recognized impairment losses, if any, is recognized in the consolidated income statement for the period in which the impairment ceases to exist of is reduced. When the recovery of any recognized impairment is considered remote, the amount of the impairment is derecognized in the consolidated balance sheet, although the Group may take the necessary actions to seek collection of this amount until its rights are extinguished by expiry of the statute of limitations period, cancellation or other causes.

In the case of debt instruments measured at amortized cost, the amount of the losses through impairment incurred is equal to the negative difference between its carrying amount and the present value of its estimated future cash flows.

In the case of listed debt instruments it is possible to use, as a replacement for the present value of future cash flows, their market value provided that this is sufficiently reliable to be considered representative of the value that the Group might recover.

The estimated future cash flows for a debt instrument are all of the amounts, principal and interest, that the Group estimates it will obtain over the instrument's life. In making this estimate all the relevant information available at the date of drawing up the financial statements providing details on the possibility of future collection of the contractual cash flows is considered. Similarly, in the estimate for future cash flows on instruments that have real guarantees, account is taken of the cash flows obtained from realizing these, less the amount of the costs necessary for obtaining these and their subsequent sale, independently of the probability of enforcing the guarantee.

The current value of the estimated future cash flows is calculated using the original effective rate of interest for the instrument if its contractual rate is fixed, or the effective rate of interest at the balance sheet date determine in accordance with the contractual conditions when it is variable.

Portfolios of debt instruments, contingent risks and contingent commitments, whatever their owner, instrumentation or guarantee, are analyzed so as to determine the credit risk to which the Group is exposed and an estimate made of the cover needs for any impairment to their value. In drawing up the financial statements the Group classifies its operations in function of their credit risk by analyzing, individually, the insolvency risk attributable to the customer and the country risk, as applicable, to which these are exposed.

The objective evidence of deterioration is determined individually for all material debt instruments and individually or collectively for groups of debt instruments that are not individually material. If a specific instrument cannot be included in any group of assets with similar risk characteristics, it is analyzed exclusively on an individual basis in order to determine whether it is impaired and, as applicable, for estimating the impairment loss.

The collective assessment of a group of financial assets for the purpose of estimating their losses due to impairment is carried out in the following manner:

I. The debt instruments are included in categories with similar credit risk characteristics, indicative of the debtor's ability to pay all of the amounts, principal and interest, in accordance with the contractual conditions. The credit risk characteristics considered for grouping assets are, among others, the instrument type, their debtor's industry sector and geographical location, the type of guarantee and the age of past-due amounts and any other factor of relevance for estimating the future cash flows.

II. The future cash flows for each group of debt instruments are estimated on the basis of the Group's experience of historical losses on instruments with credit risks similar to those of the respective group, once the necessary adjustments have been made to adapt the historical data to current market conditions.

III. The impairment loss for each group is the difference between the carrying amount of all of the debt instruments in the group and the present value of the estimated future cash flows.

Debt instruments not measured at their fair value through changes in consolidated profit and loss, contingent risks and contingent commitments are classified in function of the insolvency risk attributable to the customer or the operation under the following categories: normal risk, sub-standard risk, doubtful risk by reason of customer late payment, doubtful risk for reasons other than customer late payment and bad debt risk. For debt instruments not classified as normal risk, an estimate is made on the basis of the Group's experience and the sector of the specific hedging necessary for impairment, taking into account the age of the unpaid amounts, the guarantees provided and the customer's economic situation and, as applicable, that of the guarantors. As a general rule, this estimate is made on the basis of the late payment calendars drawn up using the Group's experience and the information it has on the sector.

Similarly, debt instruments not measured at their fair value through consolidated income statement and contingent risks are analyzed for determining the credit risk due to country risk. Country risk is considered to the risk associated with debtors resident in a given country due to circumstances other than normal commercial risk. In addition to the specific cover for impairment indicated above, the Group recognizes the inherent losses incurred in debt instruments not measured at fair value through consolidated income statement and contingent risks classified as normal risk through collective cover. This collective cover, which corresponds to the statistical loss, is made taking into account the historical loss experience and other circumstances known at the time of assessment and corresponding to the inherent losses incurred at the reporting date, calculated using statistical methods, that are pending allocation to specific transactions.

In this sense, the Group, as it does not have sufficient historical and statistical experience, has used the parameters established by the Bank of Spain based on its experience and on the information it has for the sector, for covering the inherent impairment losses incurred in debt instruments and contingent risks classified as normal risk and modified periodically in accordance with the evolution of the aforementioned data. This method of determining the cover for inherent impairment losses in debt instruments is carried out through the application of percentages to debt instruments not measured at fair value through changes in the consolidated income statement and the contingent risks classified as normal risk.

The aforementioned percentages vary in function of the classification of these debt instruments within normal risk under the following sub-categories: Non-appreciable risk, Low risk, Medium-to-low risk, Medium risk, Medium-to-high risk and High risk.

Recognition of accrued interest in the consolidated income statement on the basis of contractual terms is interrupted for all debt instruments individually classified as impaired and for those calculated collectively as impairment losses because of past-due amounts aged over three months.

The amount of losses from impairment incurred in debt securities and capital instruments, included under the caption Financial assets held for sale, equals the positive difference between its acquisition cost, net of any amortization of principal, and its fair value less any loss from impairment initially recognized on the consolidated income statement.

In case of objective evidences that the decrease in fair value is due to its impairment, latent capital losses directly recognized under the caption Impairment adjustments in Net equity are immediately recognized on the consolidated income statement. If, subsequently, all or a portion of losses from impairment are recovered, their amount is recognized, for debt securities, on the consolidated income statement for the recovery period.

h. Recognition of income and expenses

In general, interest income and expense and similar items are recognized for accounting purposes on the basis of their period of accrual using the effective interest rate method. Interests accrued for debtors classified as doubtful are settled to results at collection date, which is an exception to the general criterion.

Commission income and expense for financial services, independently of their contractual denomination, are classified into the following categories that determine their allocation in the consolidated income statement:

I. Financial commission, which are those that form and integral part of the yield or effective cost of a financial transaction and are allocated to the consolidated income statement over the expected life of the operation as an adjustment to its cost or effective yield.

II. Non-financial commissions are those that are derived from the provision of services and can arise during the performance of a service carried out in a single act.

III. Those related to transactions or services that are provided over a period of time are recognized over the period of said transactions or services.

IV. Those related to a transaction or service provided in a single act, are recognized when the single act giving rise to these is carried out.

Financial commissions, such as opening fees for loans and credits, are part of a financial operation's yield or effective cost and are recognized under the same caption as financial products or costs, that is to say, under "Interests and similar income" and "Interests and similar charges". Commissions collected in advance are allocated to the income statement through the operation's life, except on the portion offset by related direct costs.

Non-financial commissions, derived from service rendering, are registered under "Fee and commission income" and "Fee and commission expenses" throughout the period of service rendering, except for those which respond to a singular act, which are accrued when they take place.

Personnel expenses

Personnel expenses include all of the Group's social liabilities and obligations, compulsory or voluntary, accrued at each moment, recognizing obligations for extraordinary payments, holidays and variable remunerations, as well as associated expenses.

- Remunerations at short term: this kind of remunerations are valued, without update, by the amount payable for services received, generally registering them as personnel expenses for the year and including them on an account under liabilities of the balance sheet for the difference between the total accrued expense and the amount satisfied at year end.
-
- Severances: according to the legislation in force, the Company is compelled to settling severance payments to employees who are dismissed without a justified cause. At year end, the Company does not count with a plan to reduce its personnel which would lead to a necessary provision for this concept.

i. Compensation of balances

Debtor or creditor balances originated in transactions that, contractually or by legal obligation, have the possibility of compensation and, if the intention is to settle these for their net amount or for the asset to be realized and the liability settled simultaneously, are presented in the consolidated balance sheet at their net amount.

j. Financial guarantees

Financial guarantees are those contracts under which the Group is compelled to pay specific amounts on behalf of a third party in the event of the latter not doing so, irrespective of their legal nature, such as, among others, a guarantee, a financial or technical guarantee and irrevocable documentary credit issued or confirmed by the Group.

Financial guarantees are classified in function of the credit risk attributable to the customer or to the transaction and, if appropriate, considering the need for provisions. This credit risk is determined by applying similar criteria to those established for debt instruments measured at their amortized cost.

Should it be necessary to establish a provision for financial guarantees, the unearned commissions recognized under Accrued expenses in the consolidated balance sheet are reclassified to the corresponding provision.

k. Income tax

Corporate Income Tax is considered as an expense and is recognized under the Corporate Income Tax heading in the consolidated income statement, except when it results from a transaction recognized directly in Net equity, and from a combination of businesses in which the deferred tax is recognized as an additional equity item.

The Corporate Income Tax expense is determined as the tax payable on the taxable profit for the year, after taking into account the variations in timing differences, deductions and rebates and tax losses. The tax assessment basis for the year may differ from the net result for the year as presented in the consolidated income statement since it excludes income or expense items which are taxable or deductible in other years and the items that never are.

Deferred tax assets and liabilities correspond to tax payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and their related tax bases. These amounts are recognized using the liability method in the consolidated balance sheet and quantified by applying the timing difference or credit corresponding to the tax rates that are expected to apply in the period when it is recovered or settled.

A deferred tax asset, as advance tax, credit for deductions and rebates and credit for tax losses, are recognized provided that it is probable that the Group obtains sufficient taxable profits in the future against which it can be made effective. It is considered probable that the Group will obtain sufficient taxable profits in the future when, among other cases:

i) There are deferred tax liabilities that can be cancelled in the same year that the deferred tax asset is realized or in a later year in which the existing tax loss can be compensated or produced by the advanced tax.

ii) Negative tax assessment bases have occurred due to identified causes which are unlikely to be repeated.

The deferred tax assets and liabilities recognized are reviewed at each year-end in order to ascertain whether they still exist and appropriate adjustments made.

Tax assessment bases, as well as deferred tax assets, which at December 31, 2016 approximately amount to 72 M€ (68 M€ at December 31, 2015), are expected to be recovered with foreseen future profits as per the Group's Business Plans

l. Tangible fixed assets

Tangible assets for own use correspond to the tangible fixed assets that have a continued use by the Group and tangible fixed assets acquired under finance leases. They are valued at their acquisition cost less the corresponding accumulated depreciation and, as applicable, less any impairment loss determined by comparing the net carrying amount with the corresponding recoverable amount.

Depreciation is calculated systematically using the straight-line method over the years of estimated useful life for the assets on the basis of their acquisition cost less their residual value.

The Entity reviews, at least at every year-end, the estimated useful lives of tangible fixed assets for own use with a view to detecting any significant changes therein. If such changes are detected, the useful lives are adjusted by correcting the depreciation charge to be recognized in the consolidated income statement in future years on the basis of the new estimated useful life.

Upkeep and maintenance costs, relating to tangible fixed assets for own use, are charged to the consolidated income statement for the year in which they are incurred.

m. ntangible assets

Intangible assets are identifiable non-monetary assets without physical substance. Intangible assets are considered to be identifiable when they are separable from other assets because they can be disposed of, rented or held individually or which arise as a consequence of a contract or other type of legal transaction. An intangible asset is recognized when, in addition to satisfying the above definition, the Group considers that it is probable that future economic benefits will be generated by this asset and its cost can be reliably estimated.

Intangible assets are recognized initially at their acquisition of production cost and are measured subsequently at cost less, where applicable, any accumulated depreciation and any impairment loss.

In all cases, the Group recognizes for accounting purposes any loss that might arise in the recognized value for these assets arising from impairment with the corresponding charge in the consolidated income statement. The criteria used to recognize the impairment losses on these assets and, where applicable, the reversal of impairment losses recognized in prior years are similar to those used for tangible assets.

n. Property investments

This caption of the enclosed balance sheet includes lands, buildings and other constructions held by the Entity to exploit them under lease, to generate capital gains in their sale, or both, instead of for their use in the production or supply of goods or services for administrative purposes.

Property investments are registered at acquisition price, which includes costs directly allocable to the transaction and those necessary for them to be operational.

Extension or improvement costs which imply an increase in these assets' profitability are incorporated as higher value. On the other hand, maintenance and repair costs which do not improve their use or extend their useful life are allocated to the profit and loss account when incurred.

Amortization is calculated on the acquisition cost, less their residual value, following the linear method on the basis of the estate's estimated useful life.

o. Provisions and contingent liabilities

Provisions are considered to be the Group's present obligations arising from past events that are considered to be clearly specified at the balance sheet date, but which are uncertain as to their amount or moment of cancellation, on the settlement of which and in order to be cancelled the Group expects to incur an outflow of resources embodying economic benefits. These obligations can arise for the following reasons:

I. A legal or contractual provision.

II. An implicit or tacit obligation arising from a valid expectation created by the Group with third parties with regard to the assumption of certain types of responsibilities. These expectations are created when the Group publicly accepts responsibilities, are derived from past behaviour or business policies in the public domain.

III. The practically certain evolution of regulations on certain aspects, in particular with draft legislation that the Group cannot elude.

Contingent liabilities are the Group's possible obligations arising as a consequence of past events, whose existence is conditional on the occurrence or non-occurrence of one or more future events beyond the Group's control. Contingent liabilities include the Group's present obligations when it is not probable that an outflow of resources embodying economic benefits will be required to settle them or for which the amount, in extremely rare cases, cannot be quantified in a sufficiently reliable manner.

Provisions and contingent liabilities are classified as probable when it is more plausible that they will occur than otherwise, possible when it is less plausible that they will occur than otherwise and remote when the likelihood is extremely rare.

The Group's consolidated financial statements include all the material provisions in respect of which it is considered more likely than not that the obligation will have to be settled. Contingent liabilities are not recognized in the consolidated financial statements but are disclosed unless it is considered remote that there will be an outflow of resources embodying economic yields.

Provisions are quantified on the basis of the best information available on the consequences of the events giving rise to them and are estimated at each year-end. They are used to meet the specific obligations for which they were recognized and are fully or partially reversed when said obligations cease to exist or are reduced.

p. Non-current assets held for sale

The heading for Non-current assets held for sale in the consolidated balance sheet includes the carrying amount of real estate or other non-current assets received in total or partial settlement of its debtors' payment obligations. These are considered as non-current assets held for sale unless the Group has decided to make continuing use of these assets.

Consequently, the recovery of the carrying amount value of these items, which may be of a financial or non-financial nature, will probably take place through the proceeds obtained on their disposal instead of through their continuing use.

As a general rule, assets classified as Non-current assets held for sale are measured at the lower of their carrying amount at their date of classification in this category and their fair value net of estimated selling costs. Whilst they remain classified as Non-current assets held for sale, depreciable tangible and intangible fixed assets are not depreciated.

Assets received as payment for debts, according to Circular 3/2010 and considering Circular 2/2015 of February 29, which adopts the RLD 2/2015, are recognized for the lowest amount between the accounting value of financial assets applied, understood as their net amortized cost of the estimated impairment, which will at least be 10%, and the asset's market appraisal value received at current status, less estimated selling costs, which in any case would not be less than 10% of such appraisal value. The receipt of assets as payment for debts does not lead, in any case, to the recognition of gains not to the freeing of hedges of applied financial assets.

Additionally, if foreclosed assets were held on the balance sheet for a period of time exceeding the initially foreseen period, the assets' net value is reviewed to recognize any impairment loss arisen from the difficulty to find purchasers or reasonable offers. The Group, in any case, does not delay the recognition of such impairment which, at least, implies increasing the hedging percentage from the previous 10% to 20%, 30% or 40% for assets held on the balance sheet for more than 12, 24 or 36 months, respectively.

Where the carrying amount exceeds the fair value of the assets net of their selling costs, the Group makes a reduction to the carrying amount for this excess with the corresponding charge recognized under Impairment losses (net) - Non-current assets held for sale in the consolidated income statement. In the case of subsequent increases in the fair value of assets, the Group reverses the previously recognized losses, increasing the carrying amount of the assets up to the limit of the amount prior to the possible impairment, and recognized under Impairment Losses of assets (net) – Non-current assets held for sale in the consolidated income statement.

q. Valuation of accounts in foreign currency

At initial recognition, accounts payable and receivable in foreign currency are translated to the functional currency by using the exchange rate at recognition date, understood as the exchange rate for immediate delivery. After initial recognition, the following rules are applied to translate balances from foreign to functional currency:

I. Monetary assets and liabilities are translated to average exchange rate at the date of financial statements.

II. Non-monetary items valued at historical cost are translated to the exchange rate at acquisition date.

III. Non-monetary items valued at fair value are translated to the exchange rate at the date in which fair value is determined.

IV. Income and expenses are translated by applying the exchange rate of the date of transaction. Nevertheless, the period's average exchange rate is used for all transactions carried out throughout such period, unless in case of significant variations. Depreciations are translated to the exchange rate applied to the corresponding asset.

Exchange differences in the translation of accounts payable and receivable in foreign currency are generally registered on the consolidated income statement.

r. Consolidated cash-flow statement

The consolidated cash-flow statement uses certain concepts defined as follows:

I. Cash flows refer to additions and deletions of cash and equivalents, understood as short-term investments of high liquidity and low risk of value alterations.

II. Operating activities, typical within the Group, and other activities which shall not be qualified as investment or financing activities.

III. Investment activities corresponding to the acquisition, disposal or use by other means of long-term assets and other investments not included within cash and equivalents.

IV. Financing activities which cause changes in the size and composition of net equity and liabilities included within the operating activities.

s. Consolidated statement of changes in net equity

The consolidated statement of changes in net equity presented on these consolidated financial statements shows the total variations in net equity during the year. This information is, in turn, broken down into two statements: consolidated statement of recognized income and expenses and consolidated total statement of changes in net equity. The main characteristics of the information contained on both parts of the statement are explained below:

Consolidated statement of recognized income and expenses

This part of the consolidated statement of changes in net equity presents income and expenses generated by the Group as a consequence of its activity during the year, distinguishing among those registered as results in the consolidated income statement for the year and other income and expenses directly registered on net equity, in accordance with the regulation in force.

Therefore, this statement presents the following:

I. Results for the year.

II. Net amount of income and expenses transitorily recognized as valuation adjustments in net equity.

III. Net amount of income and expenses definitively recognized in net equity.

IV. Corporate income tax accrued for concepts included on sections i) and ii) above.

V. Total recognized income and expenses, calculated as the sum of the sections above.

Variations of income and expenses recognized in net equity as valuation adjustments are broken down as follows:

I. Profit (loss) for valuation: it includes the amount of income, net of expenses originated within the year, directly recognized in net equity. Amounts recognized in the year of this account are maintained therein, although, during the same year, they are transferred to the income statement at initial value of other assets or liabilities, or reclassified into another item.

II. Amounts transferred to the income statement: it includes the amount of profit or loss previously recognized in net equity, even on the same year, which are recognized on the income statement.

III. Amount transferred at initial value of hedged items: it includes the amount of profit or loss from valuation, previously recognized in net equity, even in the same year, which are recognized on the initial value of assets or liabilities as a consequence of cash flow hedging.

IV. Other reclassifications: it includes the amount of transfers during the year among items of adjustments from valuation as per criteria established by the regulation in force.

Amounts on these items are presented at their gross quantity, showing their corresponding tax effect under the caption “Corporate income tax” of the statement.

Consolidated total statement of changes in net equity

This part of the consolidated statement of changes in net equity shows all changes in net equity, including those originated in changes in accounting criteria and error corrections. Therefore, this statement shows a reconciliation of the accounting value at opening and closing date of all items included within net equity, grouping movements based on their nature, under the following items:

I. Adjustments from changes in accounting criteria and error corrections: it includes changes in net equity originated as a consequence of the retroactive re-expression of balances in the financial statements originated in changes in accounting criteria or error corrections.

II. Income and expenses recognized during the year: it includes, in aggregate, the aforementioned total amount of items registered in the statement of recognized income and expenses.

III. Other variations in net equity: it includes the remaining items registered in net equity, such as increases or decreases of the allocation fund, distribution of results, transactions with treasury stock, payments with capital instruments, transfers among items on the net equity, and any other increase or decrease in the consolidated net equity.

12. Customer service and money laundering

a. Customer service

In accordance with the provisions of Order Eco 734/2004, of 11 March, on the Customer Service departments and services and Ombudsman (article 17), a summary is provided below on the complaints / claims received and processed during 2016.

During 2016, the total number of complaints / claims amount to 177, which implies a decrease by 13.65% with regards to the number of claims in 2015. These 177 claims received have been presented as follows:

- 80 processed by the Customer Service.
- 97 processed by the Customers’ Ombudsman.

The most significant reasons for the total complaints / claims presented have coincided with those at 2015, being as follows:

- Disagreement with the application of the IRPH as review reference.
- Lack of transparency when contracting and existence of abusive clauses.
- Loan’s payment difficulty.
- Disagreement in the loan’s securitization.
- Disagreement with applied delay interests.

With regards to the application of the IRPH as review reference, and to the pleaded lack of transparency, in the opinion of the Customer Service, clients had received information before signing the loan, as well as information with regards to the disappearance of the IRPH Savings Banks index.

At December 31, 2016, 168 complaints/ claims had been solved and 9 are awaiting resolution.

Furthermore, it should be noted that, out of all received claims, a total of 32 have been filed before Bank of Spain's Department of Market Conduct and Claims (21 in 2015). Additionally, a total of 45 claims have been presented on the CIRBE Service (21 in 2015).

At December 31, 2016, complaints/claims have been solved as follows:

Favourable to the customer	69
Unfavourable to the customer	99
Not accepted	0

Out of claims solved in favour of the client, in 1 case, economic rights were recognized for the client. In addition to claims processed by the Customer Service and the Customers' Ombudsman, economic rights have been recognized for customers in other claims for different reasons, directly processed by the Entity, implying a cost in 2016 of 9,811.55 Euros (5,429.52 Euros in 2015).

Criteria considered in the resolution of claims are mainly based on the following aspects:

- Adaptation and compliance with the applicable regulation in force at all times.
- Compliance with assumed contractual obligations, by each of the parties' signature in the contract (client and Entity).
- Information provided by the Entity to the client, both in the pre-contractual stage and throughout the contract's validity.
- Adaptation to banking best practices.
- Situation posed by the client, in particular in cases of vulnerability or risk of exclusion caused by the economic crisis or unforeseen situations.

Thus, when solving claims, not only objective facts are considered (such as the applicable standard), but also the personal situation communicated by the client, trying to reach a solution adapted to each client's specific circumstances.

With regards to claims posed by customers for "payment difficulty", the Entity analyzes them on a case basis to assess the customer's situation and be able to offer alternatives to enable the customer to come back to a normal payment situation. These solutions include debt restructuring, debt restructuring agreements, with temporary reduction of the interest rate and/or instalment amount, term extension, (total or partial) debt property swap, etc.

Additionally, in September 2014, the Entity adhered to the Best Practice Code for urgent measures to protect destitute mortgagors, evidencing that the entity informs the client on the possibility to adopt measures foreseen in said Code and, additionally, that requests to adhere to the Best Practice Code are treated with due diligence and within the time limits established by said regulation.

Finally, and with regards to the possible return of inherent expenses from the formalization of mortgage loans according to a Court's resolution, this Customer Service understands that they were not subject to unilateral negotiation, but were commented and discussed with the consumer, although this is being currently analyzed.

b. Money laundering

Regulation compliance and money laundering prevention

During 2016, UCI has continued performing the necessary follow-up on the field of Regulation Compliance and Money Laundering Prevention, including the application of necessary measures in the estate selling activity, within the framework of Law 10/2010 on Money Laundering Prevention, all the above in order to control its reputational and operative risk.

From the general point of view of compliance, as to the regulations, ethics, good corporate governance and management of claims, UCI has continued performing adaptations and monitoring as necessary, especially to maintain good results in the number and processing of claims and to be able to establish internal policies establishing deontological criteria and mitigating the risk of regulation incompliance in the performance of the activity. These policies are subject to the due internal communication, are made available to employees and are specified on the following documents and procedures: Code of Ethics; Procedure on Ethical Alert (whistle-blowing), Money Laundering Prevention Manual, Catalogue of Operations with Money Laundering Risk on credit entities and in the real estate activity, Catalogue of Good and Bad Practices in the financing and real estate activities, or the Manual on Criminal Corporate. Furthermore, during 2016, the Group has carried out training actions in Compliance (Criminal Risk, Money Laundering Prevention, Data Protection, International Penalties and Seizures, Competition Right and Volcker regulation), and internal dissemination actions have been performed on contents related to Compliance.

From the specific point of view of fulfilment of the regulations on preventing money laundering, the fundamental lines of work have been as follows:

- Follow-up of measures intended to improve identification and knowledge of the end customer, both in financing and in the real estate sectors.
- Follow-up, review and update of an automatic alert management system for operations potentially suspected as money laundering, on the financing and real estate sectors, notwithstanding subsequent detailed analysis of each file.
- During 2016, a total amount of 506 alerts have been analyzed in Spain, out of which 10 were communicated to the OCI and 3 to the SEPBLAC. In Greece, no alerts have been analyzed during 2016 and, in Portugal, 64 alerts, 2 of which have been communicated to the OCI and to the local Regulator.
- Training company collaborators and new employees in money laundering prevention measures.
- Performing an Audit on the money laundering prevention system, conducted by an External Expert, foreseen by Law 10/2010.
- Internal verification of the money laundering prevention system by the Internal Audit Department of UCI.

In relation with the prevention of the criminal risk of legal persons (Criminal Corporate), during 2016, the whole personnel has been trained (in order to provide an appropriate communication on this matter) and defined processes have been monitored, so as to avoid this risk, according to the Manual for the Prevention of Criminal Risk and the Code of Ethics.

13. Credit risk

As the supreme management body, the Board of Directors establishes the Group's risk policy and supervises compliance with this. The Board of Directors determined the operational limits and the delegation of powers for credit risks, market risks and structural risks.

One of the pillars on which the activity of a Financial Entity is sustained is correct risk management. Control over this is the guarantee for the survival of our business over the course of time. The main objectives in risk management are the following:

- Optimize the relation between the assumed risk and profitability.
- Adapt capital requirements to risks assumed by the Group. For the Group, it is essential to establish a capital planning to ensure its long-term

solvency, so as not to commit its business model or risk profile.

In UCI, risk management is carried out with regards to the origin of the risk. Because of the Group's business, there is a main distinction among the following:

- Credit Risk (in which the customer credit risks are concentrated, over 90% of the total risk)
- Market Risk
- Operational Risk

All of these are handled and mitigated with all of the latest techniques currently available.

The Group has drawn up management plans in accordance with the needs derived from the different types of risk. The understanding of risk management has a continuous process has led to the management processes for each risk, with the measurement tools for their administration, appraisal and monitoring, as well as to the definition with suitable circuits and procedures, which are reflected in management manuals or in the Credit or Recollection Committees.

Grouped below by headings are the different matters that, in the most material manner, distinguish risk Management and Control within the UCI Group.

a. Credit risk management

Internal organization

The Board of Directors has delegated to the Credit Risk Committee, comprising the Chairman and the General Director, the operational decisions that, in function of their profile, do not have their decision delegated to other executive levels. The Board has established that the Credit Risk Committee can decide on transactions for any amount.

At the executive level within the Risk Directorate, it is the National Authorization Centre (N.A.C.) is the body responsible for the decisions on all files.

In order to provide ourselves with a consolidated, consistent and solid database, we in UCI have opted to centralize the codifying process, thereby avoiding the appearance of multiple criteria with regard to the interpretation of data to be codified. One of the main consequences of this form of organization is the suitability of the databases with regard to the elaboration of our scoring model. This process is integrated in the N.A.C., which reports directly to the Risk Director.

In order to ensure quality in codifying, the N.A.C. is periodically submitted to controls by the Policies and Methods Department and the Internal Audit Department.

Most decisions are taken in a centralized manner in the N.A.C.

Risk analysts from the N.A.C. decide transactions based on their authorizations. Those exceeding such authorizations are submitted to the decision by the N.A.C. Committee or to the Risk Committee, as appropriate.

The activity carried out by the area is monthly reviewed from the point of view of equipment productivity, decision quality, assumed risk levels and transformation rates, in order to meet the established standards.

In addition to the N.A.C., there are other departments that outline the organizational plan for Risk Management in UCI.

The Policy and Method Department, dependent on the Risk Directorate, is entrusted with the responsibility of defining and implementing the policies and procedures to be followed in putting together a loan, its processing and decision. Similarly, it is responsible for the training, supervision and control for the correct application of policies and procedures, both in our agencies and in the N.A.C.

The Agents' Department, integrated under this same directorate, is in charge of monitoring, controlling and encouraging the administrative agency network with which we work. They are also responsible for the proper application of our selection policy from the point of view of legal security for transactions.

And, finally, the Valuation Department is responsible for supervising the activities carried out for us by the valuation firms, giving decisive support for those transactions that require a technical report.

The quality of the setting-up, analysis and decision processes for loan dossiers, as well as those corresponding to the Agency and Valuation Departments have obtained the AENOR certification in Spain for compliance with the Spanish Standard UNE-EN ISO 9001:2008 in March 2003, and which is extended throughout the commercial network. Each year, follow-up audits are performed. The certification is renewed every three years; the last renewal is from 2015.

Control over external collaborators

In UCI, risk control is present in all the phases for processing a dossier and affects not just the internal management units but also included those tasks delegated to our external collaborators.

This also allows us to have the administration agencies network connected by computer with our central systems, with vertical integration in our management system.

It should be noted that, for UCI, the administrative agencies do not merely perform administrative procedures, but are also empowered by UCI and are responsible for the proper legal handling of our transactions, being responsible for the following processes, among others: searching and analyzing property register information, preparing and carrying out the signing process, acting as representatives with powers of attorney from our entity, filing deeds in the corresponding registries, cancelling charges prior to our mortgage appearing in the registry so as to guarantee this having first call, settling taxes and sending the deeds for filing once all the appropriate controls have been carried out so as to guarantee the risk levels established.

It is important to point out that the success of their task depends to a great extent on the control processes established in the management systems designed by UCI for this activity.

Furthermore, the valuation process is also subject to control and supervision by our systems without this detracting from the valuation companies' total liberty for determining the value of the security.

The interconnection of our respective computer systems allows us to establish automatic quality controls that go beyond the simple requirement for a minimum demanded valuation amount. Among other aspects, these controls cover re-locatability, the adaptation of the asset to demand, community costs, the need for alterations, the regime to which is subject, the possible presence of third parties with preferential rights, etc.

Any anomaly detected requires the dossier to be sent to the N.A.C. for a further decision in which the risk factors arisen in the valuation are considered.

Scoring model and risk cost

Since its creation, one of UCI's most constant concerns has been to model the performance of our loan portfolio. In 2015, the Company set up in Spain the eighth version of the scoring model constructed in a historical record of homogeneous events since 1999.

This model, more granular in its scaling than the previous ones, makes it possible to discriminate between different categories in customers in respect of homogeneous payment behaviour, anticipating the probability of default.

Scoring forms an integral part of the selection parameters when it comes to selecting a given risk.

In order to complete the view of the risk associated with our dossiers, we have designed a provisional risk cost that allows us to quantify the expected loss on a dossier in function of their score and the percentage of financing with regards to the guarantee's value.

Such risk cost is included in our pricing model so as to be able to manage individually the financial conditions to be assigned to the dossier based on its risk.

In Portugal, a fourth version of the scoring version was implemented in 2016, specific for the individual activity in Portugal, built on the real payment behaviour experience of UCI customers since the beginning. Portugal represented 7% of credit risks within UCI, S.A., E.F.C. at the end of 2008, 8% at the end of 2011 and 10% at the end of 2016.

In order for UCI to count with early measurements of the credit risk, there are three basic elements: expected loss, probability of default and severity.

The expected loss in percentage terms with regards to risk exposure would be formulated as follows:

Additionally, the economic capital, apart from depending on the same components as the expected loss, also depends on other elements, such as the confidence level

$$\boxed{\text{Expected loss }\%} = \boxed{\text{Probability of default }\%} \times \boxed{\text{Severity }\%}$$

taken as reference point, as the correlation or degree of diversification in the portfolios.

- Probability of default: Default is understood to be a delay in payment of an obligation of more than 90 days, a definition that coincides with the Basle II document. The horizon for calculating this probability is three years. It should be noted that the higher the section, the lower the probability of non-payment. The historic records prepared are used to study how this probability varies in relation to the points assigned in the scoring and other possible relevant axes (for example, age of the operation).
- Severity: This is defined as the anticipated estimate of final loan losses in the event of a default. Its complementary aspect is the recovery rate, which can be calculated as the difference between 100% and the severity level. In addition to the effectiveness of the recovery process, the elements that affect this are the type of product involved and the guarantees linked with the transaction (mortgage or credit insurance in the case of UCI). In order to have estimates for severity it is necessary to have historical and homogenous databases that make it possible to analyze the result of the procedures for recovery in accordance with different segmentation criteria. On this point, development has been completed for the database for the historical analysis of the recoveries for UCI in Spain in accordance with customers' scoring sections. The information collected dates back to 1993 in Spain. In Portugal, the same process has been performed with exploitation of data generated since 2004.
- Expected losses: Expected losses were adjusted, during 2011, in line with the sections and scoring, new information was available from the historical databases for risks integrating all of the risk exposure information along with their probability estimates for non-payment and severity discriminated by portfolios. Expected losses from the portfolio of new transactions for mortgage loans generated in Spain, in 2016, account for 15 pb.

Credit risk mitigation

The duties of the Audit Committee and of the Internal Audit Department include ensuring the appropriate compliance with risk control policies, methods and procedures, guaranteeing that they are appropriate, effectively implemented and regularly reviewed.

Reinforcing transactions is a constant factor in the admission and selection process. The presence of guarantors and additional guarantees has been a premise in our risk management.

Concentration risk

The UCI Group performs ongoing monitoring of the degree of concentration of the different credit risk portfolios under the dimensions it considers most relevant: geographic areas, economic sectors and customer groups.

The Board of Directors establishes the risk policies and reviews the approved exposure limits for adequate management of the concentration risk.

Due to the mortgage activity sector in which the Group operates, the lending activity is dispersed throughout the Spanish Autonomous Regions and Portuguese regions (through loans formalized by the Branch in such country), the greatest degree of concentration being in the promoter risk operations in Spain, where the risk formalized may amount to over one million Euros, a figure that is not significant in any case.

The Group is subject to Bank of Spain regulation on major risks, which are those exceeding 10% in computable equity. According to the regulations in force, and contained in Circular 3/2008, no individual exposure, including all kinds of credit risk, should exceed 25% of the Group's equity. At December 31, 2016 and 2015, there was no risk above the indicated limits.

Policies established to dispose of foreclosed assets or received as payment for debts (debt property swap) include the trading of assets through professionals from the real estate sector. The entity's strategy for each of these non-current assets held for sale could include improvement or reform works, in collaboration with professionals responsible for their trading. The purpose of strategies is to optimize these assets' disposal terms and prices, in coherence with the evolution of the real estate market.

Risk concentration by the Group's activity and geographical area at December 31, 2016 is the following:

RISKS CONCENTRATION BY ACTIVITY AND GEOGRAPHICAL AREA (Carrying values) TOTAL ACTIVITY	TOTAL 31.12.2016	Spain	Rest of European Union	America
1. Credit entities	126,277	99,837	26,440	-
2. Public Administrations				
3. Other financial institutions				
4 Non-financial companies and individual employers	7,490	7,490	-	-
4.1 Real estate construction and development	7,490	7,490	-	-
4.2 Construction of civil works	-	-	-	-
4.3 Rest of purposes	-	-	-	-
4.3.1 Large companies	-	-	-	-
4.3.2 SMEs and individual employers	-	-	-	-
5. Rest of homes and non-profit institutions serving households	10,594,236	9,287,108	1,307,128	-
5.1 Homes	10,593,548	9,286,420	1,307,128	-
5.2 Consumption	-	-	-	-
5.3 Other purposes	688	688	-	-
TOTAL	10,728,003	9,394,435	1,333,568	-

Risk concentration by the Group's activity and geographical area at December 31, 2015 was the following:

RISKS CONCENTRATION BY ACTIVITY AND GEOGRAPHICAL AREA (Carrying values) TOTAL ACTIVITY	TOTAL 31.12.2016	Spain	Rest of European Union	America
1. Credit entities	106,054	78,886	27,168	-
2. Public Administrations				
3. Other financial institutions				
4 Non-financial companies and individual employers	8,200	8,200	-	-
4.1 Real estate construction and development	8,200	8,200	-	-
4.2 Construction of civil works	-	-	-	-
4.3 Rest of purposes	-	-	-	-
4.3.1 Large companies	-	-	-	-
4.3.2 SMEs and individual employers	-	-	-	-
5. Rest of homes and non-profit institutions serving households	10,914,876	9,607,297	1,307,579	-
5.1 Homes	10,914,070	9,606,491	1,307,579	-
5.2 Consumption	-	-	-	-
5.3 Other purposes	806	806	-	-
TOTAL	11,029,130	9,694,383	1,334,747	-

Refinancing and restructuring operations

On September 28, 2012, Bank of Spain issued the Circular 6/2012, which establishes standards related to the information to be disclosed by Spanish credit entities on their financial statements with regards to refinancing and restructuring operations. The general term of restructured/refinanced portfolio in the abovementioned Circular refers to those operations where the customer has presented, or is expected to present, financial difficulties to face their payment obligations under the contract terms in force and, as a consequence, it could be advisable to cancel and/or even formalize a new operation.

Additionally, such Circular requires entities to disclose a summary of their restructuring/refinancing policy on their financial statements.

Restructuring/refinancing policy

The UCI Group, within a responsible credit and collection policy, has established a corporate policy which refers to those operations where the customer has presented, or is expected to present, difficulties to face his/her payment obligations under the contract terms in force and, therefore, it could be advisable to temporarily modify the operation in force or even to formalize a new operation.

This policy is applicable to countries where UCI operates and to all customers, adapting to the local needs and standards and always subordinated to the compliance with local regulations applicable. Its principles include the following:

Solutions proposed to the client must be appropriately used, and its use must not distort the recognition of defaults.

The solution must focused in the recovery of all due amounts, recognizing as soon as possible the amounts which are considered unrecoverable, if any. Delaying the immediate recognition of losses would be contrary to management good practices.

The restructuring operation will be designed from the client's comprehensive management perspective

If the client has more than one operation with UCI, the following aspects must be tackled:

- The client's risk will be assessed as a whole, regardless of the situation of each individual loan.
- If possible, all operations will be grouped and assigned with the highest level of guarantee possible.
- The determination of monthly charges will be adjusted to monthly payments of all loans. Also, all consolidable income of the family unit will be added so as to verify that the affordability rate keeps the most appropriate proportion.
- The proposed solution will generally imply the cancellation of all available amounts not disposed of.

An operation can be restructured several times (concatenation)

The succession of restructuring operations, in general, will be conditioned to the correct payment behaviour in the previous operation or when, due to the variation of personal/labour/economic circumstances, it was sufficiently evidenced that the lack of compliance is due to these circumstances, as per the client's new situation.

The restructuring or refinancing operation must not imply an increase of the risk with the client

The proposed solution must not imply granting additional financing to the client and cannot be used to finance other debts or as cross-selling instrument.
In refinancing operations, the increase of the necessary amount to face formalization

expenses will be admitted when it is evidenced that it will be possible to pay the proposed instalment or when new guarantees are contributed.
The restructuring or refinancing operation must always contemplate the maintenance of existing guarantees and, where possible, to improve them and/or extend their coverage. New guarantees or real guarantees will not only mitigate severity, but shall reduce the probability of lack of compliance.

Payment condition for ordinary interests

Instalments established in the restructuring operation must comply, in general, at least, with the operation's ordinary interests. Interest's waiting periods must be appropriately justified on the basis of the operation's risk.

Cautions in restructuring and refinancing operations

- When assessing the convenience of the solution's proposal, it is necessary to ensure that this proposal's results exceed those expected to be obtained if the debt was not newly negotiated.

- The analysis of guarantees and the possible future evolution is an especially relevant element when assessing restructuring and refinancing operations.
- Avoid the fact that the solution's possibility incentives defaults.

- If debt restructuring and refinancing products provide more advantageous conditions for the client than the ordinary operation, there is a true risk for the client to observe an advantage in the lack of compliance of obligations. Therefore, the design of UCI policy and products avoid communicating to the client that the lack of compliance of obligations is rewarded.

- The application of rigorous and selective criteria is especially relevant in massive and/or public actions.

Traceability of operations

- It is necessary for systems to keep record of operations subject to restructuring, so as to identify them, such as when the client has had difficulties. All data in origin must be considered in case they are subsequently necessary.

- Systems identify those operations which origin has been a restructuring or refinancing process, in order to appropriately distinguish them from those originated in an ordinary admission process, and to be able to perform a differentiated analysis of both types of operations.

- The Entity keeps record of the relation between original and new operations, if any, being able to determine the debt's distribution between the different origin operations.

The restructuring and refinancing operation cannot imply an improvement of classification as long as there is not a satisfactory experience with the client

- Improvements in classification shall be applied as long as a minimum relation has been held with the client so as to ensure a reasonable knowledge of the new situation.

- This relation must be sufficiently satisfactory and enable the verification of an acceptable improvement in the client's payment capacity.

The debt's restructuring and refinancing operation will not imply a worsening of its classification

- The debt's restructuring and refinancing operation responds to a better adaptation of the payment scheme to the client's capacity and/or an improvement of guarantees, and does not necessarily respond to a worsening of the rating.

- Nevertheless, the analysis performed prior to its granting shall conclude in a review of the classification.

Restructuring and refinancing operations in category of normal risk will be held in Special Monitoring until their extinction if conditions defined in Circular 6/12 are not met

- Based on Circular 6/2012 of Bank of Spain, restructuring and refinancing operations, classified in normal risk or reclassified into the category of normal risk from another risk category, will be marked and maintained in Special Monitoring, being identified for their differentiated treatment, until their extinction if conditions defined in such Circular are not met.

- Also, restructuring and refinancing operations classified in the category of normal risk which owner holds another operation classified as doubtful will also be marked in Special Monitoring.

- Restructuring and refinancing operations will no longer be identified as Special Monitoring when the following conditions are jointly met:

  › The instalments of principal and accrued interests have been paid since the date when the re-conduction operation was formalized and, at least, two years have elapsed.

  › The operation's principal has been reduced in, at least, 20%.

  › All unpaid amounts (principal and interests) have been satisfied at the date of the restructuring or refinancing operation.

  › After an exhaustive review of the equity and financial situation, it is concluded that the owner is not expected to have financial difficulties and, therefore, the client will be able to comply with the debt's payment (principal and interests) of all of its operations, in due time and manner.

  › Therefore, operations still classified as doubtful or substandard risk must not be identified as Special Monitoring, since this mark is only contemplated for operations classified as normal risk (which have not met the abovementioned conditions).

Quantitative information required by Circular 6/2014 of Bank of Spain

Below, we include the quantitative information required by Circular 6/2012, of Bank of Spain, in relation with restructured/refinanced operations in force at December 31, 2016. In this sense, the abovementioned Circular makes the following definitions:

- Refinanced operation: an operation granted or used for reasons related to the owner's financial difficulties – existing or expected– to cancel one or several operations, or for which the payment of such operations is fully or partially updated, in order to facilitate the debt's payment (principal and interests) to owners of cancelled or refinanced operations because they are not able, or are not expected to be able, to meet the conditions in due time and manner.

- Restructured operation: an operation which, for economic or legal reasons related to the owner's financial difficulties, existing or expected, financial conditions are modified in order to facilitate the debt's payment (principal and interests) because the owner is not able, or is expected not to be able, to appropriately comply in good time with its conditions, even when such modification was expected by contract.

The gross amount of refinancing, refinanced and restructured operations, detailed by classification as special risk in progress, substandard or doubtful, has been adapted to the criteria of the Letter by the General Directorate of Regulation and Financial Stability of Bank of Spain, dated April 30, 2013.

The detail of their respective coverage at December 31, 2016 is the following:

31.12.2016	NORMAL						SUBSTANDARD						
	Full mortgage guarantee		Rest of real guarantees		Without real guarantee		Full mortgage guarantee		Rest of real guarantees		Without real guarantee		Specific coverage
	No. oper.	Gross amount	No. oper.	Gross amount	No. oper.	Gross amount	No. oper.	Gross amount	No. oper.	Gross amount	No. oper.	Gross amount	
Public Administrations													
Rest of legal persons and individual employers													
Financing to real estate construction and development													
Rest of physical persons	18,154	2,623.147	819	167,530	785	17,710	3,786	573,753	516	97,754	318	9,737	10,567
Total	18,154	2,623.147	819	167,530	785	17,710	3,786	573,753	516	97,754	318	9,737	10,567

	DOUBTFUL							TOTAL		
	Full mortgage guarantee		Rest of real guarantees		Without real guarantee		Specific coverage			
	No. oper.	Gross amount	No. oper.	Gross amount	No. oper.	Gross amount		No. oper.	Gross amount	Specific coverage
Public Administrations										
Rest of legal persons and individual employers	3	241	4	2,992	1	631	2,681	8	3,864	2,681
Financing to real estate construction and development	3	241	4	2,992	1	631	2,681	8	3,864	2,681
Rest of physical persons	3,499	475,225	4,226	749,916	577	16,577	252,686	32,680	4,731,349	263,253
Total	3,502	475,466	4,230	752,908	578	17,208	255,367	32,688	4,735,213	265,934

The detail of their respective coverage at December 31, 2015 is the following:

31.12.2015	NORMAL						SUBSTANDARD						
	Full mortgage guarantee		Rest of real guarantees		Without real guarantee		Full mortgage guarantee		Rest of real guarantees		Without real guarantee		Specific coverage
	No. oper.	Gross amount	No. oper.	Gross amount	No. oper.	Gross amount	No. oper.	Gross amount	No. oper.	Gross amount	No. oper.	Gross amount	
Public Administrations													
Rest of legal persons and individual employers													
Financing to real estate construction and development													
Rest of physical persons	18,552	2,652,882	728	147,836	873	17,523	4,585	711,112	569	108,179	412	11,404	15,192
Total	18,552	2,652,882	728	147,836	873	17,523	4,585	711,112	569	108,179	412	11,404	15,192

	DOUBTFUL							TOTAL		
	Full mortgage guarantee		Rest of real guarantees		Without real guarantee		Specific coverage			
	No. oper.	Gross amount	No. oper.	Gross amount	No. oper.	Gross amount		No. oper.	Gross amount	Specific coverage
Public Administrations										
Rest of legal persons and individual employers	5	1,007	3	2,551	1	626.955	2,668	9	4,185	2,668
Financing to real estate construction and development	5	1,007	3	2,551	1	626.955	2,668	9	4,185	2,668
Rest of physical persons	3,753	520,177	4,779	845,506	1,109	36,623	294,130	35,360	5,051,243	309,322
Total	3,758	521,184	4,782	848,057	1,110	37,250	296,798	35,369	5,055,428	311,990

El amount of operations which, after the refinancing or restructuring, have been classified as doubtful in 2016 and 2015 are the following:

REFINANCING BALANCES IN FORCE AND RESTRUCTURING OPERATIONS 31.12.2016	**Full mortgage guarantee**		**Rest of real guarantees**		**Without real guarantee**		**TOTAL**	
	No. oper.	Gross amount	No. oper.	Gross amount	No. oper.	Gross amount	No. oper.	Gross amount
Public Administrations								
Rest of legal persons and individual employers	2	188	3	2,551			5	2,739
Financing to real estate construction and development								
Rest of physical persons	1,862	269,691	2,260	422,982	173	5,655	4,295	698,328
Total	1,864	269,879	2,263	425,533	173	5,655	4,300	701,067

REFINANCING BALANCES IN FORCE AND RESTRUCTURING OPERATIONS 31.12.2015	**Full mortgage guarantee**		**Rest of real guarantees**		**Without real guarantee**		**TOTAL**	
	No. oper.	Gross amount	No. oper.	Gross amount	No. oper.	Gross amount	No. oper.	Gross amount
Public Administrations								
Rest of legal persons and individual employers	3	512	3	2,551	1	627	7	3,690
Financing to real estate construction and development								
Rest of physical persons	1,929	286,241	2,395	449,335	293	11,361	4,617	746,937
Total	1,932	286,753	2,398	451,886	294	11,988	4,624	750,627

Total financings granted to customers at December 31, 2016 and 2015, detailed by counterpart, were the following:

DISTRIBUTION OF LOANS AND ADVANCES TO OTHER DEBTORS BY ACTIVITY (carrying value) 31.12.2016				**Credit with real guarantee. Loan to value**				
	TOTAL	Real estate guarantee	Without guarantee	LTV ≤ 40%	40% < LTV ≤ 60%	60% < LTV ≤ 80%	80% < LTV ≤ 100%	LTV > 100%
1 Public Administrations								
2 Other financial institutions								
3 Non-financial companies and individual employers	7,490	7,490	-	707	835	1,257	67	4,624
3.1 Real estate construction and development (b)	7,490	7,490	-	707	835	1,257	67	4,624
3.2 Construction of civil works	-	-	-	-	-	-	-	-
3.3 Rest of purposes	-	-	-	-	-	-	-	-
3.3.1 Large corporations (c)	-	-	-	-	-	-	-	-
3.3.2 SMEs and individual employers (c)	-	-	-	-	-	-	-	-
4 Rest of homes and non-profit institutions serving households	10,594.236	10,593,548	688	1,382,860	2,864,749	3,447,178	1,383,600	1,515,161
4.1 Homes (d)	10,593,548	10,593,548	-	1,382,860	2,864,749	3,447,178	1,383,600	1,515,161
4.2 Consumption (d)	-	-	-	-	-	-	-	-
4.3 Other purposes (d)	688	-	688	-	-	-	-	-
TOTAL	10,601.726	10,601.038	688	1,383,567	2,865,584	3,448,435	1,383,667	1,519,785
MEMORANDUM ITEM								
Refinancing, refinanced and restructured operations	4,735,213	3,672,366	1,018,192	244,382	877,428	1,349,946	1,177,685	1,041,117

DISTRIBUTION OF LOANS AND ADVANCES TO OTHER DEBTORS BY ACTIVITY (carrying value) 31.12.2016

	TOTAL	Real estate guarantee	Without guarantee	**Credit with real guarantee. Loan to value** LTV ≤ 40%	40% < LTV ≤ 60%	60% < LTV ≤ 80%	80% < LTV ≤ 100%	LTV > 100%
1 Public Administrations								
2 Other financial institutions								
3 Non-financial companies and individual employers	8,200	8,200	-	561	673	1,580	2,180	3,206
3.1 Real estate construction and development (b)	8,200	8,200	-	561	673	1,580	2,180	3,206
3.2 Construction of civil works	-	-	-	-	-	-	-	-
3.3 Rest of purposes	-	-	-	-	-	-	-	-
3.3.1 Large corporations (c)	-	-	-	-	-	-	-	-
3.3.2 SMEs and individual employers (c)	-	-	-	-	-	-	-	-
4 Rest of homes and non-profit institutions serving households	10,914,876	10,914,070	806	1,090,029	2,643,336	3,088,038	1,803,946	2,288,721
4.1 Homes (d)	10,914,070	10,914,070	-	1,090,029	2,643,336	3,088,038	1,803,946	2,288,721
4.2 Consumption (d)	-	-	-	-	-	-	-	-
4.3 Other purposes (d)	806	-	806	-	-	-	-	-
TOTAL	10,923,076	10,922,270	-	1,090,590	2,644,009	3,089,618	1,806,126	2,291,927
MEMORANDUM ITEM								
Refinancing, refinanced and restructured operations	5,055,428	3,885,178	1,104,072	278,712	946,991	1,550,930	1,108,544	1,170,251

14. Market risk management

In the markets and treasury area, the UCI Group manages the market risks that affect managed assets or liabilities. The Board of Directors periodically establishes the delegated limits and checks that they are properly applied. Likewise, loss limits and other control measures are established. The management of limits is made with a broad series of indicators and alert signals that have as their objective the anticipation and proper monitoring of interest rate risks and of liquidity.

Assets and Liabilities interest rate gap

The UCI Group analyzes Financial Margin sensitivity to variations in interest rates, which are analyzed by a Committee meeting twice a month for this purpose. This sensitivity is conditioned by time lags in maturity rates and changes to the interest rates that arise between the different balance sheet items, or off balance sheet with securitization funds, which represent an imbalance in cash-flow to the entity. Investments are managed through hedging so as to maintain these sensitivities within the target range set in the Committees. The measures used by UCI to control the interest risk are Rate Gap analysis and the financial margin sensitivities in the managed portfolio.

Interest Rate Gap analysis deals with the time lags between the reviews of maturity for assets and liabilities under management and allows concentrations of interest risk in the different maturities to be detected.

Financial margin sensitivity measures the impact on results of the interest rate gaps for a given period with a displacement of the interest rate curve.

The main asset item sensitive to interest rates refers to the clients' portfolio in the balance, out of which 94.14% is at variable rate (94.14% at December 31, 2015), 5.05% is a mixed rate (5.05% at December 31, 2015), with a first period at fixed rate and subsequent reviews at variable rate, and only 0.81% at strict fixed rate (0.81% at December 31, 2015).

Within credits granted which are at their variable period, 81.27% review its rate each half year (81.27% at December 31, 2015) and 18.73% each year (18.73% at December 31, 2015).

Management of the interest rate risk pursues a double objective: reducing the impacts of interest rate variations on the financial margin and protecting the Group's economic value. Accordingly, financial instruments are used such as securitization bonds (Spain) or "cash" dispositions with shareholders (Spain, Portugal and Greece), and financial derivatives also formalized with Shareholders (interest rate swaps, call money swaps or FRA).

Liquidity Risk

The management and control of the liquidity risk aims to ensure compliance with payment commitments under the best possible conditions for the UCI Group in the different countries in which it has a presence.

The liquidity risk is associated with the Group's capacity for financing acquired commitments at reasonable market prices, as well as being able to carry out its business plans with stable sources of finance. The measure used for controlling the liquidity risk is the liquidity gap, which provides information on the contractual cash in-flows and out-flows over the life of the loans.

In order to mitigate the liquidity risk, since its beginnings UCI has had a recurrent policy for going to the capital markets through the securitization of its loan assets. Accordingly, the holders of securitization bonds support the liquidity risk up until loan maturities. Since 1994, UCI has issued 21 securitization funds in Spain for an initial overall amount of 16,114 million Euros, mostly in capital markets, including the issuance in June 2015, March 2016 and

October 2016 of RMBS Prado I, Prado II and Prado III for an amount of 450M€, 540M€ and 420M€, respectively, which, at December 2016, represented 4,569.7 million Euros (4,171.4 million Euros at December 31, 2015), or 41% of the overall balance it manages in Spain, financed to maturity by the capital markets (40.6% in 2015).

In 2008, the Group carried out its first self-securitization transaction UCI 18, where UCI subscribed all bonds by financing the mortgage loan portfolio, in particular those of highest qualification AAA which were eligible for liquidity transactions with the ECB. At the end of December 2016, the balance of UCI 18 amounts to 813 M€ (866 M€ at December 31, 2015), or 8.4% of the global balance managed in Spain (8.4% in 2015).

During 2009, UCI carried out another self-securitization, UCI 19, where UCI subscribed all bonds by financing the mortgage loan portfolio, in particular those of highest credit qualification, which are eligible for liquidity transactions with the ECB. During 2011, UCI, with the agreement of its shareholders and the securitization fund's managing entity, has liquidated this securitization fund.

As a consequence of the need of a double rating of, at least, A, and granted by different rating agencies, securitization bonds are no longer eligible for liquidity transactions with the ECB.

For the remaining balance sheet assets, UCI manages refinancing with treasury lines with its 2 reference Shareholders: BNP Paribas and Banco Santander; the UCI branches in Portugal and Greece are directly financed from the head office in Spain (until the 2011 closing, the Greece branch has a treasury line with the BNP Paribas office in Athens).

The liquidity gap contemplates the classification of the outstanding capital of financial assets and liabilities by maturity terms, taking as references the outstanding periods between the corresponding date and their contractual maturity dates. At December 31, 2016 and 2015, the liquidity gap is the following:

31.12.2016	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	TOTAL
ASSETS:							
Cash and balances with central banks	4	2					6
Loans and advances to credit institutions	126,277						126,277
Loans and advances to other debtors	37,370	80,755	390,467	1,422,609	1,494,794	7,551.771	10,977,766
Total Assets	**162,711**	**78,877**	**382,007**	**1,385,005**	**1,457,190**	**7,638.259**	**11,104,049**
LIABILITIES:							
Loans and advances to credit institutions	537,781	5,117,600	958,455	306,421	181,416	488,688	7,590,361
Loans and advances to other debtors	89,502	41,415	200,104	815,555	1,166,734	401,763	2,715,073
Loans and advances represented by marketable securities	29,839	13,807	66,712	271,894	388,972	133,941	905,165
Subordinated liabilities	338					80,000	80,338
Total Liabilities	**657,460**	**5,172,822**	**1,225,271**	**1,393,870**	**1,737,122**	**1,104,392**	**11,290,937**
Difference Assets less Liabilities	**-494,749**	**-5,093,945**	**-843,264**	**-8,865**	**-279,932**	**6,533,867**	**-186,888**

31.12.2015	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 3 years	Between 3 and 5 years	Over 5 years	TOTAL
ASSETS:							
Cash and balances with central banks	8						8
Loans and advances to credit institutions	106,054						106,054
Loans and advances to other debtors	40,203	87,213	285,944	1,526,448	1,485,926	7,892,891	11,318,625
Total Assets	**146,265**	**87,213**	**285,944**	**1,526,448**	**1,485,926**	**7,892,891**	**11,424,687**
LIABILITIES:							
Loans and advances to credit institutions	1,292,340	4,792,900	885,250	369,087	167,776	659,703	8,167,056
Loans and advances to other debtors	8,970	17,940	69,199	369,061	369,061	2,241,277	3,075,508
Loans and advances represented by marketable securities	-	2,180	7,144	38,139	37,126	197,207	281,796
Subordinated liabilities	352					80,000	80,352
Total Liabilities	**1,301,662**	**4,813,020**	**961,593**	**776,287**	**573,963**	**3,178,187**	**11,604,712**
Difference Assets less Liabilities	**-1,155,397**	**-4,725,807**	**-675,649**	**750,161**	**911,963**	**4,714,704**	**-180,025**

15. Other market risks: operational risk management

UCI follows closely the development of the standards on this risk as presented in the Basle II agreements, approved in June 2004, progressing in its project for identifying, mitigating, managing and quantifying operational risk.

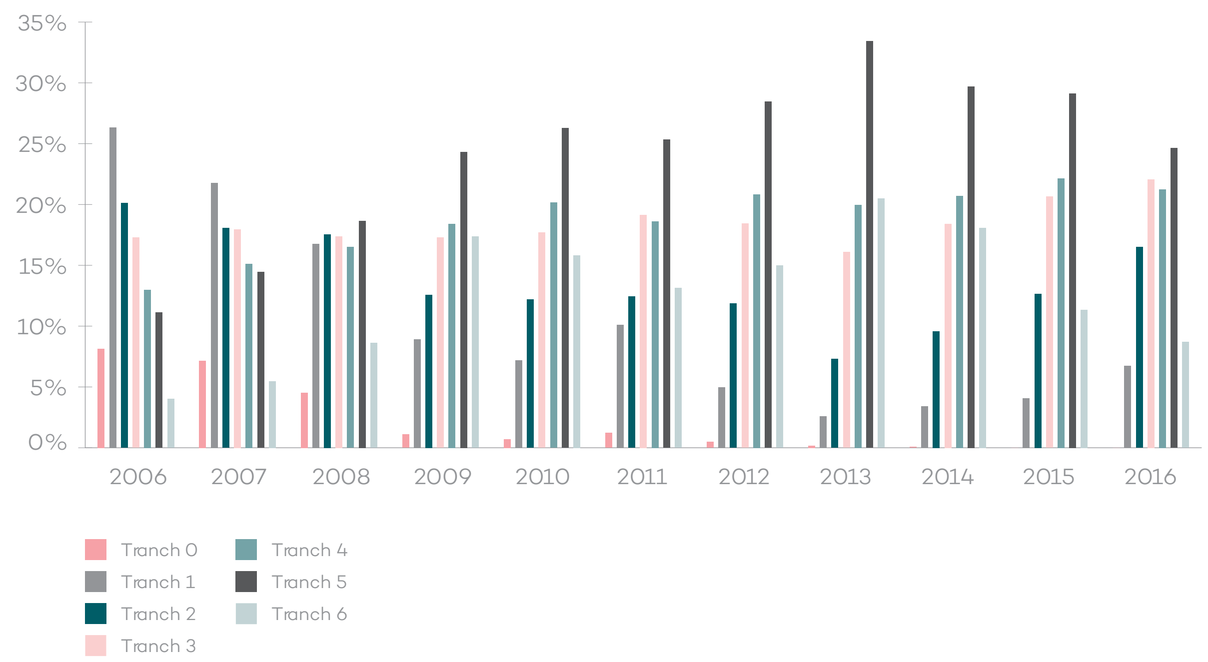
On this aspect and within the overall ISO 9001:2000 quality certification project, the entity has continued to computerise all risk events and incidents of any type, setting up a database that will make it possible in the future to model and quantify the level of operational risk present in all business and support areas.

The analysis of defaults contained in the losses and incidents database has made it possible to introduce improvements in controls and procedures with immediate results in the reduction of losses derived from operational risk.

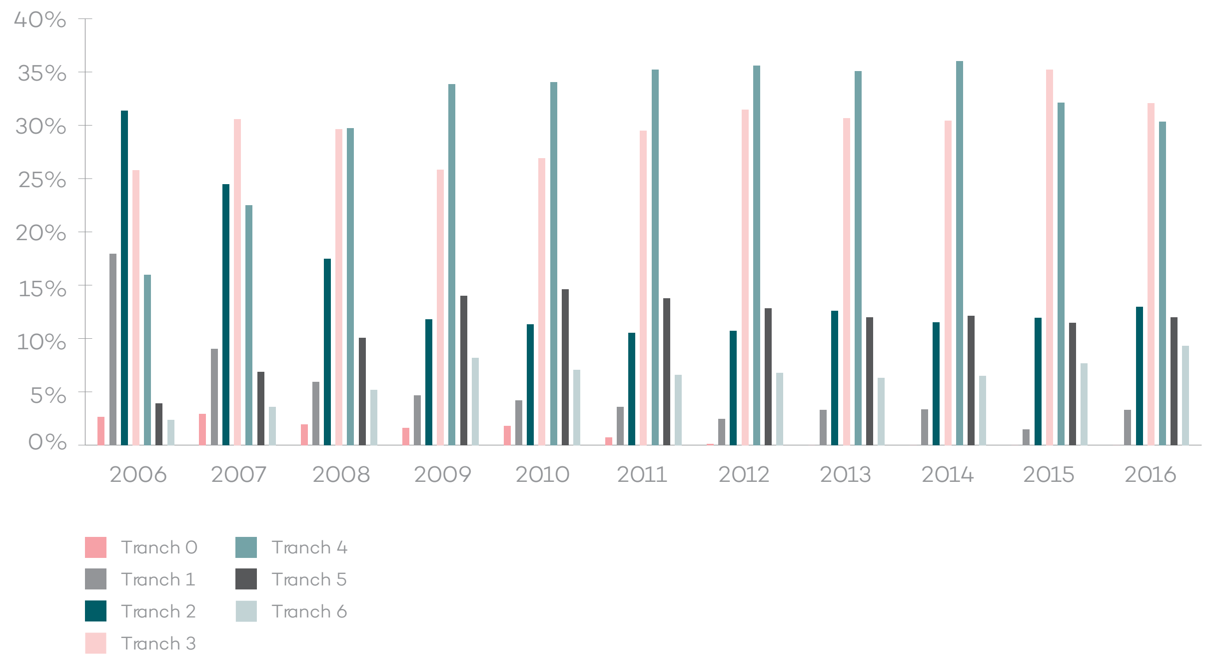
The parameterization of the different types of operational risk can be classified in accordance with the following matrix:

Type	Origin
Processes	Operating errors, human errors
Fraud and activities	Events of a criminal nature, unauthorized activities, unauthorized internal activities
Technology	Technical failures in computers, applications or communications
Human Resources	Failures in the Human Resources policy, in safety and health in the workplace, etc.
Commercial practices	Product defects and bad sales practices
Disasters	Events (natural, accidental or deliberate)
Suppliers	Breach of contracted services

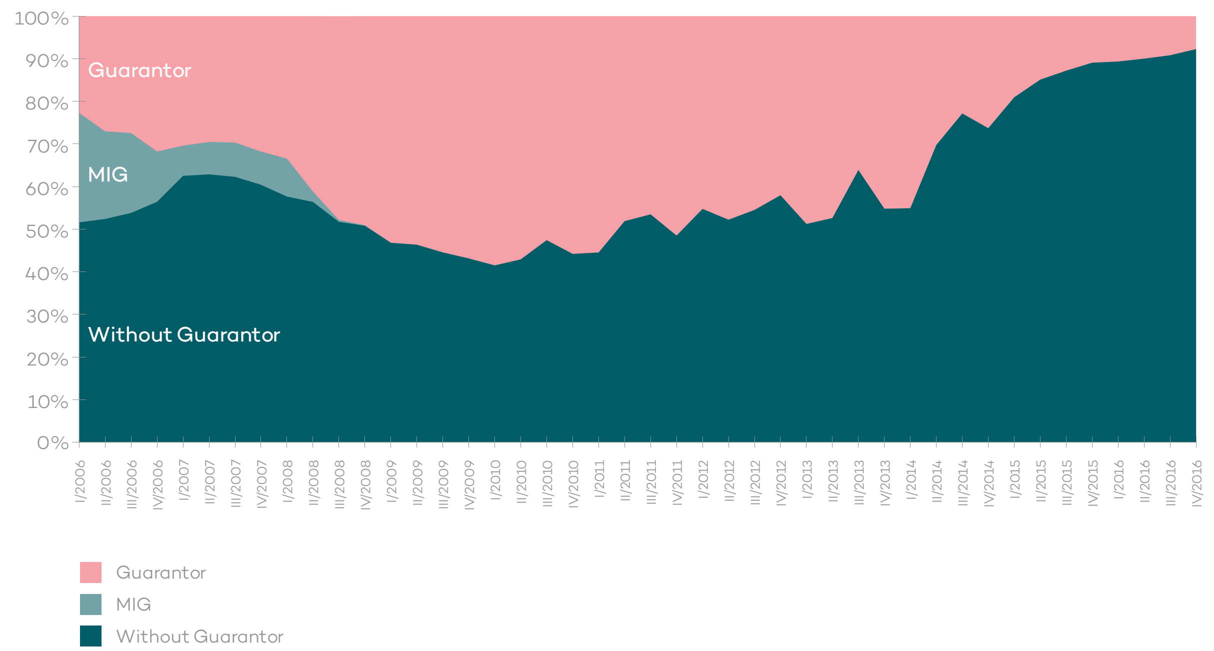
Spain: Score Rating Distribution



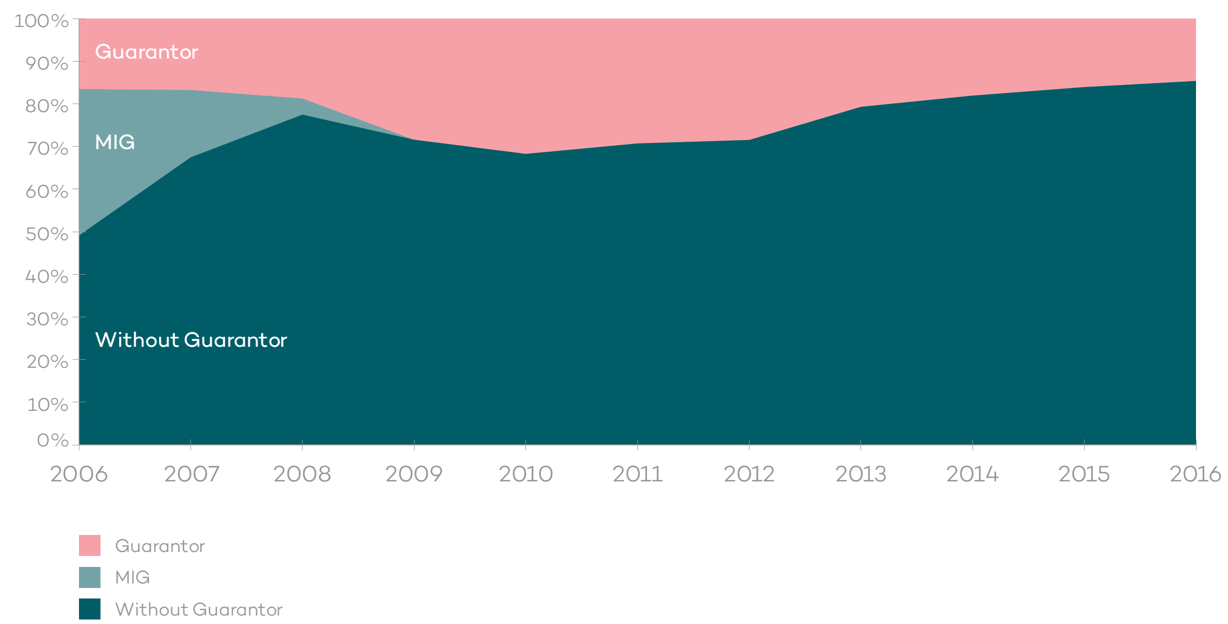
Portugal: Score Rating Distribution



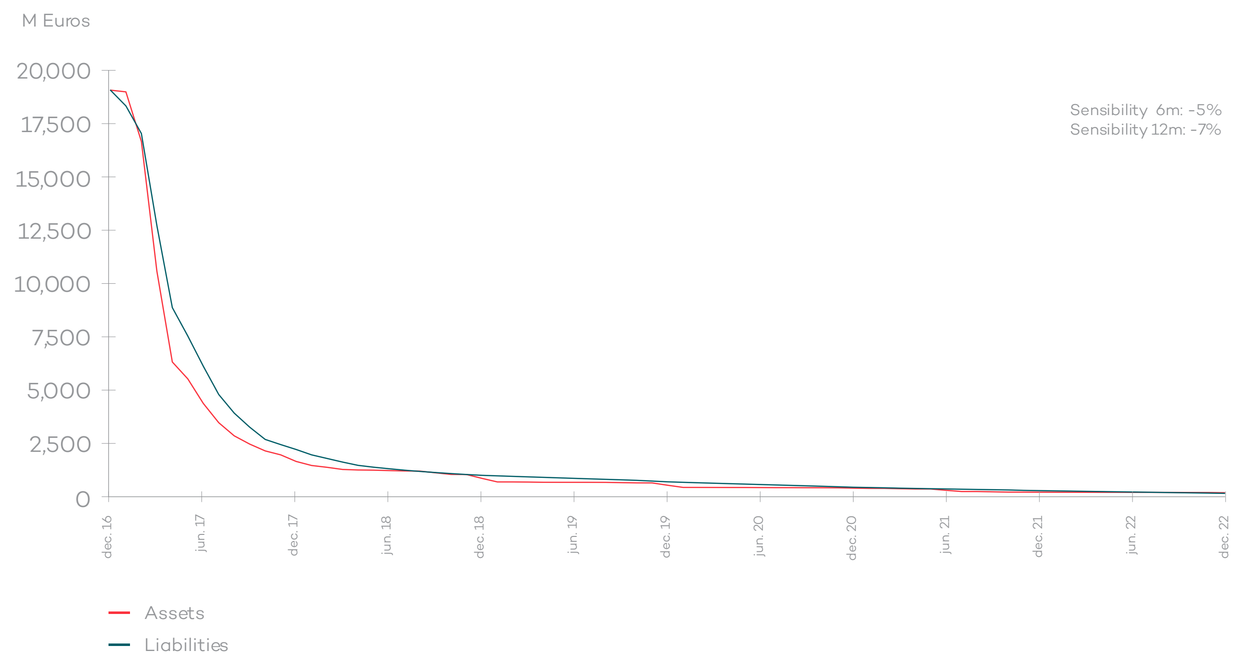
Spain: Presence of Third Parties Garantees per Quarterly Production



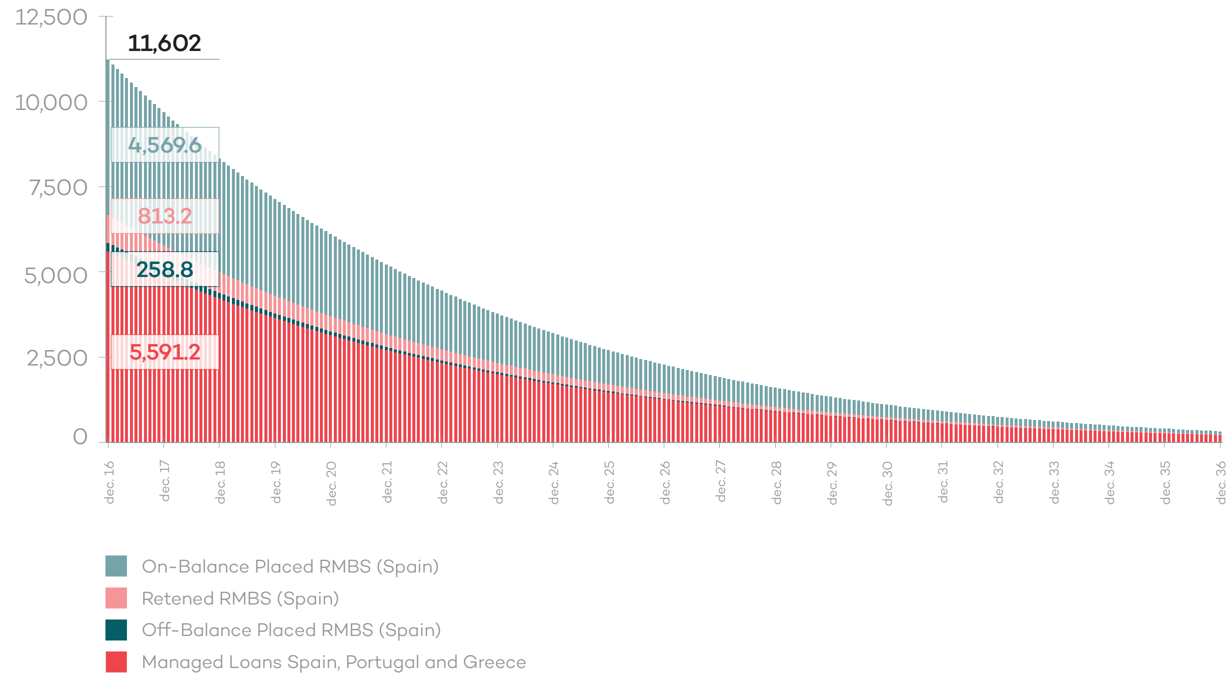
Portugal: Presence of Third Parties Garantees per Quarterly Production



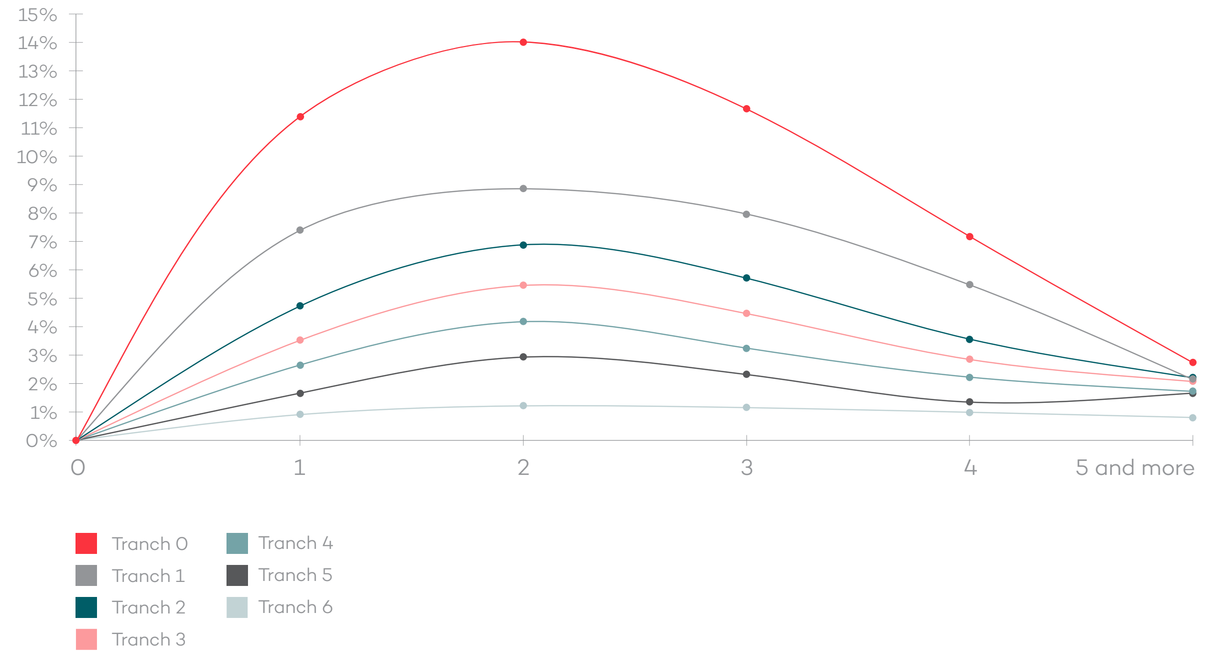
Consolidated Interest Rate Risk Coverage 2016



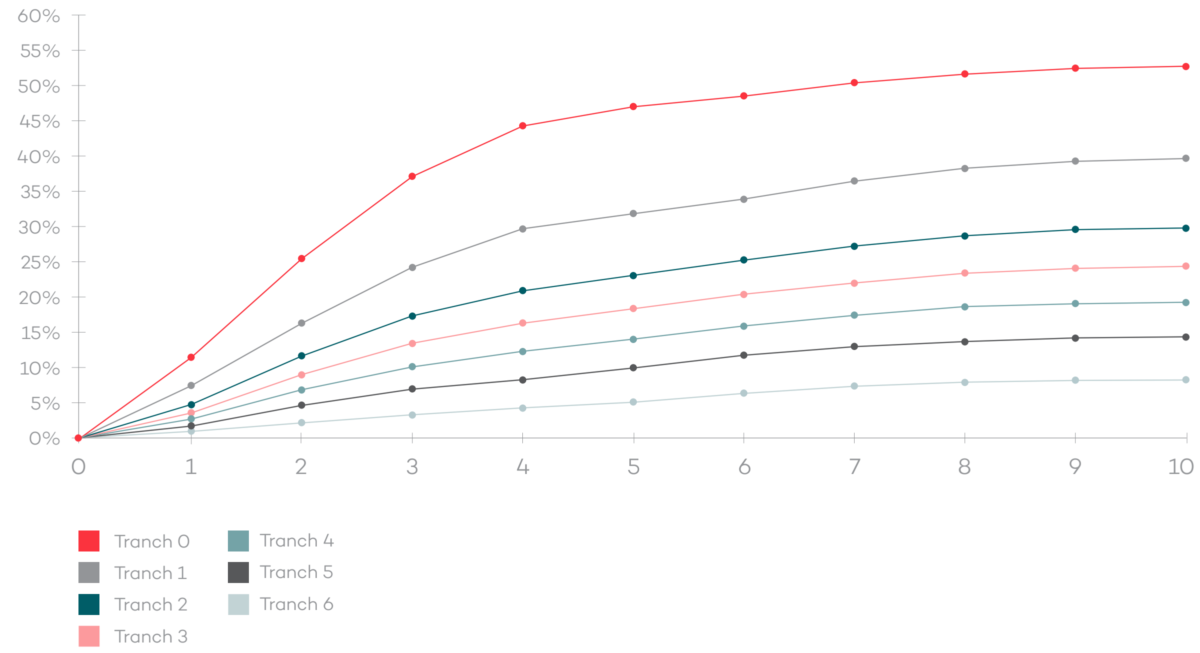
Downbreak Ooutstanding Managed Loans Balance and Secured 2016



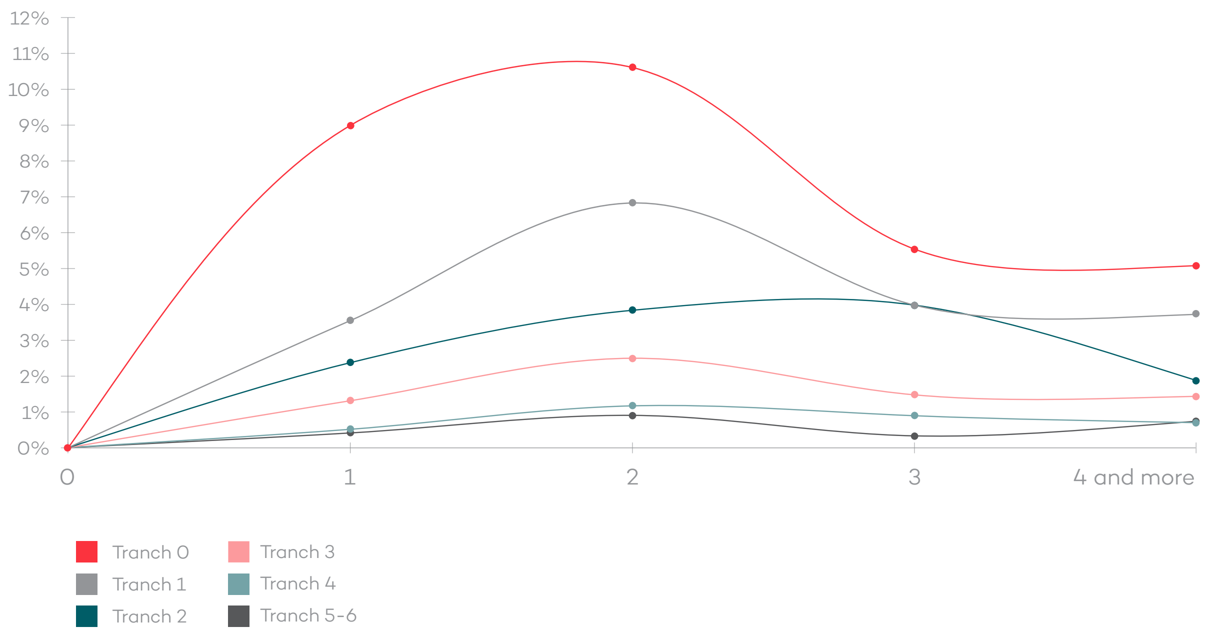
Spain: Probability of Default by Scoring Tranches Years 2006-2016



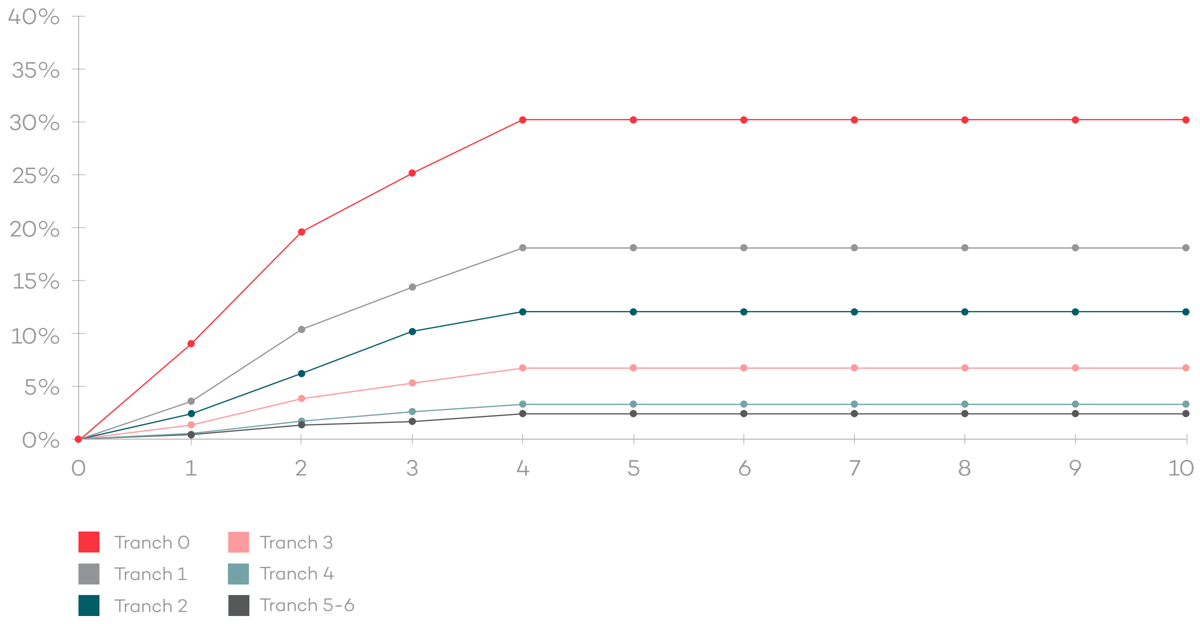
Spain: Score Rating Defaulting Years 2006-2016



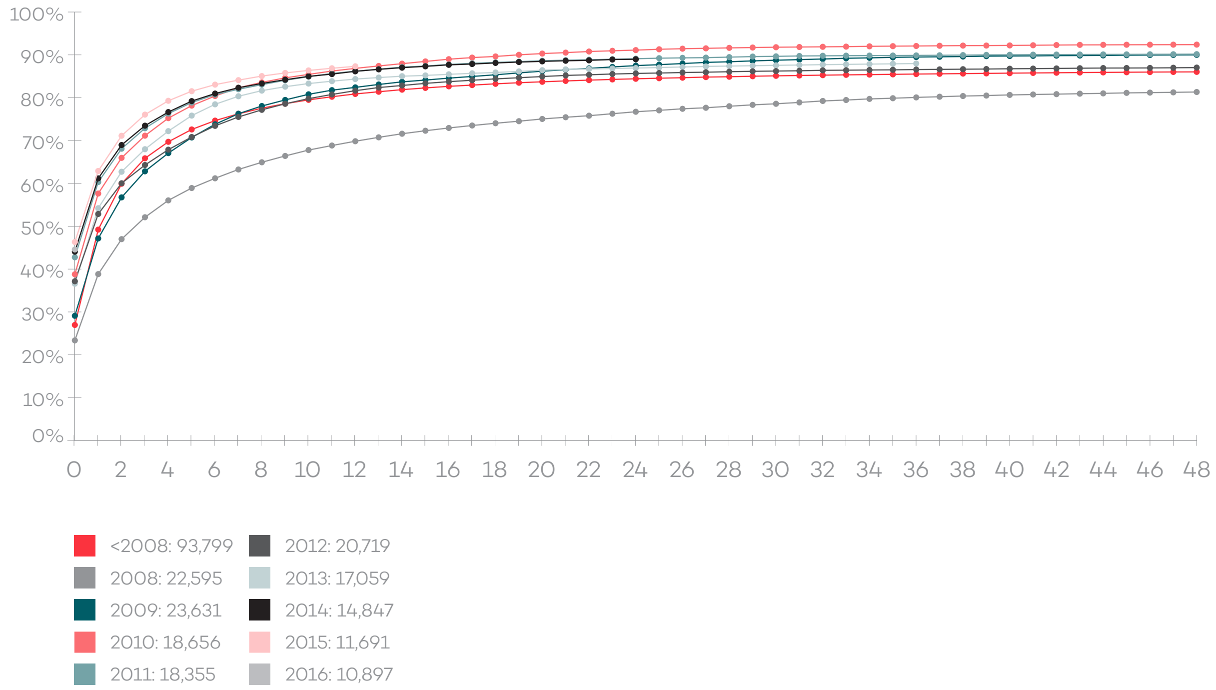
Portugal: Probability of Default by Scoring Tranches Years 2006-2016



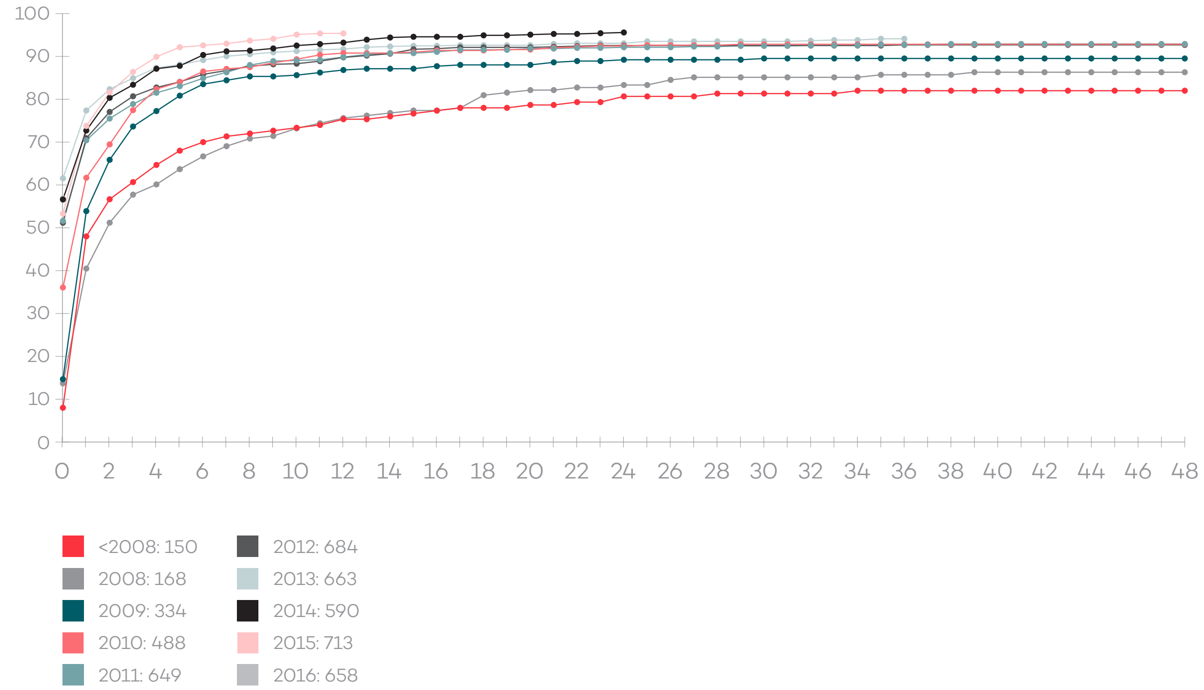
Portugal: Score Rating Defaulting Years 2006-2016



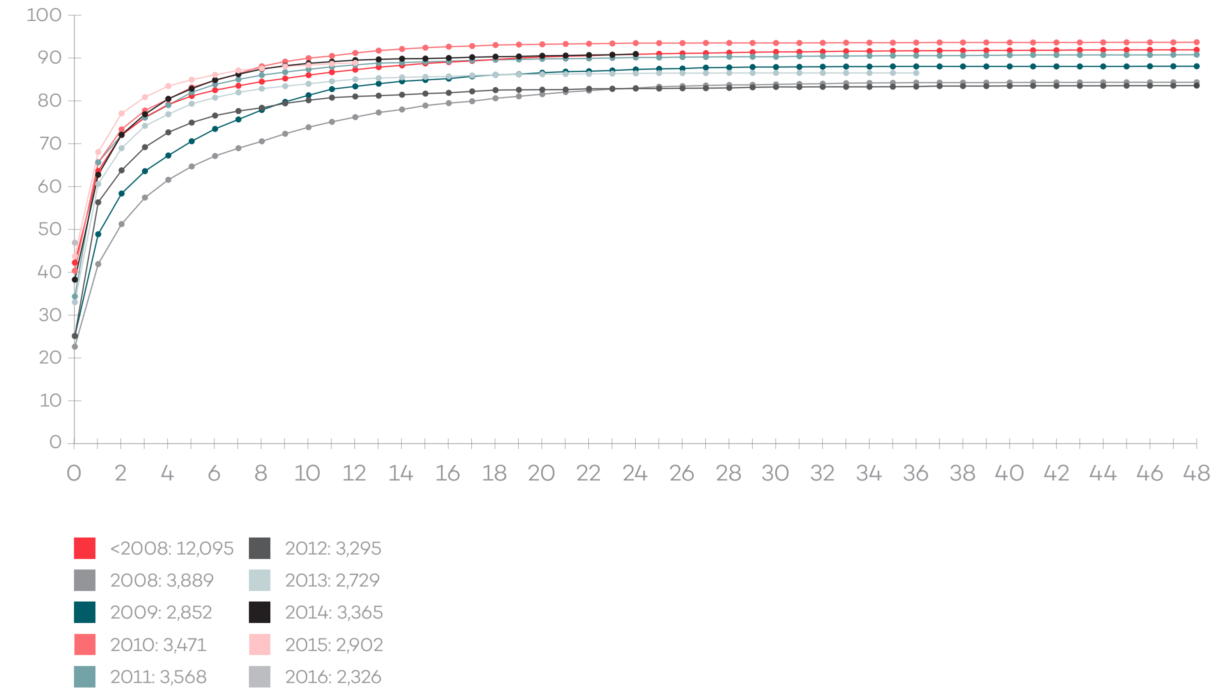
Spain: Defaulting Entries Back to Normality Performance



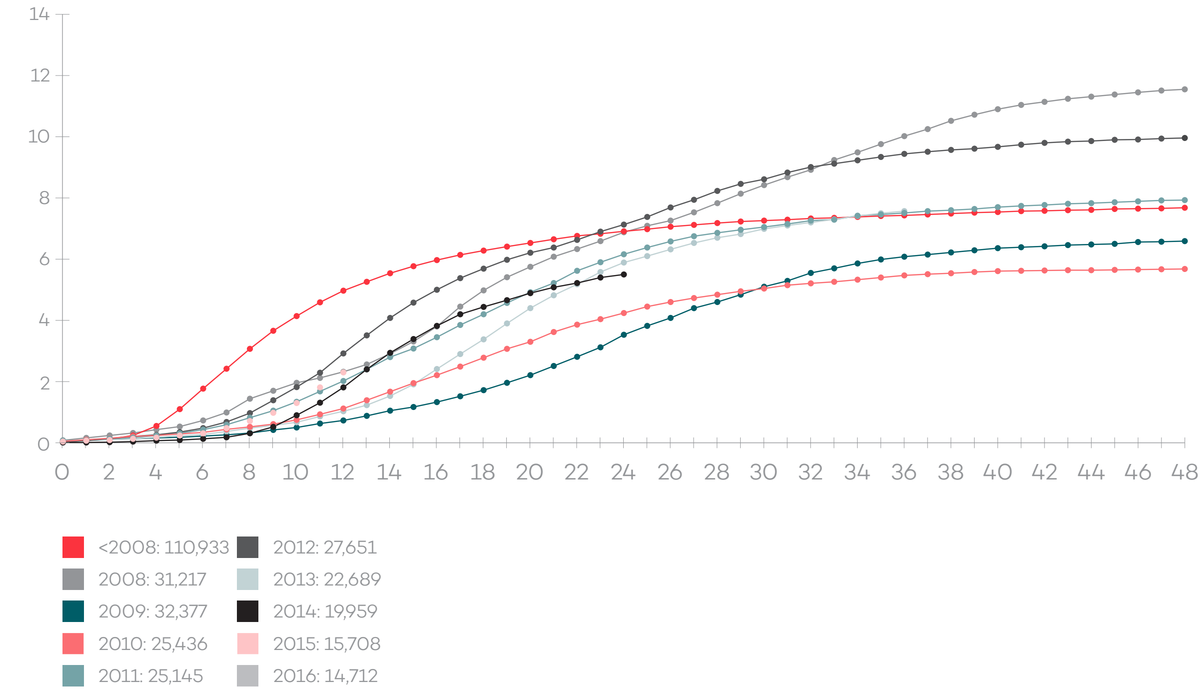
Greece: Defaulting Entries Back to Normality Performance



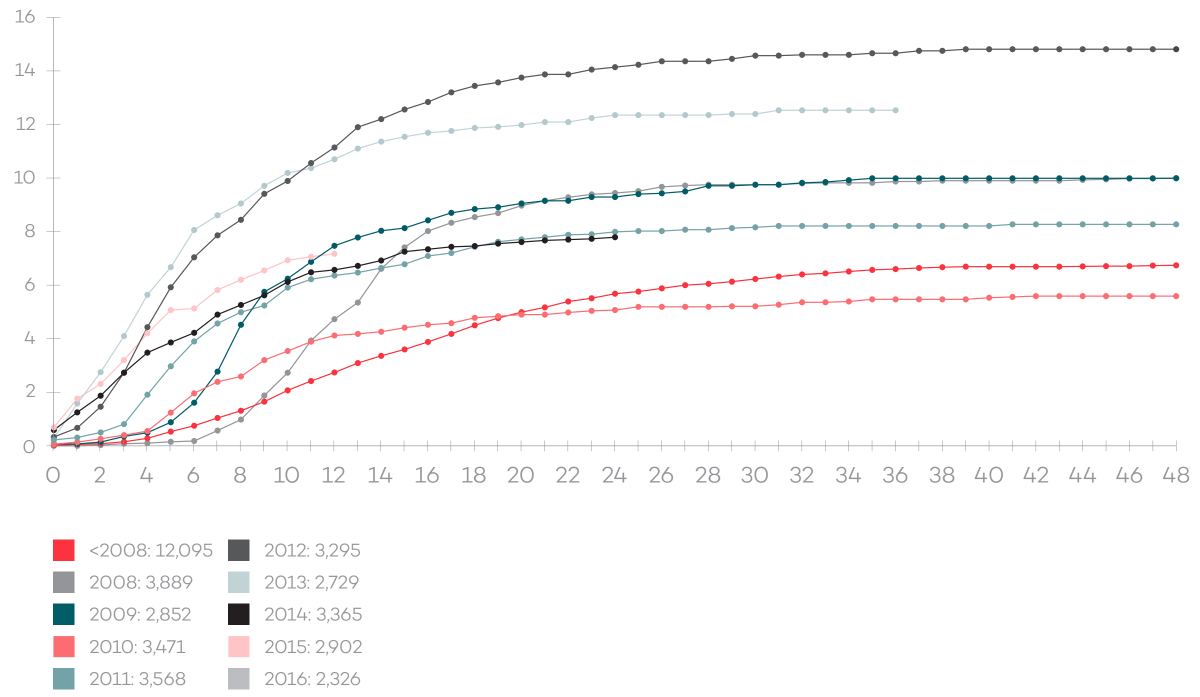
Portugal: Defaulting Entries Back to Normality Performance



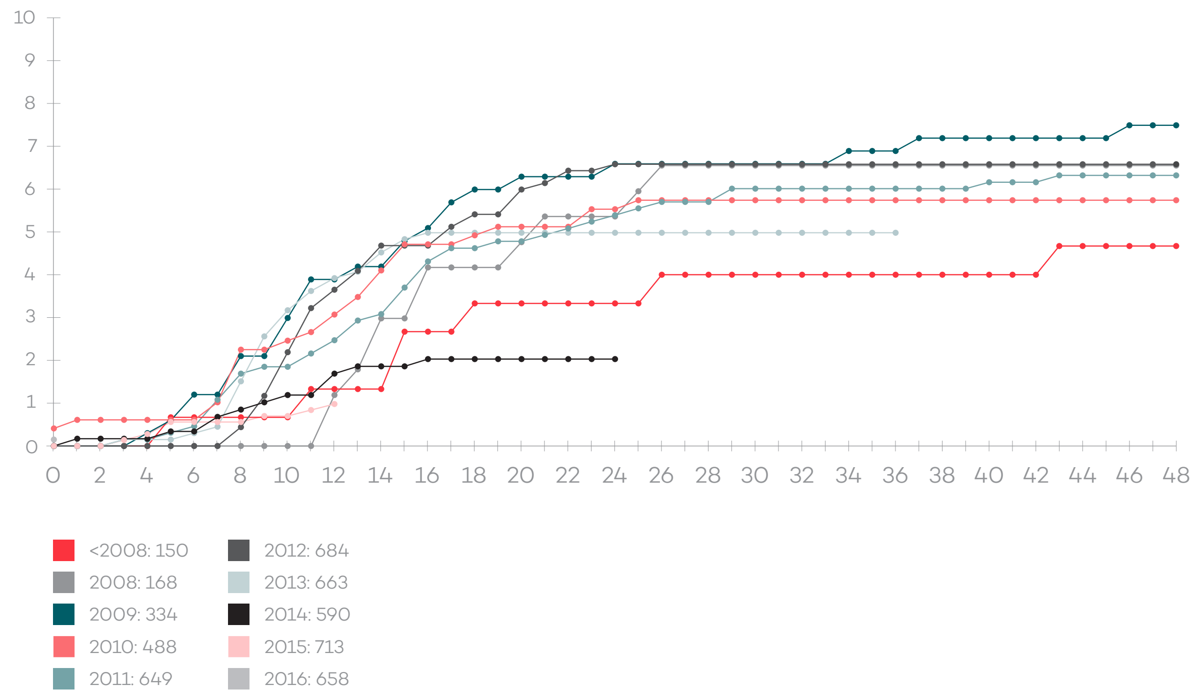
Spain: Defaulting Entries Auctions and Foreclosures



Portugal: Defaulting Entries Auctions and Foreclosures



Greece: Defaulting Entries Auctions and Foreclosures



16. Credit Investments

The detail of this caption at December 31, 2016 and 2015 is the following:

	31.12.16	31.12.15
Loans and advances to credit institutions	126,277	106,054
Loans and advances to other debtors	10,977,766	11,318,625
	11,104,043	11,424,679
Value corrections for asset impairment	-356,791	-372,715
Adjustments for accrued valuation interests	15,425	17,568
Adjustments for valuation of commissions	-34,674	-40,402
	10,728,003	**11,029,130**

The detail of the balance of loans and advances to other debtors is the following:

	31.12.16	31.12.15
Debtors with real guarantee residents	6,884,222	7,034,367
Credit with real guarantee non-residents	1,338,750	1,335,876
Doubtful debtors	1,443,040	1,633,545
Other term loans	1,309,705	1,312,524
Loans on demand and sundry	2,049	2,313
	10,977,766	**11,318,625**

The balance on the account “debtors with real guarantee” represents the non-overdue risk on loans granted that are guaranteed by mortgages in favour of the Group.

The balance on the account “other term debtors” represents the non-overdue risk on loans granted that are not guaranteed by mortgages in favour of the Group.

The detail of the Loans to customers by residual term at December 31, 2016 and 2015 is as follows:

	31.12.16	31.12.15
On demand	36,430	40,203
Between 1 month and 3 months	78,875	87,213
Between 3 months and 6 months	382,007	285,944
Between 6 months and 1 year	1,385,005	1,526,448
Between 1 year and 5 years	1,457,190	1,485,926
Over 5 years	7,638,259	7,892,891
	10,977,766	11,318,625

The detail of the balance of impairment corrections for to Loans and Credits assets at December 31, 2016 and 2015 is as follows:

	31.12.16	31.12.15
Specific coverage	321,912	372,336
Generic coverage	34,879	379
Final balance	356,791	372,715

The Group, during 2016 and 2015, has calculated the corresponding provisions on default transactions which count with real estate guarantees, taking into account the guarantee's value, and according to percentages indicated by the Bank of Spain's regulation.

Additionally, the Group's Directors have analyzed the guarantees' efficiency, updating appraisals so that the relation between the guarantee's value and the transactions' outstanding balance is realistic and does not generate a distorted image of the coverage provided by the guarantee.

Financial assets individually determined as impaired

Below, we present the detail, at December 31, 2016 and 2015, classified by segment, of those assets individually considered as impaired, on the basis of their individualized analysis (therefore, not including impaired financial assets on the basis of a collective assessment process of possible losses):

	THOUSANDS OF EUROS	
	31.12.16	31.12.15
Particular:		
Real guarantees		
Mortgage	1,405,370	1,574,736
Securities	-	-
Other	-	-
No guarantee	24,951	45,834
Developers:		
Real guarantees	-	-
Mortgage	13,094	12,975
TOTAL	1,443,415	1,633,545

Financial assets overdue and not impaired

Below, we present the detail of overdue financial assets not considered as impaired by the entity at December 31, 2016 and at December 31, 2015, classified by type of financial instruments:

	THOUSANDS OF EUROS	
	31.12.16	31.12.15
By type of counterpart	2,516	2,329
Public administrations		
Other sectors residents	2,050	1,859
Other sectors non-residents	466	470
TOTAL	2,516	2,329

Credit quality of financial assets not overdue or impaired

Below, we present, at December 31, 2016 and 2015, the classification of debt instruments not at fair value through profit or loss based on the risk profile and guarantees contributed:

In addition to financial assets impaired and not impaired, listed above, the entity classifies as substandard risk an amount of 682,597 thousand Euros at 2016 closing (832,161 thousand Euros at 2015 closing).

	THOUSANDS OF EUROS	
	31.12.16	**31.12.15**
No appreciable risk	-	-
Low risk	5,030,129	4,948,001
Mid-low risk	830,723	860,681
Mid risk	176,252	153,561
Mid-high risk	3,746	70,106
High risk	2,808,388	2,818,241
TOTAL	**8,849,238**	**8,850,590**

Credit risk with real estate construction and development

At December 31, 2016 and 2015, financing aimed to construction and real estate development amounted to 16,783 and 17,072 thousand Euros, out of which 13,094 and 12,975 and 13,600 thousand Euros were impaired assets.

The amounts above correspond to financing granted for construction and real estate promotion. As a consequence, and according to instructions from Bank of Spain, the debtor's CNAE has not been taken into account. This implies, for example, that if the debtor is: (a) a real estate company, but dedicates the granted financing to other than construction or real estate promotion, it is not included on these charts; and (b) a company which main activity is not construction or real estate, but the credit is used to finance estates aimed to real estate promotion, it is included on these charts.

The quantitative information on real estate risk at December 31, 2016 is the following, in thousands of Euros:

	Gross amount	**Excess on guarantee value**	**Specific coverage**
Credit risk	16,783	10,439	9,294
Defaulter	12,463	3,488	8,762
Subjective doubtful	631	249	158
Substandard	1,157	859	374
Memorandum item			
Generic coverage fund	-		-
Failed	-		-

The quantitative information on real estate risk at December 31, 2015 is the following, in thousands of Euros:

	Gross amount	**Excess on guarantee value**	**Specific coverage**
Credit risk	17,072	7,468	8,871
Defaulter	12,295	4,577	8,408
Subjective doubtful	680	459	170
Substandard	831	986	293
Memorandum item			
Generic coverage fund	-		-
Failed	-		-

The chart below details the real estate credit risk based on the type of associated guarantees:

	31.12.2016	**31.12.2015**
Without specific guarantee	-	-
With mortgage guarantee	16,783	17,072
Finished buildings-houses	9,568	9,552
Finishes buildings-others	-	-
Buildings under construction-houses	695	710
Buildings under construction-others	-	-
Urbanized land	6,520	6,810
Land-other		

Risk retail mortgage portfolio

The quantitative information regarding the retail mortgage portfolio at December 31, 2016 and 2015 is the following:

	31.12.2016	31.12.2015
Credit to acquire houses	11,434,790	11,301,495
Without mortgage guarantee	108,334	132,369
Doubtful	24,951	45,834
With mortgage guarantee	11,326,456	11,326,456
Doubtful	1,405,370	1,574,736

Ranges of loan to value (LTV) of the retail mortgage portfolio at December 31, 2016 are the following:

	LTV ≤ 40%	40% < LTV ≤ 60%	60% < LTV ≤ 80%	80% < LTV ≤ 100%	LTV > 100%
Live credits to acquire houses. With mortgage guarantee	1,465,896	2,957,602	3,264,341	2,049,497	1,589,120
Doubtful credits to acquire houses. With mortgage guarantee	12,390	50,058	153,837	309,545	879,540

Ranges of loan to value (LTV) of the retail mortgage portfolio at December 31, 2015 are the following:

	LTV ≤ 40%	40% < LTV ≤ 60%	60% < LTV ≤ 80%	80% < LTV ≤ 100%	LTV > 100%
Live credits to acquire houses. With mortgage guarantee	1,214,299	2,942,311	3,661,503	1,859,640	1,491,373
Doubtful credits to acquire houses. With mortgage guarantee	12,167	54,722	168,482	370,165	969,200

Securitization transactions

During 2016, the Group has sold mortgage loans to securitization funds Prado II and Prado III, for a total value of 540 million Euros and 420 million Euros, respectively, representing 100% of principal and ordinary interests of each matured loan. Securitization funds, through their managing entity, have issued Mortgage Securitization and asset Bonds for an amount of 421 million Euros and 319 million Euros, respectively. The Company has held the subordinated loan on both securitizations, for 119 and 101 million Euros, respectively, as well as securitization bonds of Prado II by 52 million Euros, so that securitized loans continue being included on the balance sheet, since in this case the operation's risks and rewards have not been transferred.

During 2015, the Group sold mortgages from its portfolio to the securitization fund Prado I, for a total value of 450 million Euros and representing 100% of the principal and ordinary interests of each sold loan. Securitization funds, through its managing entities, performed an issuance of Mortgage Securitization Bonds and assets, for an amount of 342 million Euros. The Entity has withheld the subordinated loan, for an amount of 122 million Euros, as well as securitization bonds, by 45 million Euros, so that securitized loans continue being part of the balance sheet, as the operation's risks and benefits have not been transferred.

In turn, during 2003 and previous years, the Group performed asset securitization transactions through which it has transferred loans and credits from its portfolio to different asset securitization funds. The chart below is a detail of the value of securitized assets before January 1, 2004, written off from the balance sheet and which were outstanding at December 31, 2016 and 2015.

(In thousands of euros)	2016	2015
Asset Securitization Fund UCI 7	37,978	43,061
Asset Securitization Fund UCI 8	58,107	63,834
Asset Securitization Fund UCI 9	163,932	180,457
TOTAL	**262,017**	**287,352**

Also, and after January 1, 2004, the Group performed asset securitization transactions through the transfer of loans and credits from its portfolio to different securitization funds, where, as a consequence of conditions agreed to transfer these assets and of the information on section two of the present notes to the financial statements, Directors understand that the Group has kept risks and substantial advantages.

The chart below shows a detail of balances registered on the enclosed balance sheets at December 31, 2016 and 2015, associated to these transactions:

(In thousands of euros)	**2016**	**2015**
Asset Securitization Fund UCI 10	122,641	134,992
Asset Securitization Fund UCI 11	195,640	211,515
Asset Securitization Fund UCI 12	275,218	295,233
Asset Securitization Fund UCI 14	504,335	538,191
Asset Securitization Fund UCI 15	598,156	636,193
Asset Securitization Fund UCI 16	844,536	899,227
Asset Securitization Fund UCI 17	727,764	781,250
Asset Securitization Fund UCI 18	813,439	866,423
Asset Securitization Fund Prado I	407,678	436,561
Asset Securitization Fund Prado II	510,152	-
Asset Securitization Fund Prado III	414,419	-
TOTAL	**5,413,978**	**4,799,585**

On February 2008, the Group sold mortgage and personal loans from its portfolio to the securitization fund UCI 18, with the total amounts coming to 1,723,000 thousand Euros respectively, and which represented 100% of the principal and ordinary interest for each of the loans sold. Through the management company, the Securitization Funds issued Mortgage and Assets Securitization Bonds for amounts of 1,723,000 thousand Euros. Such securitized bonds have been re-purchased and, therefore, securitized loans continue being shown on the balance sheet since, in this case, risks and benefits of the transaction have not been transferred.

On November 2015, Securitization funds UCI 5 and UCI 6 have been liquidated, which possibility is foreseen by their constitution deed, since the managing entity is able to exercise their early liquidation if the amount of Credit Rights to be amortized is below 10% of the Fund's initial asset. The Entity has repurchased mortgage shares integrated in the Fund (and subsequently amortized them), and thus the Entity holds full ownership again of participated loans.

17. Non-current assets held for sale

This heading contains the tangible assets represented by foreclosed assets in respect of unpaid loans that have been claimed through legal procedures.

The movement on these assets during 2016 and 2015 was the following:

	31.12.14	**Additions**	**Write offs**	**Reclassification**	**31.12.15**	**Additions**	**Write offs**	**Reclassification**	**31.12.16**
Foreclosed estates	594,810	170,060	-132,697	-82,882	549,291	125,515	-127,417	-36,685	510,704
Provisions foreclosed estates	-135,265	-36,062	36,881	11,120	-123,326	-30,762	33,784	7,141	-113,163
	459,545				425,965				397,541

Additionally, this caption of the balance sheet includes a prepayment to suppliers, for an amount of 47 thousand Euros (74 thousand Euros at December 31, 2015).

The amount registered as reclassification corresponds to estates that, during 2016 and 2015, have been reclassified into the caption of Property Investments of the balance sheet (note 19).

The sale of estates in 2016 has implied losses on the net book value by 1,698 thousand Euros (3,964 thousand Euros in 2015). This amount is registered in caption "Profit (loss) of non-current assets held for sale not classified as interrupted operations" of the income statement, including the net result from sales, which includes the result of sales as well as allocations and recoveries of provisions from non-current assets held for sale.

Quantitative information regarding foreclosed assets at December 31, 2016 is the following:

	Accounting entry value	**Coverage**
Real estate assets originated from financing to construction and real estate development companies	9,038	-4,215
Finished buildings: housing or others	6,639	-3,234
Buildings under construction: housing or others	-	-
Land: urbanized land or others	2,399	-981
Real estate assets originated on mortgage financing to families to acquire houses	501,666	-108,948
Remaining foreclosed real estate assets	-	-
Equity instruments, participations and financings to non-consolidated companies holding such assets	-	-

Quantitative information regarding foreclosed assets at December 31, 2015 is the following:

	Accounting entry value	Coverage
Real estate assets originated from financing to construction and real estate development companies	10,266	-5,770
Finished buildings: housing or others	7,841	-4,706
Buildings under construction: housing or others	-	-
Land: urbanized land or others	2,425	-1,064
Real estate assets originated on mortgage financing to families to acquire houses	539,025	-117,556
Remaining foreclosed real estate assets	-	-
Equity instruments, participations and financings to non-consolidated companies holding such assets	-	-

The classification of foreclosed assets, at December 31, 2016 and 2015, based on their nature and permanence in the balance sheet, is the following:

2016	Less than 3 years	More than 3 years	Total
Finished buildings	249,404	252,263	501,667
Buildings under construction	6,117	522	6,639
Land	1,888	510	2,398

2015	Less than 3 years	More than 3 years	Total
Finished buildings	310,166	236,700	546,866
Buildings under construction	-	-	-
Land	2,425	-	2,425

When clearing assets held on the balance sheet, Royal Decree 2/2014 has been applied, considering appraisals performed by independent third parties. The valuation methods used on appraisals are described on Order ECO/0805/2003 of 27 March, on valuation standards for estates and certain rights for financial purposes, reviewed by Order EHA/3011/2007, of 4 October.

During 2016 and 2015, as well as in previous years, the Group has carried out certain selling operations for non-current assets held for sale and disposition groups where it has financed the purchaser for the amount necessary to perform the acquisition. Loans granted by the Entity, during 2016, to finance this kind of operations amounted to 59,643 thousand Euros (62,317 thousand Euros during 2015).

The outstanding balance of this kind of financing at December 31, 2016 and 2015 amounted to 568,904 and 532,021 thousand Euros, respectively.

The average percentage financed for operations of this kind, outstanding at December 31, 2016 and at December 31, 2015, corresponds to the one established by the Group on concession policies on the credit risk.

18. Tangible fixed assets

The detail of these headings in the enclosed balance sheets at December 31, 2016 and 2015 is the following:

The amount of fully-depreciated elements accounts for 25,750 thousand Euros in 2016 (23,873 thousand Euros in 2015).

	31.12.14	Additions	Write-offs	31.12.15	Additions	Write-offs	31.12.16
Assets in own use	26,095	2,239	-	28,334	1,501		29,835
Accumulated amortization of goods for own use	-25,021	-702		-25,723	-1,066		-26,789
	1,074			2,611			3,046

19. Property investments

The composition and variations during the year in accounts included in this caption of the enclosed balance sheet are the following:

	31.12.14	Additions	Write-offs	31.12.15	Additions	Write-offs	31.12.16
Assets in own use	-	71,762	-	71,762	29,544	-3,685	97,621
Accumulated amortization of goods for own use	-	-2,365	-	-2,365	-	355	-2,010
Impairment corrections	-	-504	-	-504	-1,759	860	-1,403
	-			68,893			94,208

Additions in 2016 and 2015 correspond to the reclassification of elements booked in Non-current assets held for sale of the balance sheet. They are houses to be exploited under lease.

Income derived from property investments to be leased has amounted to 2.1 million Euros (1.2 million Euros at December 31, 2015) and operating expenses for all associated concepts have been of 2,482 thousand Euros (3,451 thousand Euros at December 31, 2015), out of which 545 thousand Euros correspond to amortization and value corrections (2,868 thousand Euros at December 31, 2015). These operating expenses are presented in the enclosed profit and loss account, as per nature.

The Entity had contracted several insurance policies to cover risks to which these investments are subject. The Entity considers that these policies' coverage is sufficient.

20. Tax assets and liabilities

The detail of these headings in the enclosed balance sheets at December 31, 2016 and 2015 is the following:

As a consequence of the Corporate Income Tax regulations applicable to the Group, certain differences arose in the financial years 2016 and 2015 between accounting and tax criteria recorded in deferred taxes when calculating and recognizing the corresponding Corporate Income Tax.

	Assets 2016	Assets 2015	Assets 2016	Assets 2015
Current taxes	1,317	784	6,220	1,636
Deferred taxes	72,173	68,621	-	-
For commissions	107	-61		
For derivatives	4,535	7,362		
For impairment corrections	51,917	42,866		
Tax credits	15,614	18,454		
	73,490	69,405	6,220	1,636

21. Other assets and other liabilities

The detail of Other assets at December 31, 2016 and 2015 mainly includes the variable commission accrued by each Securitization fund as an operative result of such Fund, and calculated as the difference between income and expenses, based on the principle of accrual accounting criterion applicable by the Group on its Balance.

The incorporation of the variable accrued and unpaid commission by each Securitization fund to the financial statements of UCI E.F.C. implied registering such fund's operative results. This fact leads to the registration, at December 31, 2016, of an asset by approximately 446 million Euros (451 million Euros at December 31, 2015), related to the variable commission payable for all securitization funds which assets have been incorporated to the consolidated Balance.

On the basis of prudence criteria, applied for assets granted or received as payment of debts included on securitization funds, criteria contemplated on Circular 4/2004

which are fully applied by UCI to the entire asset portfolio on its balance sheet, Directors estimate that such amount will be recovered on coming years.

The principle applicable by the Group for each fund which assets continue being written off from the balance sheet is the cash criterion. Payment factors for these funds' variable commissions are determined by operative functioning standards defined on the corresponding issuance leaflets for such funds.

Also, this caption includes balances booked as provision for a total amount of 2,049 thousand Euros (3,422 thousand Euros in 2015) and which provision is included under caption of provision for liabilities and charges on the enclosed annual accounts.

The detail of Other Liabilities at December 31, 2016 and 2015 is the following:

	31.12.16	31.12.15
Accruals	18,311	12,850
Other concepts	6,153	4,770
TOTAL	**24,464**	**17,620**

Information on payment deferrals to suppliers

In compliance with Law 31/2014, of 3 December, which modifies the Capital Corporation Act to improve the corporate governance, modifying the third additional provision of Law 15/2010, of 5 July, on modification of Law 3/2004, of 29 December, developed by resolution of January 29, 2016, of the Spanish Institute of Accounts and Audit (ICAC), on information to be incorporate in annual accounts in relation to the average payment period to suppliers in trading operations, the following chart presents information related to payment deferrals to suppliers in trading operations. Due to the Entity's activities, the required information on the average payment period basically corresponds to payments for service rendering and several supplies.

The average payment period to suppliers indicated above has been obtained by considering that the Entity has established, in general, fixed payment days to suppliers on the 10th and 25th of each month.

	2016	2015
	Days	Days
Average payment period to suppliers.	15	15
Ratio of paid operations.	76.01%	85.10%
Ratio of payable operations	23.99%	14.90%
	Amount (thousands of euros)	Amount (thousands of euros)
Total settled payments.	38,325	43,015
Total outstanding payments.	9,196	6,430

22. Financial liabilities at amortized cost

The detail in thousands of Euros at December 31, 2016 and 2015 is the following:

	31.12.16	31.12.15
Loans and advances to credit institutions	7,590,361	8,167,056
Deposits from other creditors – Issued interests	2,715,073	3,075,508
Debits represented by marketable securities	905,165	281,796
Subordinated liabilities	80,338	80,352
	11,290,937	11,604,712

The detail of financial liabilities at amortized cost as per their residual term at December 31, 2016 and 2015 is the following:

	31.12.16	31.12.15
Up to 3 months	5,655,380	6,085,240
From 3 to 6 months	677,010	725,800
From 6 months to 1 year	281,445	159,450
Over 1 year	976,525	1,196,566
	7,590,361	8,167,056

In 2016, interest rates of live financial liabilities ranged between 2.269% and 0.118%.

In 2015, interest rates of live financial liabilities ranged between 0.256% and 2.432%.

The caption "Deposits from other creditors – issued interests", for an amount of 2,715,073 and 3,075,508 thousand Euros at December 31, 2016 and 2015, respectively, includes 4,302,264 and 4,628,425 thousand Euros, respectively, which correspond to the counterpart of securitizations subsequent to January 1, 2004, for which the risk has not been significantly transferred and, thus, have not been written off from the enclosed balance sheet (see Note 2). This amount is net of bonds issued for securitization funds acquired by the Group for a global amount of 1,581,407 and 1,552,917 thousand Euros at December 31, 2016 and 2015, respectively.

During 2016 and 2015, the Group has carried out several repurchases of securitization bonds of Funds UCI 10-17, for a total nominal amount of 149,007 thousand Euros at December 31, 2016 (39,209 thousand Euros at December 31, 2015) , through BWIC procedures (bid wanted in competition) launched by third parties. BWIC are procedures where the seller offers through investment banks or other intermediaries, securities traded in secondary markets, for the purpose of other participants in the market to perform purchase offers at the price deemed convenient.

The liquidation of the purchase of securitization bonds has generated gross capital gains by 41,076 thousand Euros (5,129 thousand Euros in 2015), booked under the caption "Results from financial operations (net)" of the profit and loss account of 2016 and 2015.

The purpose of this operation was to improve the liability's management and to strengthen the entity's balance, as well as to provide liquidity to securitization bonds' holders.

The detail of subordinated liabilities and their main conditions at December 31, 2016 is the following:

				THOUSANDS OF EUROS		
Financial entity	Date	Interest rate	Instalments	Non-current liability	Current liability	Total
BS	11/28/2024	Euribor + 3.33	Half-yearly	10,000	29	10,029
BS	10/28/2024	Euribor + 3.35	Half-yearly	17,500	99	17,599
BS	5/30/2023	Euribor + 3.75	Anual	12,500	40	12,540
SAGIP	11/28/2024	Euribor + 3.33	Half-yearly	10,000	29	10,029
SAGIP	10/28/2024	Euribor + 3.35	Half-yearly	17,500	99	17,599
SAGIP	5/30/2023	Euribor + 3.75	Anual	12,500	42	12,542
TOTAL				80,000	338	80,338

The detail of subordinated liabilities and their main conditions at December 31, 2015 is the following:

				THOUSANDS OF EUROS		
Financial entity	Date	Interest rate	Instalments	Non-current liability	Current liability	Total
BS	11/28/2024	Euribor + 3.33	Half-yearly	10,000	29	10,029
BS	10/28/2024	Euribor + 3.35	Half-yearly	17,500	106	17,606
BS	5/30/2023	Euribor + 3.75	Anual	12,500	41	12,541
SAGIP	11/28/2024	Euribor + 3.33	Half-yearly	10,000	29	10,029
SAGIP	10/28/2024	Euribor + 3.35	Half-yearly	17,500	106	17,606
SAGIP	5/30/2023	Euribor + 3.75	Anual	12,500	41	12,541
TOTAL				80,000	352	80,352

These loans are subordinated in nature for the purpose of their inclusion in the calculation of the UCI Group's net equity and may not be amortized or reimbursed in advance without prior authorization from the Bank of Spain. These loans have a maturity of 8 and 9 years have been granted by the Shareholders or entities related with them.

23. Asset and liability hedging derivatives

These captions on the consolidated balance sheets at December 31, 2016 and 2015 break down as follows:

THOUSANDS OF EUROS	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	-	16,852	-	25,917
	-	16,852	-	25,917

Cash flows hedges are used to reduce the variability of cash flows (allocable to interest rate) generated by hedged elements. In these hedges, the variable interest rate of liability elements hedged at fixed interest rate is transformed, using interest rate derivatives.

The breakdown per currency, due dates and notional amounts of the captions Liability hedge derivatives of the consolidated balance sheets at December 31, 2016 and 2015 is the following:

THOUSANDS OF EUROS	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Por moneda:				
Per currency in Euro:	-	16,852	-	25,917
	-	16,852	-	25,917

The detail of the balance on the caption Liabilities' Hedging Derivatives on the balance sheets at December 31, 2016 is the following:

THOUSANDS OF EUROS	2016		
	Notional value	Fair value	
		Assets	Liabilities
Other operations on interest rates:		-	
Financial swaps	4,993,885	-	16,852

The detail of the balance on the caption Liabilities' Hedging Derivatives on the balance sheets at December 31, 2015 is the following:

The notional amount of contracts of Hedging derivatives on assets and liabilities does not imply the risk assumed by the Group since their net position is obtained from the compensation and/or combination of such instruments.

THOUSANDS OF EUROS	2015		
	Notional value	Fair value	
		Assets	Liabilities
Other operations on interest rates:		-	
Financial swaps	5,281,250	-	25,917

24. Adjustments for net equity valuation

The detail of this caption on the consolidated balance sheets at December 31, 2016 and 2015 is the following:

IN THOUSANDS OF EUROS	2016	2015
Financial assets held for sale:		
Debt securities	-	-
Cash flow hedges	-11,133	-17,338
Other valuation adjustments	-	-
	-11,133	**-17,338**

The balance included under Financial assets held for sale corresponds to the net amount of those variations in fair value on financial instruments designed as instruments of such coverage on the portion where such coverage is considered as efficient. Their movement during 2016 and 2015 is the following:

IN THOUSANDS OF EUROS	2016	2015
Opening balance	-17,337	-24,277
Additions	6,204	6,941
Withdrawals	-	-
	-11,133	**-17,338**

25. Equity

The share capital at December 31, 2016 and 2015 amounts to 98,019 thousand Euros, and it is represented by 37,555 thousand registered shares with a nominal value of 2.61 Euros each, issued, subscribed and fully paid up.

The composition of Shareholders at December 31, 2016 and 2015 is as follows:

Banco Santander S.A.	50
BNP Paribas Personal Finance SA (France).	40
BNP Paribas, S.A. (France)	10

Legal Reserve

In accordance with the Revised Text of the Capital Corporation Act, entities that obtain profits in a financial year are to transfer 10% of the profit for the year to the Legal Reserve. Such transfers are to be made until the Legal Reserve reaches at least 20% of the paid-up share capital. The Legal Reserve may be used to increase share capital to the extent that its balance is in excess of 10% of the share capital once increased. Until it exceeds 20% of share capital, the Legal Reserve may only be used to compensate losses provided that there are no other reserves available that are sufficient to cover this purpose.

Determination of net equity

As a consequence of the application of the accounting reporting criteria established by the Bank of Spain, the balances for the following headings have to be considered for determining the Group's net equity at December 31, 2016 and 2015:

	2016	2015
Basic equity	420,785	414,465
Second-category equity	114,879	80,000
Deductions basic and second-category equity	-	-
	535,664	494,465
Minimum requirements	423,690	442,378

For the purposes of calculating net equity, the Group presents information that is individual and aggregated with the UCI, S.A. Group Company, in compliance with currently applicable regulations. The calculation of net equity is made by the companies that make up its scope of consolidation.

The compliance with minimum equity in Credit Entities in Spain, both individually and at consolidated group level, is established Circular 3/2008 of Bank of Spain, modified by Circular 9/2010 of December 22, on the determination and control of minimum equity, and Circular 4/2011 of November 30, on equity determination and control, and Circular 7/2014, of November 30.

At December 31, 2016 and 2015, computable individual and Group equity, which where appropriate are calculated on a consolidated basis, exceed the minimum requirements of the abovementioned standard.

Reserves of the Parent Company and Consolidated Companies

The Parent Company's reserves correspond to retained results or losses not compensated from prior years and the positive difference on first consolidation (1989). Reserves in Companies consolidated under the full consolidation method correspond to retained results or losses not compensated from prior years in subsidiaries. The variation has been the following:

	Balance 31.12.14	Var. year	Exchange Difference	Balance 31.12.15	Var. year	Exchange Difference	Balance 31.12.16
Parent company	21,738	-538	-	21,200	-220	-	20,980
Consolidated companies	322,736	-18,948	-192	303,596	-7,526	-2	296,072
	344,474			324,796			317,052

26. Balances and transactions with group companies

Balances with Group Companies at December 31, 2016 and 2015 are the following:

	31.12.16	31.12.15
Loans and receivables-loans and advances in credit institutions		
Santander	30,755	48,443
BNP Paribas	28,119	29,517
BNP Paribas Real Estate, S.A.	3	26
Securitizations		
Account receivable Managing entity securitization funds	446,424	447,627
Financial liabilities at depreciated cost		
Santander	3,662,890	4,112,547
BNP Paribas	3,792,074	4,087,143
Societe Anonyme de Gestion D'Investissements et de Participations (SAGIP)	40,170	40,176
Financial expenses-loans		
BNP Paribas	20,349	31,557
Santander	21,233	32,715
Societe Anonyme de Gestion D'Investissements et de Participations (SAGIP)	1,368	1,446
Financial results net-Financial instruments		
Expenses swaps Santander	4,837	4,415
Expenses swaps BNP Paribas	17,719	16,051
Expenses CMS BNP Paribas	546	1,285
Expenses CMS Santander	15	524
Financial income		
Santander	-	7
Fees perceived		
Santander	68	81

27. Tax position

The Group has open for tax audit the tax years 2013 to 2016, both inclusive, in respect of all the taxes applicable to the Group, with the exception of Corporation Tax, which is open for inspection as from the year 2012.

The tax returns involved cannot be considered to be definitive until they have been verified by the Administration or until four years have elapsed since their date of filing.

The UCI Group settles Corporation Tax for the financial years 2016 and 2015 under the consolidated taxation base, in accordance with the provisions of the Ministerial Order of October 3, 1992, without the incorporation of ComprarCasa, Rede de Serviços Imobiliários, SA, COMPANHIA PROMOTORA UCI and UCI–Mediação de Seguros Unipessoal Lda.

The calculation for the tax charge payable is the following:

	31.12.16	31.12.15
Accounting result before tax	6,611	-9,199
Results from subsidiaries not included in the tax consolidation	-2,167	-2,771
Consolidated accounting result before tax	4,444	-11,970
Permanent differences	-1,094	9
Temporary differences	33,208	5,851
Tax assessment basis	36,558	-6,110
Compensation of tax assessment bases	-	-
Tax charge	10,967	-1,833
Compensation temporary differences (25%)	-2,911	-
Compensation tax losses carried forward (25%)	-2,179	
Others	117	-236
CIT interim payments	1,928	-
Tax payable	4,066	-2,069

The tax expense's calculation is the following:

	31.12.16	31.12.15
Accounting result before tax	6,611	-9,199
Results from subsidiaries not included in the tax consolidation	-2,167	-2,771
Consolidated accounting result before tax	4,444	-11,970
Permanent differences	-1,094	9
Total	3,350	-11,961
Tax expense	1,005	-3,588
Tax previous years	544	-420
Tax expense Branch in Portugal	520	800
Temporary differences	-1,755	1,755
Tax expense	314	-1,453

The Group has capitalized incurred tax losses, since the Business Plan expects obtaining gains at short and mid-terms after a period registering significant provisions on the credit and estates portfolios.

28. Contingent commitments

The detail of this caption, at December 31, 2016 and 2015 is the following:

	31.12.16	31.12.15
COMMITMENTS		
Commitments – available by third parties	11,242	11,551
For other residing sectors	11,242	11,551

At December 31, 2016 and 2015, there are no contingent commitments in addition to the above. On both dates, amounts available by third parties are not subject to any restriction.

29. Interests and similar yields

The detail of this consolidated income statement heading for the financial years ended December 31, 2016 and 2015 is as follows:

	31.12.16	31.12.15
Loans and advances to credit institutions	65	8
Loans and advances to other debtors	179,293	208,318
Doubtful assets	46,876	54,688
Other interests	6,395	2,278
	232,629	265,292

30. Interests and similar charges

The detail of this consolidated income statement heading for the financial years ended December 31, 2016 and 2015 is as follows:

	31.12.16	31.12.15
Loans and advances to credit institutions	48,049	71,729
Other interests	34,444	29,269
	82,493	100,998

31. Personnel costs

The composition of this heading in the enclosed consolidated income statement is as follows:

	31.12.16	31.12.15
Wages and salaries	24,233	24,335
Contributions to Social Security	8,315	7,623
	32,548	31,957

The average number of the Group's employees, distributed by categories and gender, at December 31, 2016 and 2015, has been the following:

	12/31/2016			12/31/2015		
	Male	Female	Total	Male	Female	Total
Group III						
A	100	175	275	99	175	274
B	60	74	134	61	73	134
C	43	67	110	53	73	126
Group II						
A	15	8	23	14	10	24
B	4	0	4	4		4
C	46	54	100	47	53	100
Group I						
A	19	3	22	21	2	23
B	26	5	31	26	4	30
C	1	4	5	1	5	6
Others						
TOTAL	**314**	**390**	**704**	**326**	**395**	**721**

32. Other administration overheads

The composition of this heading in the enclosed consolidated income statement is as follows:

	31.12.16	31.12.15
On properties, installations and materials	7,392	7,628
Information technology	1,389	1,366
Communication	1,553	1,616
Advertising and Propaganda	3,176	2,903
Legal and lawyers' fees	3,487	2,921
Insurance premiums	290	444
Representation costs and trips	1,156	1,195
Membership fees	35	30
Sub-contracted administrative services	3,875	3,490
Local levies and taxes	11,109	4,675
Other charges	18,884	19,191
	52,346	**45,459**

33. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group (see Note 2). Certain accounting practices applied by the Group that conform to that regulatory framework may not conform to other generally accepted accounting principles and rules. In the event of a discrepancy, the Spanish-language version prevails.

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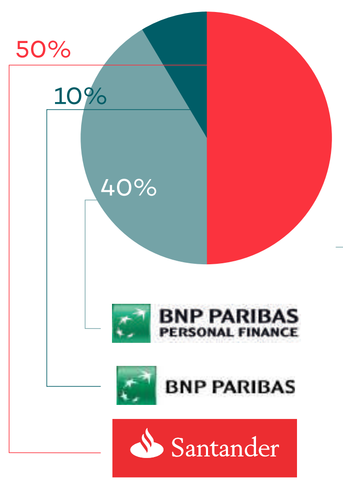
4 Organización Corporativa

UCI Group:

Affiliated and subsidiaries entities and branches 2016



- UCI S.A., E.F.C.
  100% UCI S.A
  - UCI España
  - UCI Portugal (subsidiary)
  - UCI Grecia (subsidiary)
- UCI Servicios para Profesionales Inmobiliarios S.A.
  100% UCI S.A.
- UCI Holding Brasil LTDA
  99,99% UCI S.A.
  0,01% Retama Real Estate S.A.U.
  - Companhia Promotora, UCI, S.A.
    50% UCI Holding Brasil LTDA
- Retama Real Estate, S.A.U.
  100% UCI S.A.
  - Retama Real Estate Portugal (subsidiary)
- Comprarcasa Rede de Serviços Imobiliários S.A.
  99,9% UCI S.A.
- UCI-Mediaçao de Seguros Unipessoal LDA
  100% UCI S.A
- UCI Hellas Credit and Loan Receivables
  100% UCI S.A

Boards of Directors

Up to date of publication

U.C.I., S.A.

Chairman
Matías Rodríguez Inciarte
Second Vice Chairman of Banco Santander

Member of the Board
Michel Falvert
Key Partner BNP Paribas Personal Finance

Member of the Board
Alain Van Groenendael
Chairman of BNP Paribas Personal Finance

Secretary of the Board
Eduardo Isidro Cortina Romero
Head of Legal Department and Compliance Officer of UCI

Unión de Créditos Inmobiliarios, S.A., E.F.C.

Chairman
Matías Rodríguez Inciarte
Second Vice Chairman of Banco Santander

Member of the Board
Michel Falvert
Key Partner BNP Paribas Personal Finance

Member of the Board
Alain Van Groenendael
Chairman of BNP Paribas Personal Finance

Secretary of the Board
Eduardo Isidro Cortina Romero
Head of Legal Department and Compliance Officer of UCI

UCI Servicios para Profesionales Inmobiliarios S.A.

Chairman
Roberto Colomer Blasco
Chief Executive Officer of UCI

Member of the Board
José Manuel Fernández Fernández
Chief Operating Officer Sales Area of UCI

Member of the Board
Philippe Laporte
Chief Operating Officer Financial, IT & Customer Service of UCI

Member of the Board
José Antonio Borreguero Herrera
IT Manager of UCI

Member of the Board
Diego Galiano Bellón
Chairman of Council of Spanish Associations of Real Estate Agents

Member of the Board
Fernando García Erviti
Independent Real Estate Consultant

Member-Secretary of the Board
Eduardo Isidro Cortina Romero
Head of Legal Department and Compliance Officer of UCI

CCPT – Comprarcasa, Rede Serviços Imobiliários S.A.

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Chief Executive Officer of UCI

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Pedro Megre
General Manager of UCI Portugal

Member of the Board
Luis Mário Nunes
General Manager of Comprarcasa Portugal

Member of the Board
Luis Carvalho Lima
Chairman of National Board of Directors of APEMIP

Member of the Board
Vasco Morgadinho Reis
Vice-Chairman of National Board of Directors of APEMIP (Advisor)

Secretary of the Board
Magda Andrade
Head of the Legal Department UCI Portugal

UCI Holding Brasil L.T.D.A.

Administradores de la Sociedad

Dylan Leworthy Boyle
Financial and Administrative Officer.

Carlos Joao Lourenço Nisa de Brito Vintem
Sales Manager

Companhia Promotora UCI., S.A.

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Jose Antonio Carchedi

Vice-Chairman
Roberto Colomer Blasco
Chief Executive Officer of UCI

Member of the Board
Luis Felipe Carchedi
Chief Operating Officer

Member of the Board
Pedro Megre
General Manager UCI Portugal

Management and Executive Committee

Up to date of publication

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Chief Executive Officer

José Manuel Fernández Fernández
Chief Operating Officer Sales Area

Philippe Laporte
Chief Operating Officer Financial, IT & Customer Service

Ángel Aguilar Otero
Head of Human Resources

Rodrigo Malvar Soto
Risk Manager

Olivier Rodríguez
Finance Manager

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Direct Channel Manager

José Antonio Borreguero Herrera
IT Manager

Eduardo Isidro Cortina Romero
Head of Legal Department and Compliance Office
Secretary of the Board of Directors

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Marketing Manager

Francisco José Fernández Ariza
General Manager of UCI Servicios para Profesionales S.A.

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Sales Manager

Cecilia Franco García
Manager of Customer Aftersales Service and Real Estate Manager

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Sales Manager of Companhia Promotora UCI

Pedro Megre
General Manager of UCI Portugal

Marta Pancorbo García
Change Management Director

Tomás Luis de la Pedrosa Masip
Head of Internal Control

Miguel Ángel Romero Sánchez
Head of Customer Service

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Chief Executive Officer
Management Committee

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Risk and Financial Manager
Management Committee

José Portela
Head of Customer Service
Management Committee

Carlos Vintem
Director Comercial y Marketing
Management Committee

Luis Nunes
General Manager Comprarcasa

Pedro Pereira
Marketing Manager

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General Manager UCI Greece
Member of the Executive Committee

Pedro Megre
General Manager UCI Portugal
Member of the Executive Committee

Thanasis Philipppou
Operations & collections Manager
Member of the Executive Committee

Thanasis Diorelis
After sales & property sales Manager
Member of the Executive Committee

Christos Gramatikopoulos
Financial & Administration Manager

Compahnia Promotora UCI S.A.: Executive Committee

José Antonio Carchedi
President

Roberto Colomer Blasco
UCI Chief Executive Officer

Luis Felipe Carchedi
Chief Operating Officer

Pedro Megre
UCI Portugal Executive Officer

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