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annual report

UCI.

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Message from the CEO & CFO

Driven by the advanced economies, the global economy grew by 3.7% in 2017, as compared to 3.3% in 2016. Brexit and the difficulties in forming a government in Germany notwithstanding, the Eurozone countries improved their growth rates and reduced uncertainty.

In alignment with the economic upturn worldwide, 2017 was a good year for the economy of the countries in which UCI Group develops its activity.

In Spain consumer spending, investment and exports exceeded forecasts for growth after a minor correction in demand due to the impact of the political uncertainty in Catalonia.

Consumer confidence grew in tune with the economic and jobs figures, and increased availability of credit from financial institutions contributed to a rise in home purchases, which were at their maximum for nine years at over 450,000 although still very far from the levels reached before the crisis.

> *"Consumer confidence grew in tune with the economic and jobs figures, and increased availability of credit from financial institutions contributed to a rise in home purchases, which were at their maximum for nine years at over 450,000."*

An improvement to the economic environment enabled UCI Group to trade in more favourable conditions, growing by 44.2% year-on-year and achieving consolidated production of EUR 538 million.

At year-end, lending totalled EUR 11.033 billion for the countries in which UCI has a footprint when taken as a whole, denoting a slight increase in market share. Profit attributed to the UCI Group was EUR 6.51 million.

The UCI Group continued to implement its reinvention project, focusing on customer experience and accompaniment throughout the whole customer, as well as the real estate agents with whom it collaborates. Thus, new tools and simulators were rolled out to aid clients throughout the entire lifecycle with the company. The favorable results of the attention given to customers can be perceived through the opinions expressed by real customers on the Ekomi opinion website, which in 2017 reached a level significantly higher than 9 out of 10 in 2017.

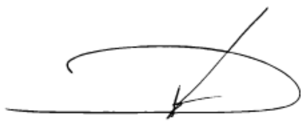
> *"The UCI Group continued to implement its reinvention project, focusing on customer experience and accompaniment throughout the whole customer."*

In addition, hipotecas.com opened four offices in central Madrid, Barcelona, Valencia and Sevilla, respectively, with the aim of getting closer to clients.

Thanks to the Prado IV and Prado V operations, UCI reaffirmed its position as one of the leaders in the Spanish securitization market. Moreover, the five Prado programmes, started in 2015, have enabled the raising of funds totalling EUR 1.725 billion, thereby contributing to the generation of liquidity autonomously and competitively.

In the first months of 2018 and before the publication of this annual report, the credit ratings agency DBRS Ratings Limited rated UCI for the first time, awarding an A (low) long-term rating for its subsidiary Unión de Créditos Inmobiliarios, S.A. EFC, along with an R-1 (low) short-term rating.

We trust that the annual report will be of interest to you.
Best regards,



Roberto Colomer
Chief Executive Officer
of UCI

Philippe Laporte
Chief Operating Officer
Financial, IT & Customer
Service

2

GLOBAL ENVIRONMENT & UCI GROUP

UCI. in a year

Numbers 2017

538M€
consolidated production

385,5M€
Spain

152,9M€
Portugal

+44,2%
growth from 2016

60%
growth of hipotecas.com

HIPOTECAS.COM
20% of the Spanish production

Customers

Since 1989 we have granted mortgages to **+350.000 customers**

97% of our customers recommend us*

*Survey to customers who completed their mortgages from 1th January to 31th December of 2017 by Qualimetrie S.L.

9,6/10

UCI and Hipotecas.com have been distinguished with the golden seal of Ekomi and have a score of 9.6 out of 10.

We are commited to **fixed rate mortgages** in Spain and Portugal

mixed
from 3 to 20 years
30%

fixed
and mixed > 20 years
41%

variable
29%

Employees

703
employees

392
women

311
men

4.83%
Greece

13.49%
Portugal

81.53%
Spain

+32,194
hours of training

109 classroom courses **+ 15** online courses

Highlights

Prado IV & Prado V

UCI consolidated its status as one of the market leaders for securisations in Spain.

Bloomberg rated **Prado IV as the best transaction in Europe** on april 2017.

Hipotecas.com opened offices at four locations in central and emblematic parts of Madrid, Barcelona, Valencia and Seville.

In June UCI organizes the 7th edition of Inmociónate, which brings together almost

1000
real estate agents
at Seville.

UCI. LMS

In 2017, UCI Greece Loan Management Services Company obtained its licence from the Bank of Greece and become one of the loans management companies certified in Greece and authorized to manage third-part funds.

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Key Data

HIGHLIGHTS	Euros 2017	Euros 2016	Variation
Consolidated Production(M)	538.4	373.2	44.2%
Loan Production Spain (M)	385.5	254.7	51.3%
Loan Production Portugal (M)	152.9	117.9	29.7%
Loan Production Greece (M) (****)	0.0	0.7	
Total Consolidated Loans Managed (M)	11,033.1	11,233.0	-1.8%
Balance Spain	3,740.6	4,266.7	-12.3
Balance Portugal	1,096.8	1,080.2	1.5%
Balance Greece (***)	235.1	244.4	-3.8%
Spanish Retained RMBS (UCI18)	758.9	813.2	-6.7%
Spanish on Balance Consolidated Placed RMBS (UCI 10-17 and Prado I - III)	5,055.2	4,569.7	10.6%
Spanish off Balance Placed RMBS (UCI 7-9)	146.6	258.8	-43.4%
Nº of Files Under Management (Spain, Portugal and Greece) (***)	120,625	121,560	-0,8%
Nº of Solutions (Sales + Rentals) Repossessed Homes(*)	1,700	1,783	-83
Nº of Branch Offices (*)	33	32	1
External Agent (*)	130	95	35
Nº of Employees (**)	720	709	11

(*) Spain, Portugal and Greece

(**) With Temporay Employees and Comprarcasa (Spain and Portugal)

(***) Included 0.4 M Euros CTLM Greece (129 files -43%)

(****) In February 2018, all the loans from UCI Hellas have been reasigned to UCI S.A. E.F.C, and are pending administrative closure. All UCI Hellas employees have been transfered to UCI LMS.

CONSOLIDATED FINANCIALS (4/04)	Euros 2017	Euros 2016	Variation
Gross Margin (M)	166.81	206.45	-19.2%
Financial Margin(**)	162.37	193.20	-16.0%
Comissions Fees and Other Incomes (*)	4.44	13.25	-66.5%
General Expenses (M)	46.76	45.83	2.0%
Net Operating Income (M)	120.05	160.62	-25.3%
Cost of Risk (M)	114.98	151.43	-24.1%
Ordinary Profit Before Taxes (M)	5.08	9.19	-44.7%
IS Deferred (DTA) (M)	0	0	
Pre-Tax Profit (M)	5.08	9.19	-44.7
Tax (M)	-1.43	2.70	
Consolidated Profit (M) (***)	6.51	6.30	3.4%

(*) Deducted Origination Fees

(**) Including capital gain BuyBack 8,7 M€ in 2017 vs 47,1 M€ in 2016

(***) Including shareholdings (+0 K€)

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PORTUGUESE FINANCIALS (4/04)	Euros 2017	Euros 2016	Variation
Gross Margin (M)	13.78	15.25	-9.7%
Financial Margin	12.33	12.67	-2.6%
Comissions Fees and Other Incomes (*)	1.45	2.59	-44.0%
General Expenses (M)	4.58	4.54	0.9%
Net Operating Income (M)	9.20	10.72	-14.1%
Cost of Risk (M)	1.57	5.65	-72.2%
Pre-Tax Profit (M)	7.63	5.07	50.7%
Tax (M)	0.6	2.90	
Net Profit (M)	7.03	2.17	224.0%

(*) Deducted Origination Fees

GREECE FINANCIALS (4/04) (With Consumer Loan since Q3-2011)	Euros 2017	Euros 2016	Variation
Gross Margin (M)	3.59	3.80	-5.6%
Financial Margin	3.97	3.81	4.0%
Comissions Fees and Other Incomes (*)	-0.38	-0.01	
General Expenses (M)	1.75	1.81	-3.4%
Net Operating Income (M)	1.83	1.99	-7.7
Cost of Risk (M)	2.28	2.04	11.4%
Pre-Tax Profit (M)	-0.44	-0.06	
Tax (M)	-0.44	0.00	
Net Profit (M)	0.00	-0.06	

(*) Deducted Origination Fees

CONSOLIDATED MANAGEMENT RATIOS	Euros 2017	Euros 2016	Variation
Suscribed Capital (M)	**98.0**	98.0	0.0
Reserves (Tier 1)	329.4	322.8	6.6
Total Tier 1	427.4	420.8	6.6
Total Tier 2 Subordinated Debt	108.1	114.9	-6.8
Total Equity (M) Tier 1+ Tier 2 (*)	535.5	535.7	-0.2
Equity Ratio (Tier 1) (pb) (*) (**)	7.4%	0,08	-60
Equity Ratio (Total) (pb) (**)	9.3%	0,101	-80
R.O.E. (pb)	1.6%	0,015	10
NPL's > 90 days not Including Subjective Non-performing Loans (M)	1,070.8	1,088,7	-17.9
NPL's Subjective Non-performing Loans (M)	473.0	362.1	111.0
Nº Repossessed Homes Under Management (Spain, Portugal and Greece)	5,980	6,250	-270
Total Provisions on Loans (M)	347.7	356.8	-9.1
Total Generic Provisions (M)	28.1	34.9	-6.8
Total Substandard Provisions (M)	13.1	14.3	-1.2
Total Specific Provisions Not Including Subjective Non-performing Loans (M)	275.2	282.6	-7.3
Total Specific Provisions Subjective Non-performing Loans (M)	31.3	25.1	6.2
Total Provisions on Repossessed Homes (M)	136.4	140.3	-3.9
Total Provisions (M)	484.2	497.1	-13.0
% NPL's on Loans Managed (Balance Sheet + Securitized) > 90 days Not Including Subjective Non-performing Loans (pb)	9.71%	9.69%	2
% NPL's Subjetive Non-Performing Loans (pb)	4.29%	3.22%	107
% NPL's (pb)	13.99%	12.92%	107
NPL > 90 days + Repossessed Homes Coverage	24.6%	24.6%	0.0%
Cost/Income	28.3%	27.3%	100

(*) Adding 12m-17 profits in Tier 1

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

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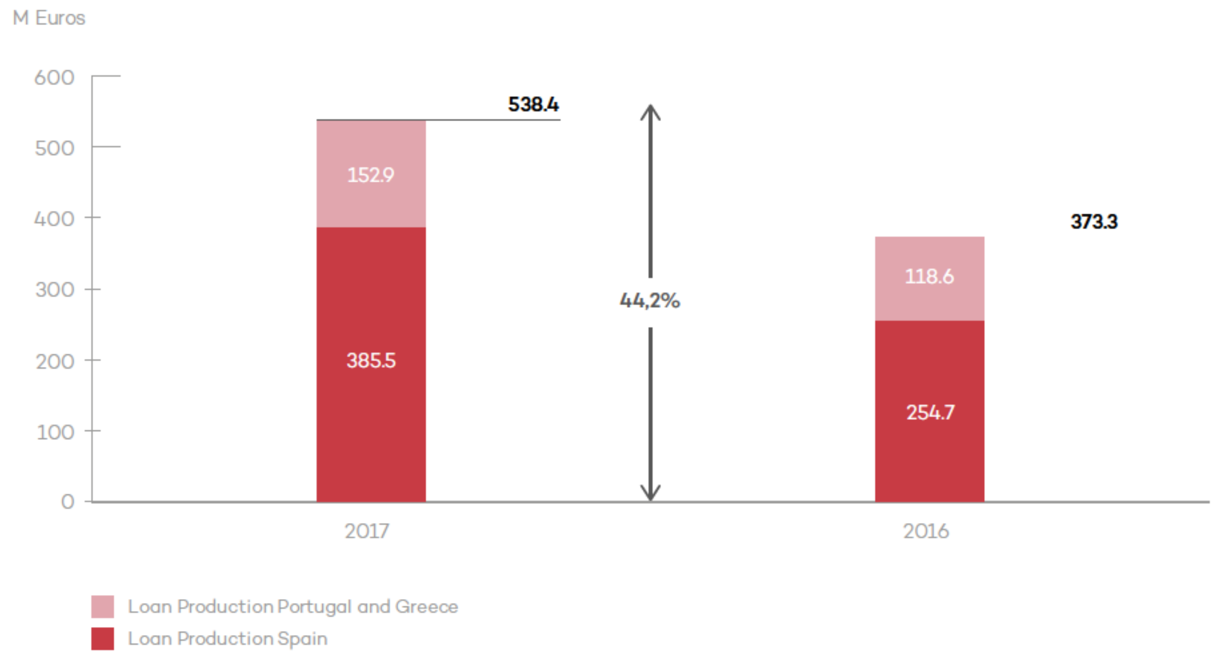
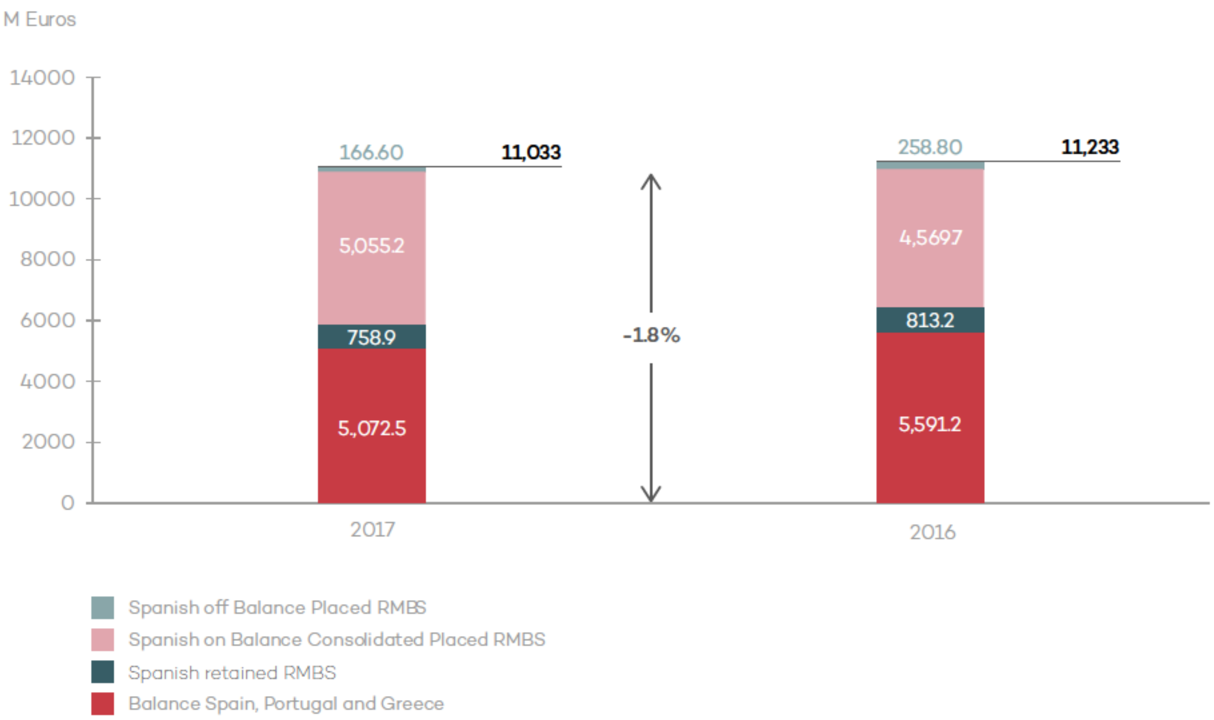
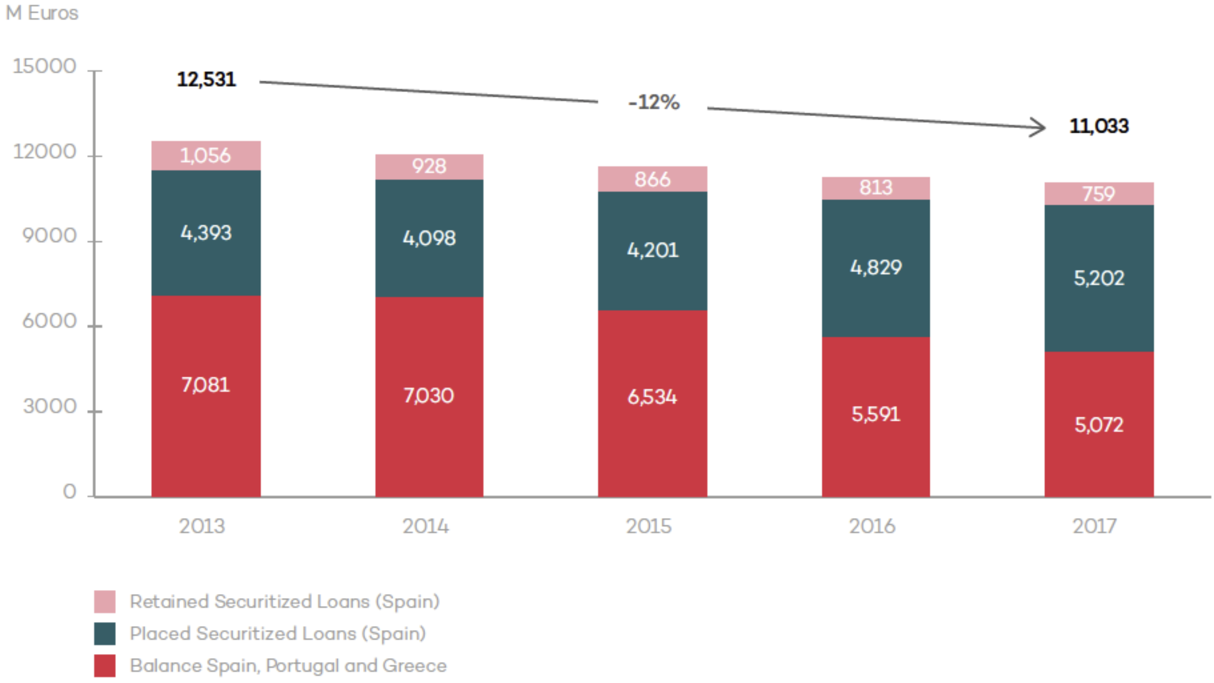
Consolidated Production



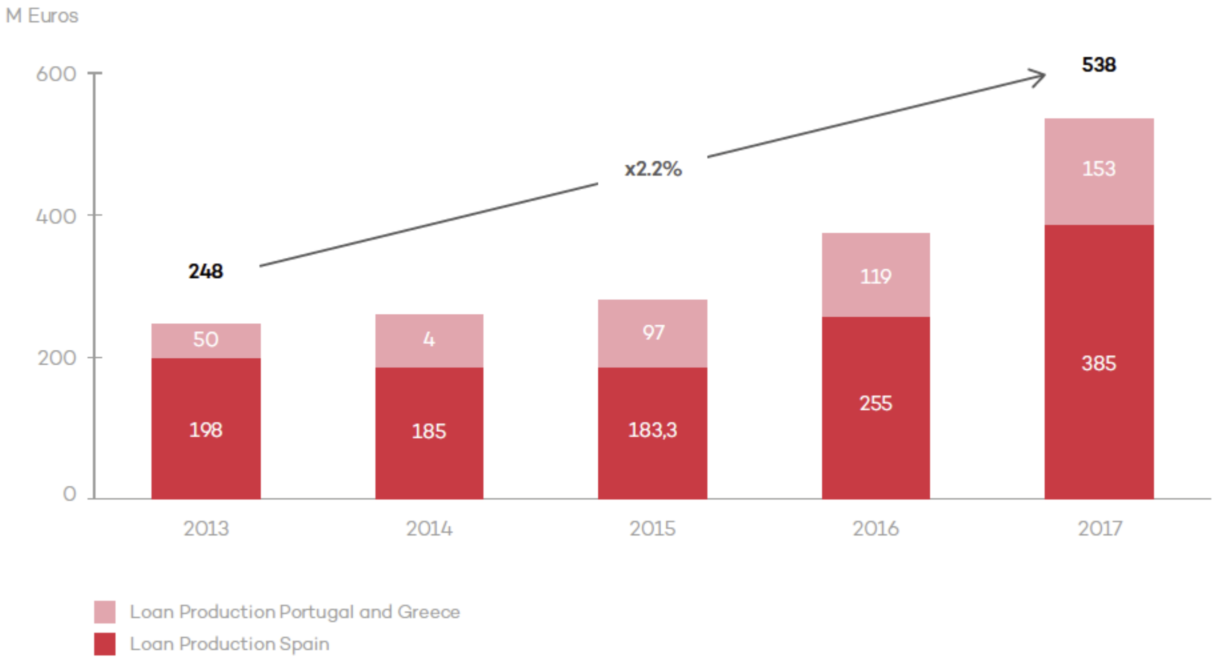
Total Managed Loans



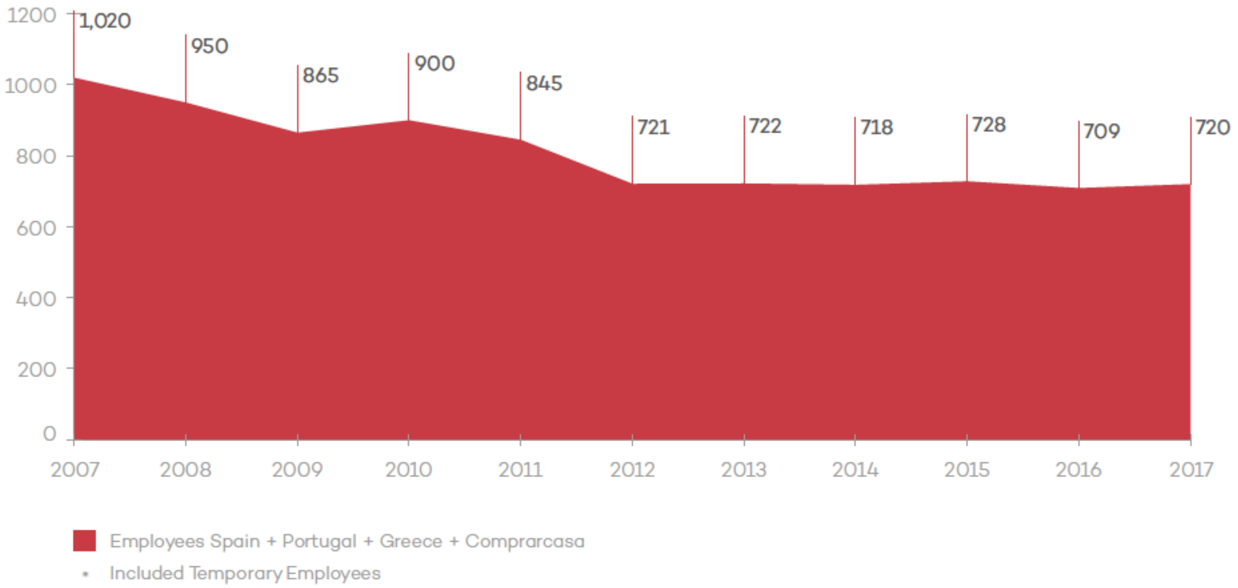
Managed Loans Evolution



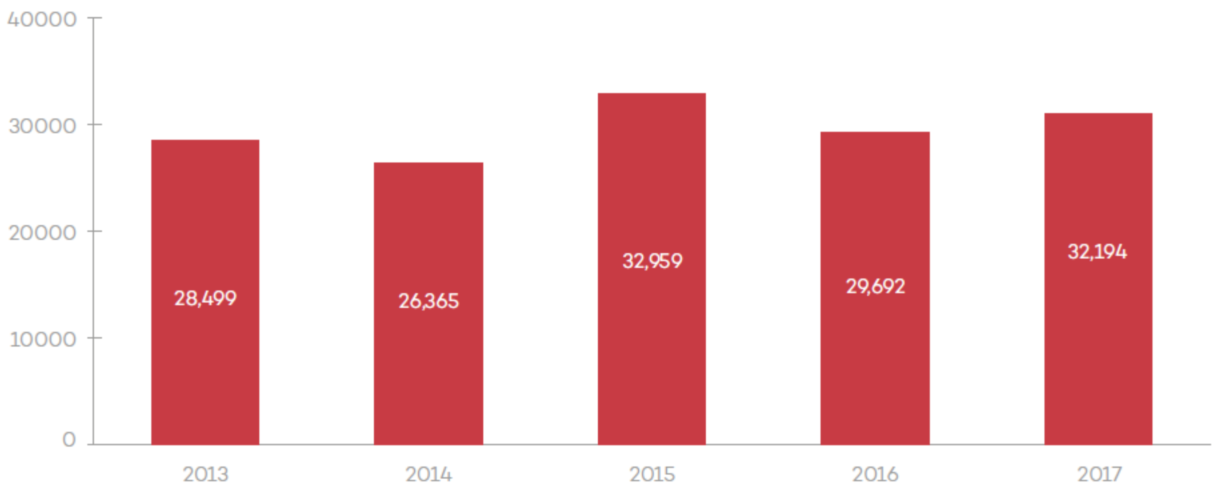
New Production Evolution



Total Employees* Spain, Portugal, Greece and UCI SPPI



Training Hours (hours/year)



Global Economic Environment

According to IMF estimates, the global economy grew by 3.7% in 2017, as opposed to 3.3% in 2016, as part of a generalized, robust and sustained upturn which commenced mid-way through 2016. This can be analysed in a disaggregated manner in the advanced and developing economies.

Although the emerging economies achieved 4.7% growth, driven by increases in global demand and the prices of raw materials, the advanced economies were the main drivers of global growth: they grew 2.3%, compared to 1.6% in 2016, in a context of low volatility, low and stable interest rates, and rises in stock market indices.

These conditions were especially favourable in Europe and Asia, with an improvement in the figures of the United States (US), Canada and emerging countries like Turkey, Brazil and Russia, which contracted in the previous year.

The central banks' expansive monetary policy helped to eliminate uncertainties. The ECB decided not to increase rates at least until 2019, although it did announce a progressive reduction of its debt-purchasing programmes, in an attempt to forestall a sharp spike in long-term rates. The Federal Reserve, for its part, accelerated its route back to normal pace via increased rates and a reduction of its balance sheet.

In the OECD countries, year-on-year inflation rose to 2.4% in November as a result of the acceleration of energy and food prices, respectively, although inflation remained at a stable at 1.9% if these two components are excluded. Oil prices rose in 2017, essentially due to an agreement between producing countries and strong demand in China. Likewise, the prices of non-energy raw materials increased, driven by the prices of metals, for reasons including growing demand for iron and the introduction of environmental legislation in China.

A very emboldened euro was the star of the currency market, with 13.2% appreciation in respect of the US dollar, on the back of minimum values in 2016. The dollar depreciated over 10% compared to the currencies of the world's leading economies, despite the FED's best efforts in terms of increasing its interest rates.

However, the dollar's weakness as an investment and export currency did not have negative consequences for the American economy, which achieved 2.3% year-on-year GDP growth, a sustained rhythm of job creation, and close-to-target underlying inflation. In November 2017, a tax reform was approved to reduce the fiscal burden for households and small firms, and which envisaged that the resulting reduction in the government's coffers would be offset by levies on large US companies abroad.

The Eurozone achieved growth of 2.5%, compared to 1.7% in 2016, thanks to private consumption and greater support from global demand. The large Eurozone countries improved their growth rates with respect to those obtained in 2016, with Germany

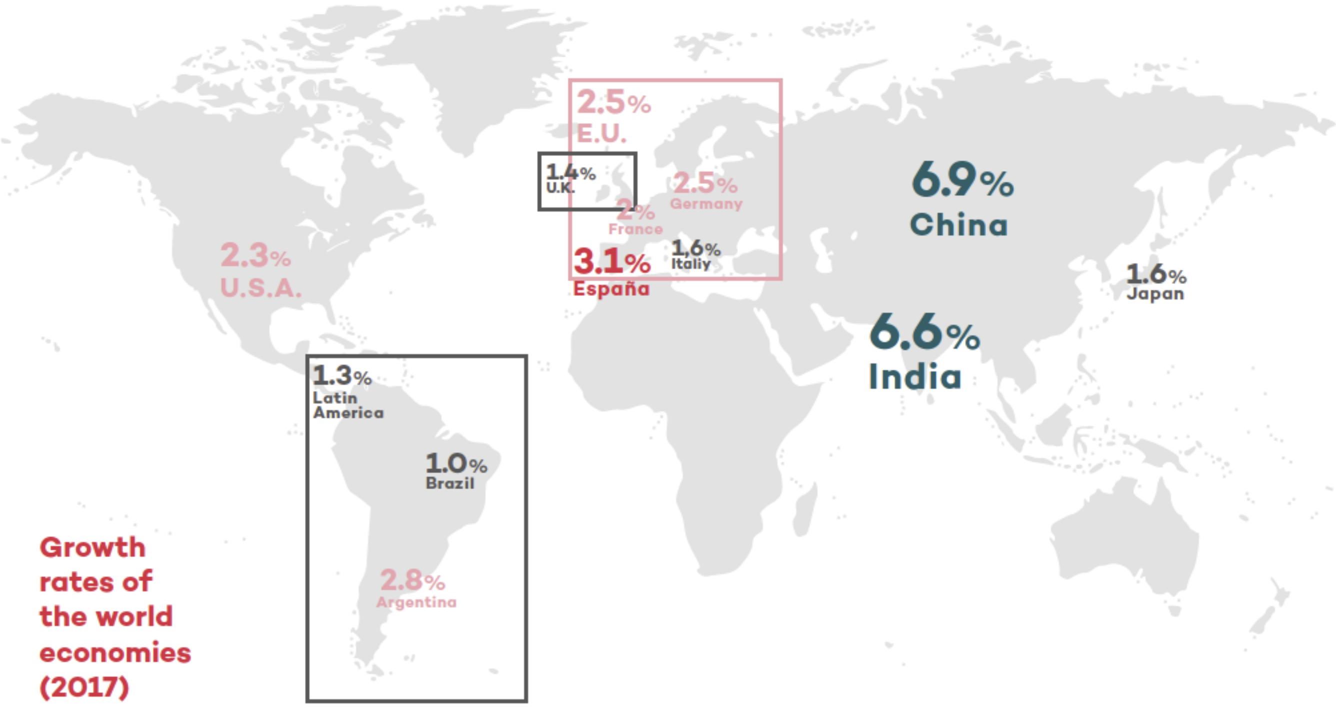
3.7%
global economy growth in 2017

1.9%
inflation in the OECD countries

13.2%
appreciation of the euro

-10%
depreciation of the dollar

3.3%
American GDP annual growth



Growth rates of the world economies (2017)

growing by 2.5% on the back of 1.9 % the previous year, France by 2%, compared to 1.1%, and Italy by 1.6%, up from 0.9% the previous year. Spain, which had already delivered an excellent growth rate in 2016 (3.3%), slightly reduced its growth to 3.1% in 2017.
Immersed in the Brexit negotiations and

German general elections, Europe nevertheless managed to reduce uncertainty, grow and recover investment. Thus, the confidence indicator produced by the European Commission (the European Stability Initiative, ESI), which measured 116 points in December 2017, reached its record level since August 2000, with economic feeling being particularly optimistic in the industrial sector, the retail trade and amongst consumers.

Regarding the high levels of debt of certain Eurozone governments, very favourable financial conditions has allowed the reduction of deficits and ensured they were compatible with “slightly” expansive fiscal policies.

Great Britain slowed growth to 1.4% in 2017. Following strong sterling depreciation in 2016, the last financial year was one of consolidation for the pound, which, nevertheless, did not prevent a rise in inflation and a reduction in household spending and business investment.

For its part, the Japanese economy maintained its excellent performance, with growth of 1.6%, compared to 1.1% in 2016, driven by the upswing in foreign demand and by consumer spending incentivized by tax transfers. Nonetheless, the shortage of workers worsened in the labour market, and the unemployment rate fell to 2.8%.

China increased its GDP by 6.9%, up from 6.7% in 2016, despite the fact that the country is in the throes of structural reforms, with significant infrastructure spending and a government which is set on achieving a more sustainable growth rate, with the aim of avoiding the imbalances which arise from over-dependence of the business sector on debt and investment. The leveraging problem is also one which affects countries like Australia, Canada and South Korea.

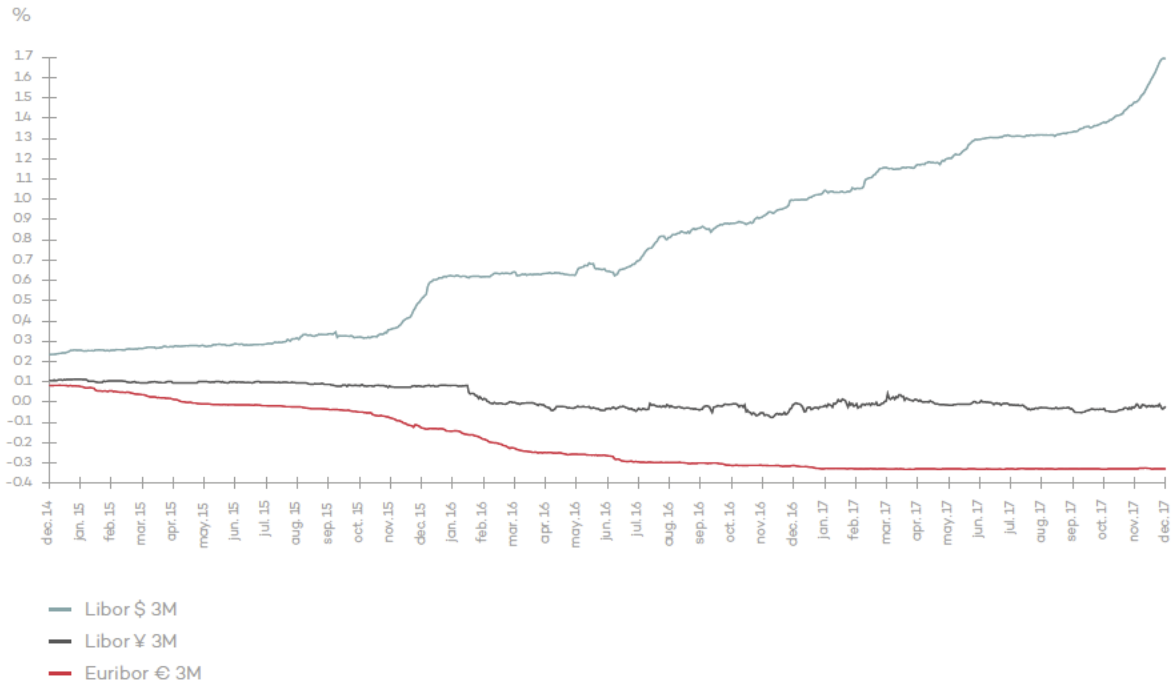
The level of debt in the non-financial private sector is high and signals high vulnerability in the event of a worsening of financial conditions or a weakening of the economy.

	Average GDP				Annual Variation Stock Exchange			Annual Inflation				Unemployment • Annual Average			
	2014	2015	2016	2017	15/'14	16/'15	17/'16	2014	2015	2016	2017	2014	2015	2016	2017
U.S. (*)	2.4	2.4	1.6	2.3	-2%	13%	25%	0.8	0.7	2.1	2.0	6.2	5.3	4.9	4.4
Japan	0.2	0.6	1.1	1.6	9%	0%	19%	2.4	0.2	0.3	1.1	3.6	3.4	3.1	2.8
EURO Zone	1.2	2.0	1.7	2.5	4%	1%	7%	-0.2	0.2	1.1	1.4	11.6	10.9	10.0	9.1
Germany (*)	1.6	1.4	1.9	2.5	10%	7%	13%	0.1	0.2	1.7	1.6	5.0	4.6	4.2	3.8
France (*)	0.7	1.1	1.1	2.0	9%	5%	9%	0.1	0.3	0.8	1.2	10.3	10.4	10.0	9.5
Spain (*)	1.4	3.2	3.3	3.1	-7%	-2%	7%	-1.0	0.0	1.4	1.2	24.5	22.1	19.6	17.2
Portugal	0.9	1.5	1.5	2.7	11%	-12%	15%	-0.3	0.3	0.9	1.6	14.1	12.6	11.2	9.0
Greece	0.4	-0.1	0.0	1.2	-24%	2%	25%	-2.5	0.4	0.3	1.0	26.5	25.0	23.5	21.4

(*) Base 2000

Source: Eurostat + UCI

Short Term Interest Rates 3 Months

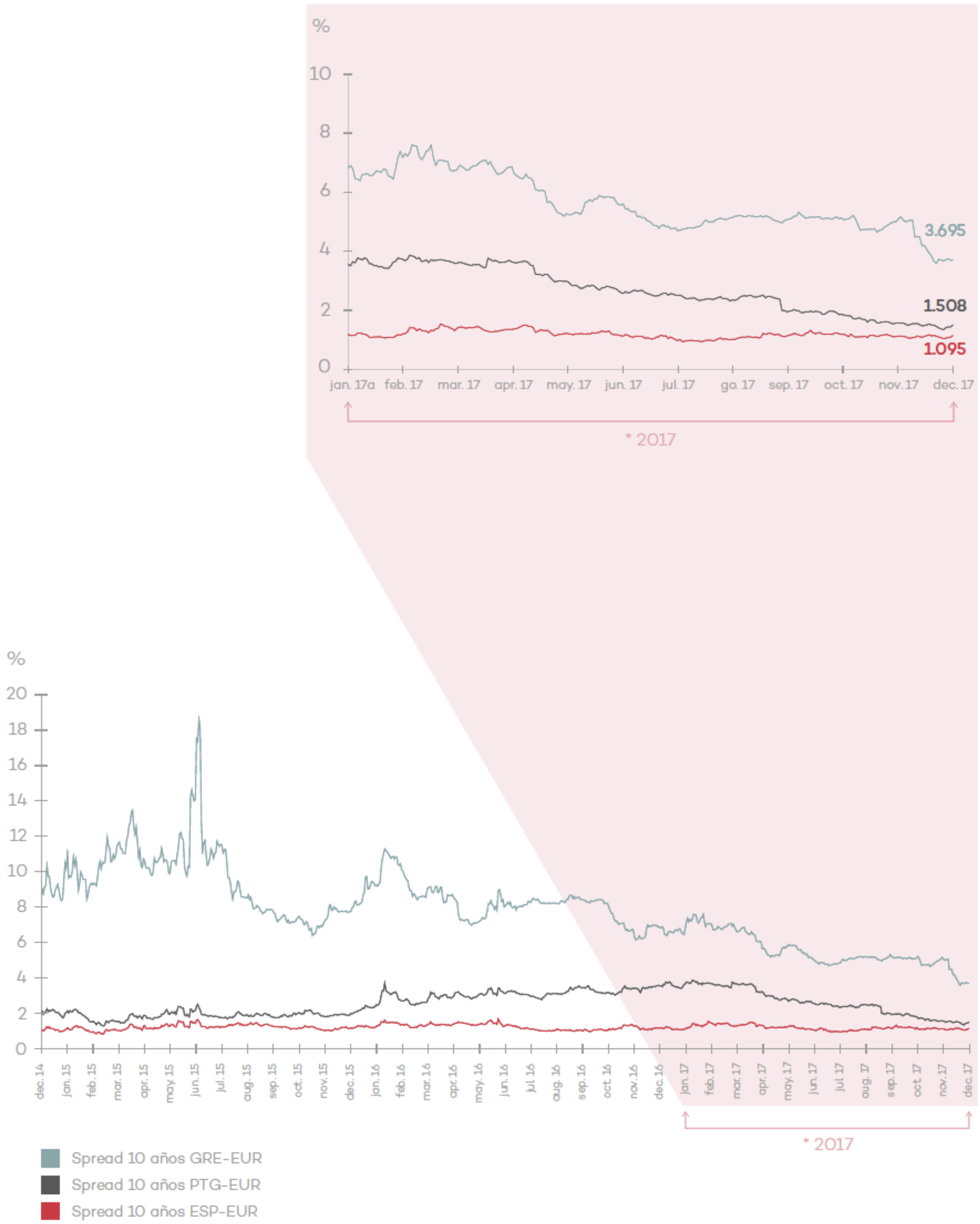


Lastly, Latin America grew at a rate of 1.3% in 2017 and, except for Venezuela – the sole economy to contract – the rest of the group would have grown by 2.5%. This rally can be explained by the rise in the prices of raw materials and by the emergence from recession of the Brazilian and Argentinian economies. Brazil, on the tails of a -3.4% negative downturn in 2016, grew by 1%, whilst there was also a turnaround in Argentina, which improved year-on-year from -2.2% to 2.8%.

In November 2017, the IMF requested that the Brazilian government moved forward with a fiscal austerity plan, but this did not prevent Brazilian growth, partly because of the historic interest rate reduction decreed by its central bank, and also due to higher demand for Brazilian consumer goods, vehicles and components.

Long Term Interest Rates 10 Years Bonds

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



Economic Environment Spain

The Spanish economy grew by 3.1%, in alignment with the rhythm of growth of the global economy, following minimal correction on confidence and demand as a consequence of the effects of political uncertainty in Catalonia. In any event, this growth based on consumption, investment and exports was up on the forecast at the end of 2016 (2.7%) and is the third time since 2007 that it has been over the historic mean (the average for 1971-2015: 2.5%).

Domestic demand, both public and private, accounted for most of the growth in 2017, with a contribution to GDP of 3.2 points, thanks to final consumption, which grew 2.5%, and gross fixed capital formation (GFCF), which increased 5.6%.

Net foreign demand had a negative -0.1 pp contribution, in which exports ended the year with average expansion slightly below that recorded in 2016 (4.4%, as opposed to 4.5%), while the increase in imports rose from 1.6% in 2016 to 5.2% in 2017.

In December 2017, the year-on-year rate for the Consumer Price Index (CPI) fell by 0.6% to 1.1%, its lowest level for the year, due to a lower than expected rise in fuel and electricity prices. The increase in transport prices was 1.5% lower, at 1.9%.

Turning to employment figures, the labour force survey (LFS) for the fourth quarter showed that 19 million people were in work in 2017, in other words a 2.6% increase over 2016.

By sectors, the service industry boasted the highest level of job creation (289,700), thanks to the drive from tourism. The industrial sector grew its workforce by 5.1% to 132,200 employees, and the construction industry gained 64,300 workers, almost 6% more than in 2016.

Total wage-earners grew by 537,100, whilst the number of self-employed workers fell by 45,400. Amongst paid employees, there were 357,900 extra people with fixed contracts and 179,200 additional temporary contracts.

The unemployment rate was 17.2%, over two points lower than the figure recorded for December 2016, whilst the employment rate fell by 0.12 to 58.8%.

3.1%
economic growth of the Spanish economy

4.4%
increase in exports

5.2%
increase in imports

Employment data

19M
employed people

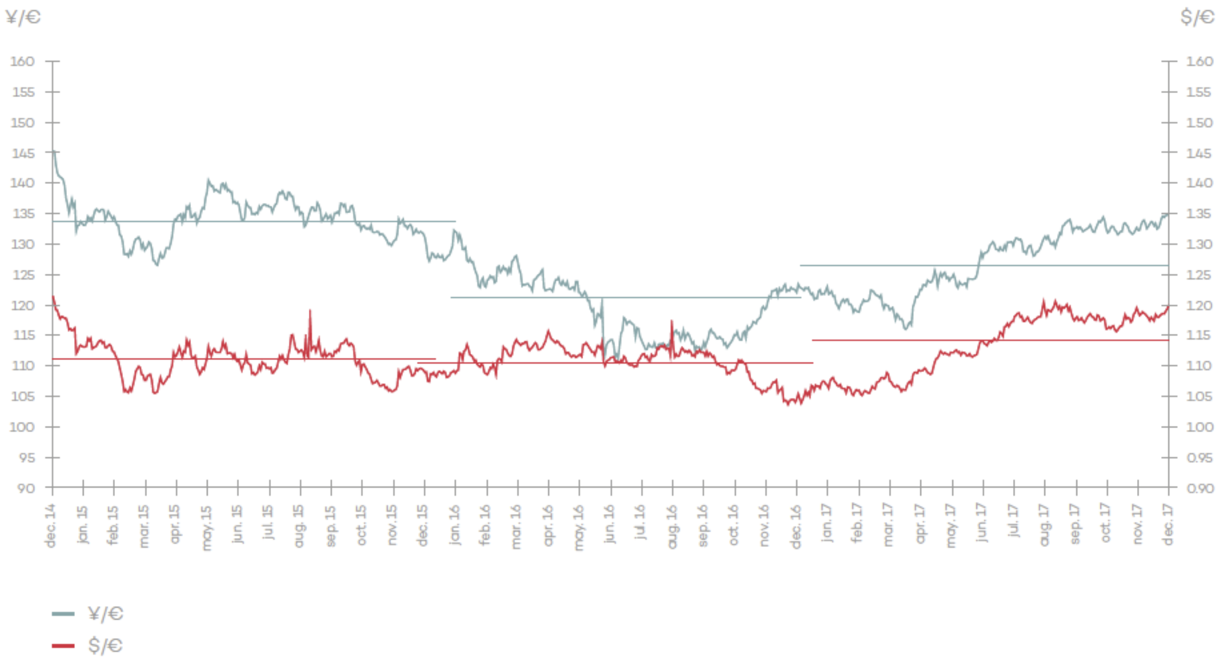
289,700
new jobs created in the services sector

17.2%
unemployment

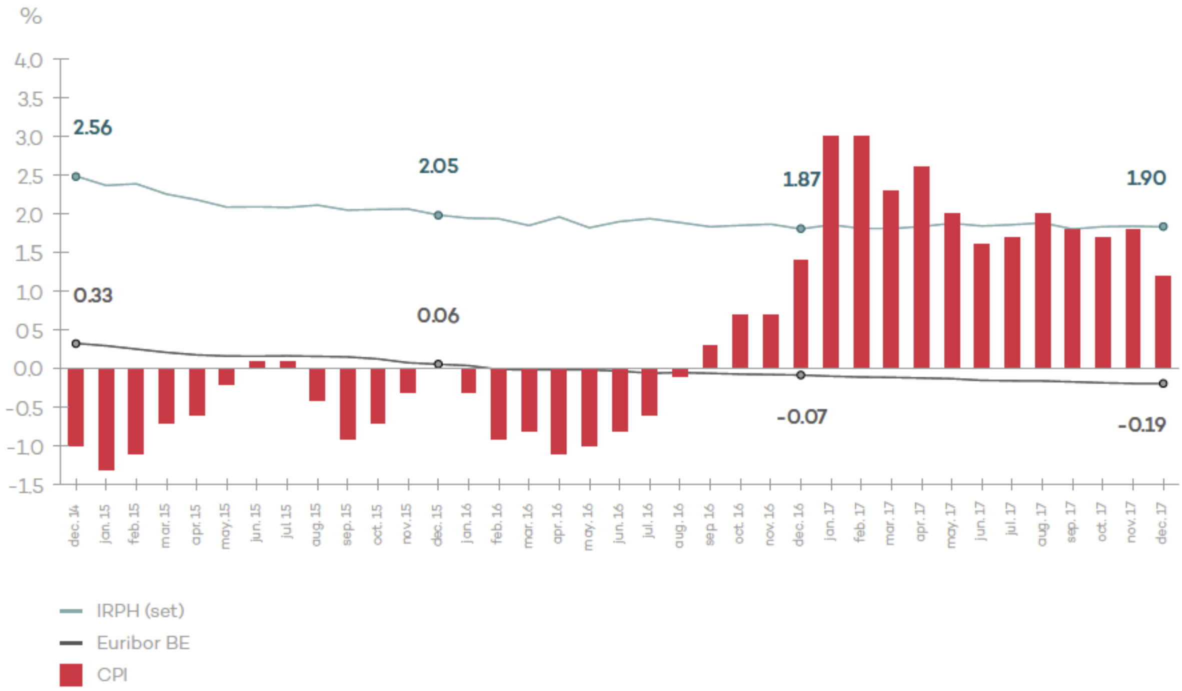
Quarterly Variation GDP

Source: Eurostat

Forex



Euribor 12 Months - IRPH - IPC



Real Estate and Mortgage Market

The jobs and growth figures for the Spanish economy are positively influencing consumer confidence, which, along with the good financial conditions and profitability rates of the real estate sector, is driving demand and, with it, home sales, which rose 14.6%, and, consequently, prices.

According to statistics from the Development Ministry, home prices on the private market increased 3.1% with a square metre costing on average EUR 1,558.7 /m2, compared to EUR 1,463.1 m2 in December 2014, the year in which house prices were at their lowest following the financial crisis. By regions, the highest year-on-year rises occurred in Madrid (+6.5%), Catalonia (+6.2%), the Canary Islands (+5.5%) and the Balearic Islands (+5.4%).

In 2017, 464,423 homes were sold, as compared to 405,385 in 2016, and the prices for transactions increased 7.6%. In terms of the geographic breakdown, Andalucía (19.2%), Catalonia (16.4%), Madrid (15.1%) and Valencian Community (14.8%) accounted for most of the purchase agreements.

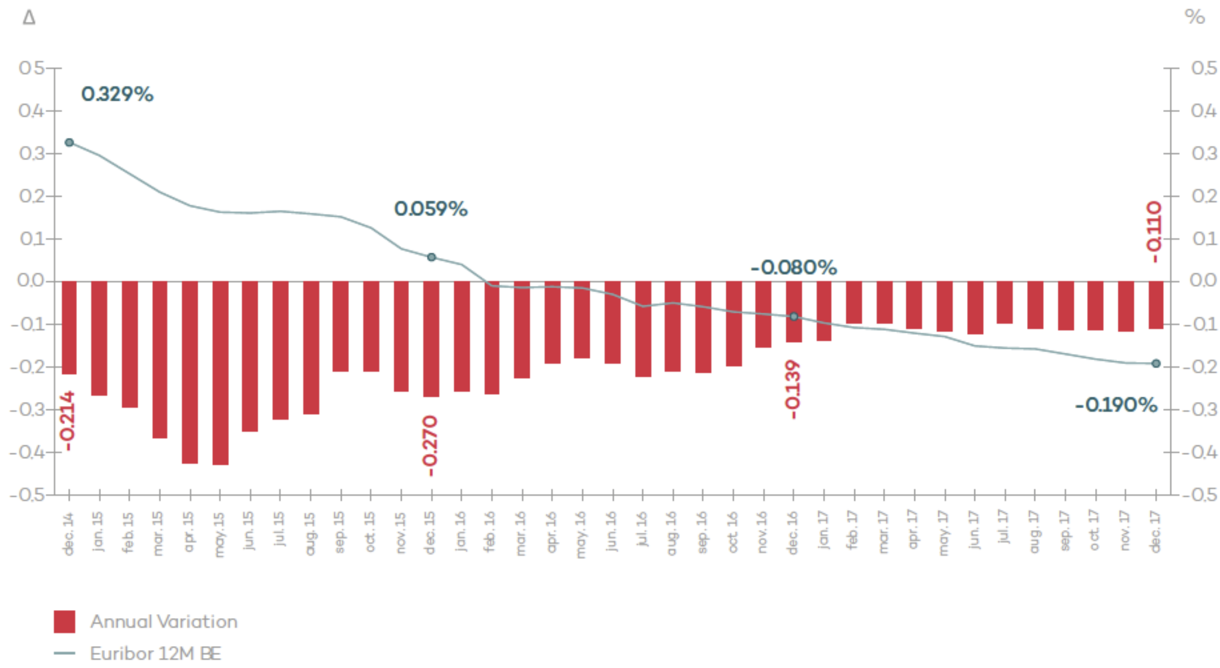
On the supply side, in 2017, 80,786 new building permits were granted, 26.2% up on 2016; although this is a figure which is well below that of 2008 (264,795). Moreover, according to data from the National Statistics Institute, in 2017 there was an increase in the total number of new mortgages signed for residential property (310,135), a figure which is slightly higher than that for 2016 (281,864). In the latter year, the average mortgage amounted to EUR 109,695, at 3.16% interest,

14.56%
increase in home sales

3.1%
increase in home prices on the private market

464,423
homes sold

Annual Variation Euribor Bank of Spain



whilst in 2017, the relevant figures were EUR 116,720 euros and a lower average interest rate of 2.86%.

In 2017, at 38%, almost four out of every ten new mortgages were fixed rate, a percentage which is higher than that for fixed rate mortgages signed in 2016 (23.7%), and which can be viewed as a historic record when compared to the 2% of 2012.

According to the ECB's credit statistics published in December 2017, the balance of outstanding loans for the residential private sector was EUR 1,258,722 million, a year-on-year change of 1.7%. This amount represents 108.2% of GDP, as opposed to the 165.5% it accounted for in 2008; that is to say, there has been a fall of 57.3 percentage points, proof of the financial deleveraging prevalent in the economy for households and companies in this period. Similarly, NPL rates have continued to show signs of improvement in practically all loan segments despite ongoing contraction of the volume of lending in the live portfolio.

Also, because of the deleveraging process Spain is going through, the outstanding balance for mortgage bonds reached EUR 329.436 billion in December 2017, a -7.2% reduction compared with 2016, for which the outstanding balance was EUR 354,934 billion.

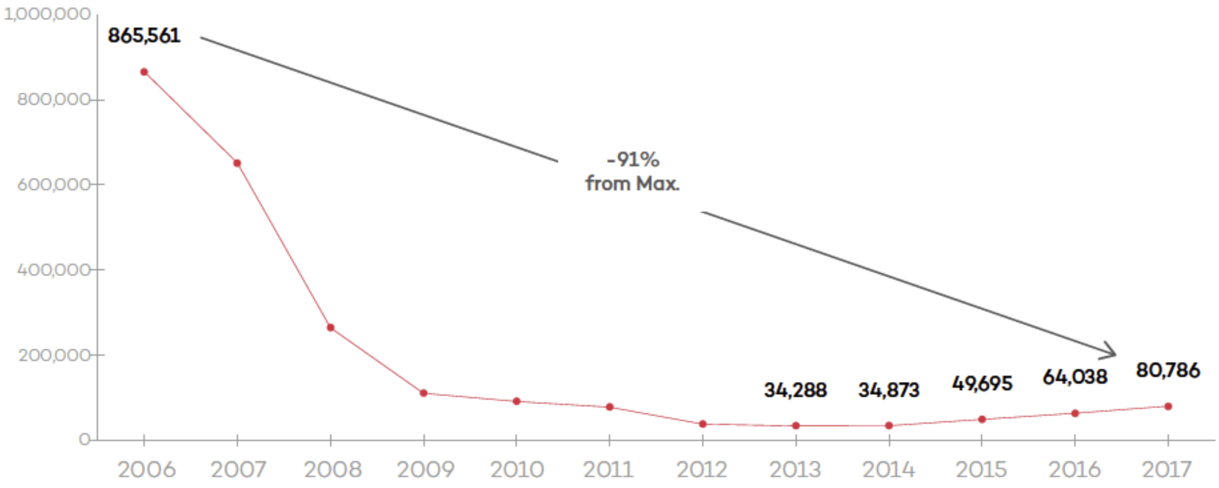
The total volume for mortgage bonds admitted to trading by the end of 2017 was EUR 34.968 billion, that is -31.5% less than year the previous year, largely due to lower issuing of asset-backed securities.

310,135
mortgages approved

38%
fixed-rate mortgages taken out

329,436M€
outstanding balance for RMBS

Number of Houses Built in Spain



Source: Mº de Fomento

In 2017, there was a balance of EUR 30 billion for single-seller residential mortgage backed securities (RMBS), which accounted for over three-quarters (86%) of the total volume issued, as opposed to EUR 31,393 million in 2016 (-4.4%); whilst there has been no new issuance of multi-seller RMBS, understood as a vehicle for securitisation, since 2013.

Issuances of securitised asset-backed securities, which lost 24 percentage points of their weighting in 2017 to mortgage backed securities, fell to EUR 4.968 billion, in other words a -74.7% year-on-year reduction.

Securitised asset-backed securities ended the month of December with an outstanding balance of EUR 112.938 billion, -8.5% down on December 2016.

These reductions may be explained because the institutions had alternative, low-cost financing via the different mechanisms deployed by the ECB, the main purchaser of mortgage backed securities on the secondary market. In 2017, the Spanish financial system showed a favourable liquidity situation.

€ **30,000M€**
outstanding balance for single-seller RMBS

Housing Price in Spain

Autonomus Region	New Home (Euro/m²) 2014	2015	2016	2017	dif. 17-16	dif. 17-14	Used Housing (Euro/m²) 2014	2015	2016	2017	dif. 17-16	dif. 17-14
Andalucía	1,395	1,427	1,467	1,559	6.3%	11.8%	1,338	1,349	1,322	1,356	2.6%	1.3%
Aragón	1,354	1,356	1,359	1,455	7.1%	7.5%	1,343	1,306	1,273	1,361	6.9%	1.3%
Asturias	1,569	1,608	1,618	1,634	1.0%	4.1%	1,047	1,060	1,072	1,087	1.4%	3.8%
Baleares	1,949	1,857	1,911	2,075	8.6%	6.5%	1,749	1,768	1,855	2,013	8.5%	15.1%
Canarias	1,292	1,366	1,384	1,486	7.4%	15.0%	1,222	1,212	1,250	1,329	6.3%	8.8%
Cantabria	1,417	1,349	1,357	1,417	4.4%	0.0%	1,450	1,434	1,416	1,446	2.1%	-0.3%
Castilla La Mancha	943	989	980	1,021	4.2%	8.3%	888	881	868	881	1.5%	-0.8%
Castilla-León	1,083	1,086	1,064	1,095	2.9%	1.1%	1,013	1,003	1,012	1,028	1.6%	1.5%
Cataluña	1,968	2,063	2,118	2,225	5.1%	13.1%	1,704	1,712	1,788	1,915	7.1%	12.5%
Extremadura	1,005	1,017	1,019	1,068	4.8%	6.3%	826	830	838	855	2.0%	3.5%
Galicia	1,125	1,168	1,181	1,236	4.7%	9.9%	1,116	1,132	1,144	1,161	1.5%	4.0%
La Rioja	1,238	1,217	1,181	1,208	2.3%	-2.4%	985	985	961	987	2.7%	0.2%
Madrid	1,908	2,027	2,121	2,273	7.2%	19.1%	1,885	1,938	2,002	2,152	7.5%	14.2%
Murcia	1,109	1,124	1,117	1,148	2.8%	3.5%	969	966	965	946	-2.0%	-2.4%
Navarra	1,589	1,546	1,522	1,570	3.2%	-1.2%	1,433	1,390	1,388	1,389	0.1%	-3.1%
País Vasco	2,380	2,426	2,435	2,527	3.8%	6.2%	2,131	2,132	2,143	2,226	3.9%	4.5%
Valencia	1,267	1,315	1,333	1,411	5.9%	11.4%	1,042	1,056	1,062	1,078	1.5%	3.5%
Average Price per m²	**1,447**	**1,467**	**1,480**	**1,553**	**4.9%**	**7.4%**	**1,302**	**1,303**	**1,315**	**1,365**	**3.8%**	**4.8%**

Source: Valtecnic Sociedad de Tasación

Economic Environment Portugal

2017 stands out as a year of record growth for the Portuguese economy. The National Statistics Institute confirmed that Portugal ended 2017 with its highest growth this century. Its GDP grew by 2.7%, 0.1 percentage points above the Government forecast, on the back of a 1.5% increase in 2016, and above the Eurozone average (2.3%). Following fifteen months of strong growth, a large part of this rise is due to the increase in exports, which rose by 10.1%, their highest weighting in the Portuguese economy's GDP in the last 17 years.

Annual inflation climbed to 1.6%, one of the biggest increases of recent years.

The unemployment fell steadily to 8.1%, more than three points lower than that of the previous financial year, and below the Eurozone average (9.1%).

2.7%
GDP rise

10.1%
increase in exports

12.5%
increase in imports

Real Estate and Mortgage Market

In 2017, 153,292 homes were sold, up 20.6% on 2016, and the highest figure recorded for the country since 2009. According to figures from the Portuguese National Statistics Institute, house prices rose by 9.2% during the year, 2.1 percentage points higher than in 2016.

The APEMIP (the Portuguese Real Estate Professionals and Brokers Association) estimates that 25% of transactions were completed by non-residents, attesting once again to the important role of foreign buyers in this market led by the Lisbon metropolitan zone and the North, with sales accounting for 64.3% of the total.

Data from the Bank of Portugal shows that the volume of mortgages grew by 40%, to above 8 billion euros. Mortgages will once more be strategic to the business of banks in Portugal, and competition has intensified accordingly.

20.6%
rise in home purchases

9.2%
increase non-subsidised house prices

40%
growth in the volume of mortgages

Housing Price in Portugal

Districts	New Home (Euro/m²)						Used Housing (Euro/m²)					
	2014	2015	2016	2017	dif. 17-'16	dif. 17-'14	2014	2015	2016	2017	dif. 17-'16	dif. 17-'14
Açores	941	961	970	988	1.9%	5.0%	676	690	697	709	1.7%	4.9%
Aveiro	755	762	770	805	4.6%	6.6%	713	718	726	754	3.9%	5.9%
Beja	925	929	949	974	2.7%	5.3%	821	830	849	871	2.6%	6.1%
Braga	844	850	876	916	4.5%	8.5%	609	618	629	656	4.2%	7.6%
Bragança	605	606	628	635	1.2%	5.0%	564	568	592	602	1.7%	6.8%
Castelo Branco	663	663	677	707	4.5%	6.7%	590	590	603	627	4.0%	6.2%
Cidade Lisboa	1,711	1,729	1,795	1,924	7.2%	12.5%	1,356	1,359	1,406	1,498	6.5%	10.5%
Cidade Porto	1,297	1,312	1,333	1,436	7.7%	10.7%	1,117	1,129	1,150	1,225	6.5%	9.7%
Coimbra	995	997	1,010	1,048	3.8%	5.4%	789	789	798	825	3.3%	4.5%
Évora	930	932	955	1,001	4.8%	7.7%	670	676	695	725	4.3%	8.2%
Faro	1,295	1,315	1,356	1,444	6.5%	11.5%	1,109	1,125	1,169	1,237	5.8%	11.5%
Área Metropolitana Lisboa	875	890	926	972	4.9%	11.1%	710	720	756	792	4.7%	11.5%
Área Metropolitana Porto	855	863	910	956	5.1%	11.8%	697	705	744	782	5.2%	12.2%
Guarda	629	628	644	672	4.3%	6.9%	490	487	499	518	4.0%	5.7%
Leiria	770	768	772	810	5.0%	5.2%	599	594	595	620	4.1%	3.5%
Madeira	1,192	1,197	1,208	1,254	3.8%	5.2%	856	860	868	896	3.2%	4.6%
Portalegre	745	746	750	759	1.2%	1.8%	573	572	575	581	1.1%	1.5%
Santarém	720	721	728	748	2.7%	3.8%	614	612	616	630	2.4%	2.6%
Setúbal	708	709	724	742	2.5%	4.9%	563	564	576	590	2.4%	4.8%
Viana do Castelo	780	781	782	818	4.5%	4.8%	603	603	603	625	3.6%	3.7%
Vila Real	828	818	824	841	2.0%	1.5%	658	658	647	658	1.8%	0.0%
Viseu	782	733	739	784	6.0%	0.2%	685	679	657	690	5.0%	0.7%
Average price per m²	**897,4**	**902,4**	**602,9**	**578,4**	**4.6%**	**7.4%**	**562,4**	**564,1**	**573,0**	**781,1**	**4.1%**	**6.6%**

Source: QUALITAS Sociedade de Avaliações Técnicas LDA

UCI.

Economic Environment Greece

The Greek sovereign debt crisis in 2010 exposed significant macro-economic imbalances. Although the country's economy still faces important challenges, Greece has implemented an economic reform and an adjustment programme which have enabled the elimination of fiscal deficits and improved the country's competitiveness.

The banking system has restructured, consolidated and recapitalised. Important institutional reforms have been implemented with the aim of ensuring financial institutions have the tools to reduce the NPLs. Furthermore, the Banks have set operating objectives to reduce the stock of NPLs by 37% by the end of 2019.

As a consequence of these reforms, the economy has begun to gravitate towards more competitive exports-focused sectors.

Although, proportionate to its economy, the Greek state's debt is still Europe's highest, its decline confirms a hopeful trend for the Greek economy. In 2017, the public accounts showed a surplus of 0.8 percent GDP, as opposed to 0.6 percent in 2016, according to Eurostat.

37%
objective for the reduction of the NPLs

0.8%
GDP rise

Real Estate and Mortgage Market

The Greek real estate market has been conditioned by the difficulties of recent years, such as the uncertainty regarding the introduction of capital restrictions, a lack of liquidity and high unemployment (21.4%). These factors have contributed to a fall in house prices. It is expected that prices will stabilise over the coming months.

In the longer term, market reactivation should drive investor demand for property-buying, securing a knock-on effect in regard to general demand.

21.4%
unemployment

Housing Price in Greece

Grecia
Index BoG

Area	2014/ 01	2014/ 02	2014/ 03	2014/ 04	2015/ 01	2015/ 02	2015/ 03	2015/ 04	2016/ 01	2016/ 02	2016/ 03	2016/ 04	2017/ 01	2017/ 02	2017/ 03	estim. **2017/ 04**
Athens	63	61	61	60	59	58	57	57	57	57	57	57	56	56	56	**56**
Thessaloniki	62	61	60	59	59	58	56	56	56	55	55	55	55	55	54	**54**
Other Cities	68	68	67	66	66	64	63	63	63	63	62	62	62	61	61	**62**
Ath: Var 3m	-2.8%	-2.9%	0.5%	-1.8%	-1.0%	-3.5%	-3.7%	-1.6%	0.0%	-0.2%	-1.0%	-0.7%	-0.9%	-0.2%	0.5%	**0.0%**
Ath: Var 12m	-11.1%	-10.5%	-8.9%	-6.8%	-5.1%	-7.5%	-5.9%	-6.7%	-4.7%	-4.2%	-2.2%	1.2%	-1.6%	-1.4%	-0.9%	**-0.4%**

Economic Environment Brazil

In 2016, Brazil was troubled by a period of crisis and significant political instability and its GDP contracted 3.3%; but in 2017 the country evidenced signs of recovery, thanks to growth in private consumption and improved export performance. However, because the political situation remains unstable, this recovery is still fragile.

At 1%, there was a slight increase in GDP and year-end inflation stood at a record low of 2.95% (HICP for December 2017). The reference interest rate, Selic, started to fall from a maximum of 14.25% in 2016, ending the year at a record reduced rate of 7.00%. The outlook indicates it will continue to fall and drive the economy.

The current transactions balance recorded its best result since 2007, with a deficit of just 0.48% of GDP.
The unemployment rate stabilised at 12.0%, compared to 11.9% at the end of the previous year.

1.0%
GDP growth

2.95%
inflation

12%
unemployment

Real Estate and Mortgage Market

Real estate financing operations funded by savings (poupança) totalled 43.15 billion reals in 2017, a reduction of 7.4% year-on-year. During December, real estate lending totalled 3.68 reals, a year-on-year fall of 31.6%, but 17% up on November.

In 2017, 175.6 thousand real estate purchases were financed, a 12.1% reduction compared to 2016. In December, 14.6 properties were financed, which represents a fall of 28.7% when compared to December 2016.

According to the president of ABECIP (the Brazilian Association of Real Estate Loans and Savings Companies) the reduction in real estate loan origination in 2017 reflects the impact of the capital restrictions of Caixa Econômica Federal, the market leader.

-7.4%
real estate financing

Reinventing UCI Group

Having observed during the crisis the impact on people's lives of home-buying and subsequent related decisions, UCI decided to reinvent itself so as to enhance its value contribution and help enable future buyers to make their decisions in a secure and well-informed manner. And it did so by transforming the way it approaches financing and by creating a business culture focussed on helping customers to turn into a reality their designs for home and life.

The cornerstone of UCI's reinvention is reflected by the slogan: *"we start and finish with the customer"*. Understanding homebuyers and putting ourselves "in their shoes" when making the most important purchasing decision of their lives. The one which most affects their finances and their emotions. Their most calculated choice but by the same score their most emotional one.

All of UCI's work in the last few years has been based on this. And it has enabled UCI to make the leap from needing to solve a serious problem to increasing its customers and profitability.

Starting point in the sector

- Worst-marketed banking product
- Mortgage = a toll for uncertain customers
- Mandatory purchase of related products
- A single mortgage-type
- A short relationship
- No customer journey (accompaniment)

UCI's actions

- 98% satisfied customers
- Concern for the customer and his/her financial health
- Transparent tools and information
- No attachment or compulsory products
- Relationship starts from the customer's home-purchase decision
- The customer journey is supported from start to finish by a personal advisor

Reinventing the relationship and the brand

The initial actions carried out were meetings with customers, focus groups and an analysis which enabled an understanding of homebuyers' needs and their relationship with UCI and other financial institutions.

Certain of the most frequently voiced ideas in these interviews were that the bank was a mere instrument in accessing a home and that the customer was obliged to purchase products that he/she does not really need.

Thanks to this analysis and by means of "co-creation" with executives and employees, UCI decided to change its relationship model and facilitate access to home financing in line with three pillars, which amounted to a significant change in the brand's promise:

- *By your side:* Customer journey for the whole of his/her lifecycle.
- *You choose:* Making home-buying easy, enabling customers to decide on the best solution to meet their needs.
- *Responsible buying:* Concern for the customer and his/her financial health, keeping them well-informed throughout the process.

Reinvention in people terms

UCI's executive managers were clear that people were the key to carrying out the company's reinvention process. Changing the way of thinking and working to ensure a customer-centred approach would require new processes for the sales network and, by extension, for all of the roles within the company. Thus, using the company's annual convention as the launchpad, 100% of the workforce were given access to the details of the new training process, which was christened **Reinventared**.

UCI created a differential customer relations model with a focus on adding value, and this has led to a company-wide cultural change.

Digital reinvention

Once the strategy was defined, it was essential to establish the processes as well as the appropriate online and offline platforms. And these channels were critical in turning into a reality one of the great challenges faced by UCI in making the leap from selling mortgages to facilitating home-buying: to accompany the customer and be present at many of the points where, until now, we had not been at the customer's side.

Of the twenty steps that home-buyers go through, we had only had a relationship with them for twelve. We wanted to change this situation and establish a footprint in all of them, especially at one of the most complicated, that of "the number crunching". After noting that most customers faced difficulties when it came to calculating their mortgage, we decided to assist them in their calculations and simulations.

UCI moved from establishing relations with the customer at the time of sale, or from resolving situations when it was difficult to make payments, to accompanying them throughout all of the steps they take from the moment they decide to buy a home. And this was the reason for choosing the multi-channel route to journey with them, so as to adapt the hipotecas.com model to customers, provide a call centre and an account executive to support the website, and maintain a post-sales relationship with a customer manager.

Reinvention with the agents

The final phase of this reinvention consisted of transmitting this whole process to the professionals with whom UCI has worked since its beginnings, real estate agents.

To this end, in-depth work was carried out with them to create a model geared towards the improvement of their business. We call it **ReinventaApa**, and it entails a reinvention in terms of UCI's relationship with real estate professionals. It is based on three pillars: professionalization and training; traceability and monitoring of operations; and improvement of their business.

This new work process is being carried out with franchises and large real estate networks, and it will soon be extended to "local big hitters" or local-level references.

UCI.

Customer satisfaction

The changes implemented by UCI can be measured in terms of their profitability or by the degree of recommendation to other customers via programmes like "Member get Member", which was implemented in 2016. However, one of the tools to gauge the satisfaction of the customers of UCI and hipotecas.com is the platform for verified opinions, Ekomi.

Ekomi gathers, analyses and shares customer ratings, uploading them to a non-company online platform. It also offers the possibility of discovering the satisfaction of an institution's customers, the quality of service and the functioning of internal processes, enabling the institution in question to continue improving.

UCI and hipotecas.com currently have a score of 9.6 out of 10, obtained in accordance with the operations signed by customers over the last twelve months.

Results of the quality surveys*:

98.9%
general Satisfaction

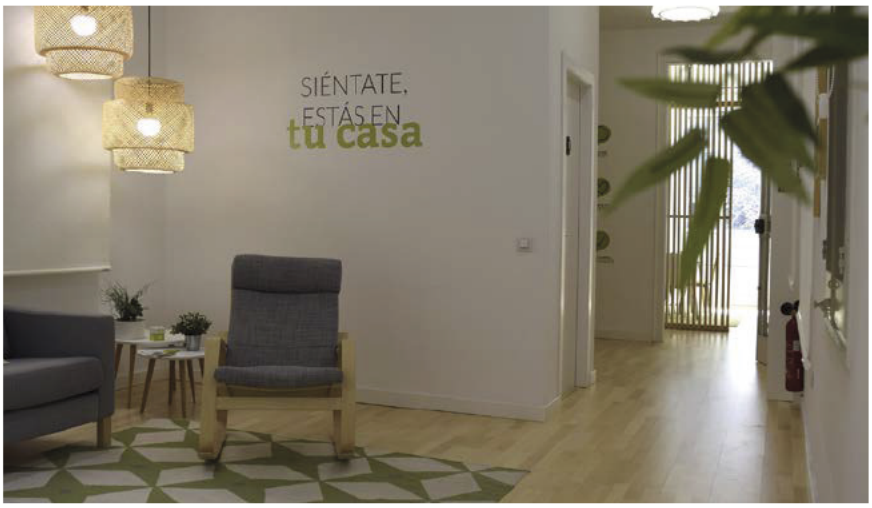
97.9%
recommendation

97%
satisfied customers who would recommend the group's services

* Surveys undertaken with customers who signed their mortgages between 1 and 31 December 2017

Offices to make you feel at home

In Spain, hipotecas.com offers its customers attachment-free mortgages on its website. In 2017, with the aim of offering a better service and making available physical offices for customers, hipotecas.com opened offices at four locations nationwide. They are located in central and emblematic parts of Madrid, Barcelona, Valencia and Sevilla, respectively. Thus, hipotecas.com has become consolidated as a reference in the field of attachment-free mortgage lending.



Ekomi rates 2017:

UCI. **9.6** out of 10

Hipotecas.com **9.6** out of 10

Prado IV & V

In 2017, UCI consolidated its status as one of the market leaders for securitisations in Spain, thanks to the Prado IV and V operations. Bloomberg rated Prado IV as the best transaction in Europe in the month of April 2017.

The reopening in 2015 of the RMBS operations, via the 5 Prado programmes, has positively contributed to autonomous and competitive generation of liquidity for the company's business development and has enabled the securing of funds to the tune of 1.725 billion euros.

The DBRS Ratings Limited agency rated UCI for the first time

On 26 April 2018, the DBRS Ratings Limited agency for the first time issued an A (low) long-term rating for Unión de Créditos Inmobiliarios, S.A. EFC. Likewise, DBRS issued an R-1 (low) short-term rating and issued assurance that the trend for both ratings was stable.

The awarding of this rating highlights UCI's good financial situation, as well as the support from its shareholders. In these terms, DBRS recognises that the financial institution has reported gains in 6 of the last 7 years, in the midst of a very challenging economic environment in Spain.

DBRS also noted that UCI's profitability is highly concentrated in interest income, since it is a company specializing in the awarding of mortgages, whose business model is backed up by a network of efficient and profitable branch offices.

The DBRS agency states that "UCI's rating is below that of the shareholders given that it is a non-banking company in which no shareholder has a majority holding".

Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Unión de Créditos Inmobiliarios (UCI)	Long-Term Issuer Rating	New Rating	A (low)	Stb	Apr. 16, 2018
Unión de Créditos Inmobiliarios (UCI)	Short-Term Issuer Rating	New Rating	R-1 (low)	Stb	Apr. 16, 2018

Greece

UCI Greece managed to maintain its NPL rate at 8.43%, in a very negative environment, while implementing the code of conduct for loans customers and also proactively managing its loans portfolio.

"A new era is approaching for UCI operations in Greece, which is entering a new market for our international knowledge and capabilities."

In 2017, UCI Greece Loan Management Services Company obtained its licence from the Bank of Greece. It is one of the loans management companies certified in Greece and authorized to manage third-party funds.

This milestone marks the onset of a new era for UCI operations in Greece, in view of the fact that we are entering a new market, taking advantage of our international expertise and capacities.

In February 2018, the totality of UCI Greece's loans was reassigned to UCI S.A., EFC and as at the date of production of this report all employees had been transferred to UCI LMS.

UCI Services for Real Estate Professionals (UCI SPPI)

Red Comprarcasa

In 2017 the Comprarcasa network prioritised offering enhanced and better services to its network, with particular emphasis on its "hub" offices, based on three components: branding, know-how (method training) and consultancy.

Regarding the first point, the company defined and presented a new Compracasa Network image, undertook a thorough refurbishment of offices, and updated its internal functioning, included in the "Comprarcasa DNA" concept.

Insofar as Portugal is concerned, Comprarcasa implemented a new business model called "Comprarcasa Evolution", the aim of which is to increase and improve the services and added value provided by the network to its partners and clients.

Thus, actions and a media plan were driven forward to improve the network's positioning. In addition, the network was present at the main national events and trade fairs for the sector, such as the Salón Inmobiliario de Lisboa (SIL) – Lisbon's real estate trade fair.

Lastly, expansion and consultancy actions were redefined. 6 new offices were added to the network. The streamlining processes meant that the financial year ended with 93 agencies in Spain and 48 in Portugal.

Comprarcasa has based improvements to your network in three components:

- Branding
- Know-how
- Consulting

Professional Services

The second component of UCI SPPI business in 2017 focussed on training for real estate professionals, essentially by means of the agreements that the UCI Group operates with the NAR (National Association of Realtors) and with the CRS (Council of Residential Specialists) in the USA. Within the framework of this activity, 97 courses were given during the year to 3,039 attendees, and in June 2017 the 7th edition of the real estate event Inmocionate was held, with the attendance of over 900 sector professionals. Gross turnover for these actions totalled 0.81 M €.

In 2016, UCI SPPI signed with Unión de Créditos Inmobiliarios, SA, EFC, an advertising and trading communications agreement in respect of the business activities reported by UCI SPPI. Turnover for the 2017 financial year was 0.18 M €.

+900
professionals attended to Inmociónate'17

0.18 M€
UCI SPPI turnover for the year 2017

Financial results

The company continued with the process initiated in 2015 to increase business, which gave rise to an updated company purpose and corporate name. The 2017 financial year was the second full financial year executed according to these new guidelines, and the second in a row to produce a positive result. This was +28 k€, compared to +6 k€ for the 2016 financial year.

The company feels confident it will continue growing its profitability in the coming financial years.

+28 k€
as a result of the ICU redefinition process

3

ECONOMIC & FINANCIAL REPORT

UCI.

Directors' Report for the Year

Ended at 31 december 2017

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 updates.

Economic environment

In 2017, the Spanish economy has presented again one of the highest growth rates in the Euro area, with a growth of 3.1%, almost the same level as in 2015 and 2016. With this, the Spanish GDP already exceeds in 2017 the level reached in 2007, before the beginning of the crisis.

The Spanish real estate market has confirmed the price recovery that began in the previous year. The y-o-y increase until the third quarter of 2017 (last data published to date) was of 2.6%, in comparison with the increase of 1.5% on the set of 2016, after ongoing falls from 2008 to 2014. All this information confirms a gradual price recovery in the market, where average prices are at the level of 2012.

Since 2014, the Spanish mortgage market presents a change of trend, with a slight increase of contracted volumes; this trend was maintained throughout 2017, with an accumulated increase at November 2017 (last published data) of 7.9%, supported by the favourable evolution of prices and offer increase on entities that operate in the Spanish market.

Portugal presented lower growth rates (annual +2.5% on 3Q2017), virtually at the level of the Euro area (+2.5% at the same date).

With a y-o-y growth of 1.3%, at 3Q2017, the Greek economy seems to be leaving the stagnation it maintained since 2015, year marked by a strong political and monetary instability.

Sales Activity Credits to Customers

With a recovering economic environment, as explained above, and within the frame of the strategic plan 2015-2017, the Group's commercial activity in 2017 has been favourably developed.

Consolidated production of new mortgage credits, around 538 million Euros, substantially grew again in 2017: it increased by 44% with regards to 2016, after the increase by 33% in 2016. The activity in Spain reached 385 million, 51% more than in 2016. The figure in Portugal reached 153 million, with a growth of 30%.

In Spain, the commercial offer in UCI has maintained the two strategic lines 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 2017 (same percentage in 2016 and 15% in 2015), implying an increase of 53%. The increase of production under the brand UCI through intermediaries, particularly professionals from the real estate sector, was of 51% in Spain. Such increase has been compatible with the responsible credit strategy 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 fixed-rate period (91% of annual production, after 86% in 2016 and 61% in 2015).

Both in Spain and in Portugal, the proportion of financial consultants on the commercial activity has continued increasing, almost doubling it (+99% in Spain, 89% in Portugal, +85% 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. Therefore, the Branch in Greece has not generated new credits in 2017.

The entity UCI Loan Management Services was created on November 2016, with interest by UCI, SA. This entity has obtained, on July 2017, the credit manager licence by the Bank of Greece. The Greek branch of UCI, S.A, EFC expects assigning, during February 2018, to its parent company Unión de Créditos Inmobiliarios, SA, EFC the credit portfolio on its balance sheet, by the carrying value at January 31, 2018. In turn, on the same dates, the entity will enter into a service agreement with UCI LMS, through which the latter will manage such portfolio.

Global managed credit investment on the set of the three countries, including securitized loans written off from the balance sheet, at 2017 closing, has amounted to 11,029 million Euros, discounting products in suspense and before provisions. This amount implies a slight decrease of -2% with regards to the previous closing, due to portfolio's amortizations above the granting of new credits. This decrease percentage is the lowest in last years for UCI Group.

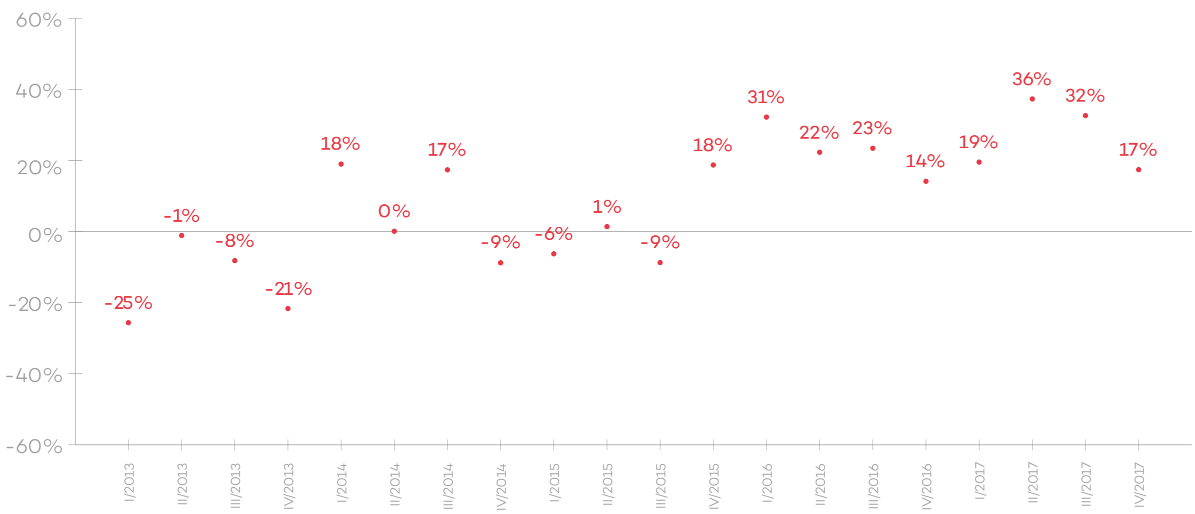
The portfolio managed in Spain, by 9,697 million, is lower by 2% than the final volume of 2016, while the portfolio managed in Portugal, 1,097 million, has increased by +0.9% and in Greece, which exposure is structurally decreasing, of 235 million (-4.5%).

Gross margin

Consolidated gross margin obtained by the Group amounted to 177 million Euros, a regression of 39 million (-18%) with regards to 2016. This evolution results from the following:

The impact of restructuring operations of the Group's liabilities has decreased by 38.4M€. In particular, in 2016, these operations had a positive impact of 47.1M€, incorporated to gross margin, whereas in 2017 the positive contribution was of 8.5M€, essentially due to the improvement of expectations in the secondary market during the two years, which implied a reduction of repurchase opportunities.

New Credits Increase Spain and Portugal (%Annual Variations)



The improvement of securitization bonds' prices on secondary markets has allowed UCI to sell above nominal price bonds retained a when Funds Prado I and Prado II were constituted. Such operations have contributed to margin of the year by 0.6M€.
With regards to the credit portfolio, the reduction of the managed balance implied the reduction of gross margin by 3.6 million. In turn, the progressive standardization of the Spanish market, the increase in competition and the flattening of the rate range have led to a decrease of unit margin per managed credit, with an impact of 8.5 million Euros with regards to 2016.

Finally, UCI has recognized as income in 2017 products generated from restructured credits that were not doubtful at restructuring agreement date, but which had been registered in suspense at such date. This operation, in 2017, implied an increase of income of 21 M € which, based on this regulation, have led to an increase of allocations to provisions of approximately 11.8 M€.

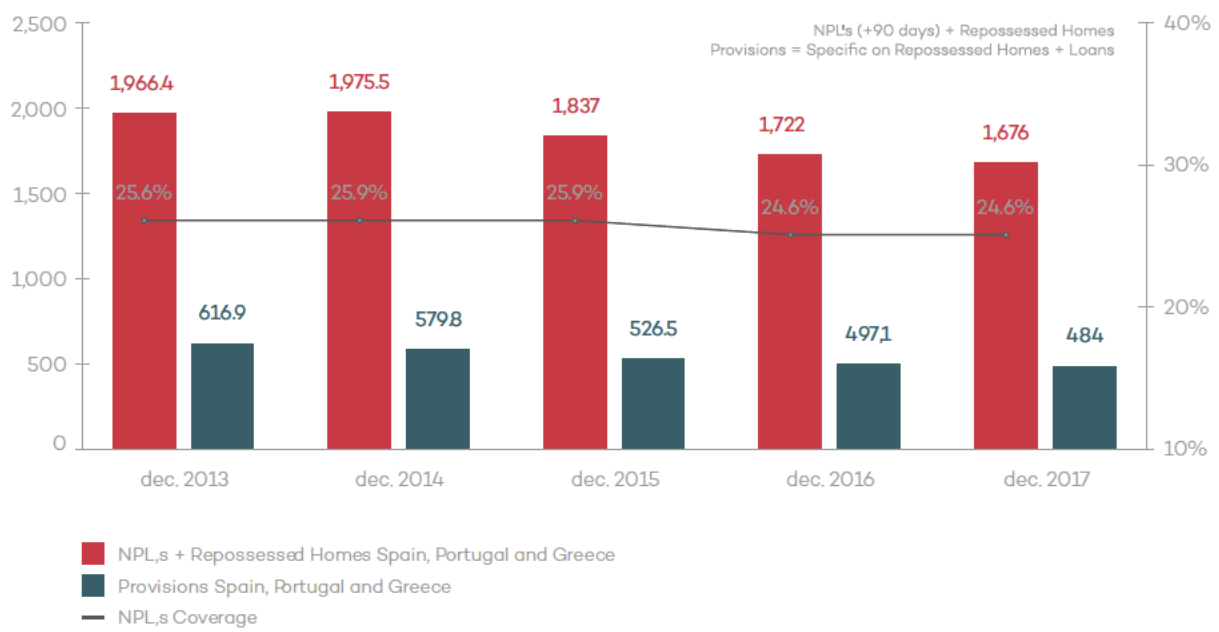
UCI has continued developing its Asset Securitization programme. After operations Prado II (total portfolio of 540 million Euros) and Prado III (420 million Euros in 2016), UCI has successfully placed in the market the senior tranches of Prado IV (390 million) and Prado V (415 million). The quality of information supplied by UCI within Prado IV benefited this operation with an award by the European Data Warehouse, entity that regulates information to be supplied to the market of Securitization Funds' underlying assets in the Euro area.

The ongoing improvement, from Prado I on May 2015 to Prado V on November 2017, of financial cost, as well as historically minimum levels of interest rates in the Euro area, have enabled obtaining financial resources in competitive conditions, which in turn have allowed the growth of new credits, both in Spain and in Portugal.

Overheads

In 2017, 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 46.8 million Euros (+2% with regards to 2016). The Group's personnel have been substantially

NPL Coverage (Spain, Portugal & Greece)



maintained: the number of UCI Group's employees has been of 703 collaborators at 2017 closing, vs. 704 on the previous year.

UCI maintained and consolidated, in 2017, 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).

These business developments in UCI in Spain, including the opening of four business centres under the brand hipotecas.com, implied an increase of expenses by 2.9%, up to 39.5 million Euros. Overheads in UCI Group in Portugal in 2017 amounted to 4.6 million (+0.9% with regards to 2016), whereas UCI Greece decreased internal costs down to 1.75 million Euros (-3.5% with regards to 2016).

The efficiency ratio in the UCI Group, in 2017, reached a level of 27.8%, calculated without considering the impact of the abovementioned liabilities' restructuring operations, an increase by 1% with regards to 2016, calculated with the same bases.

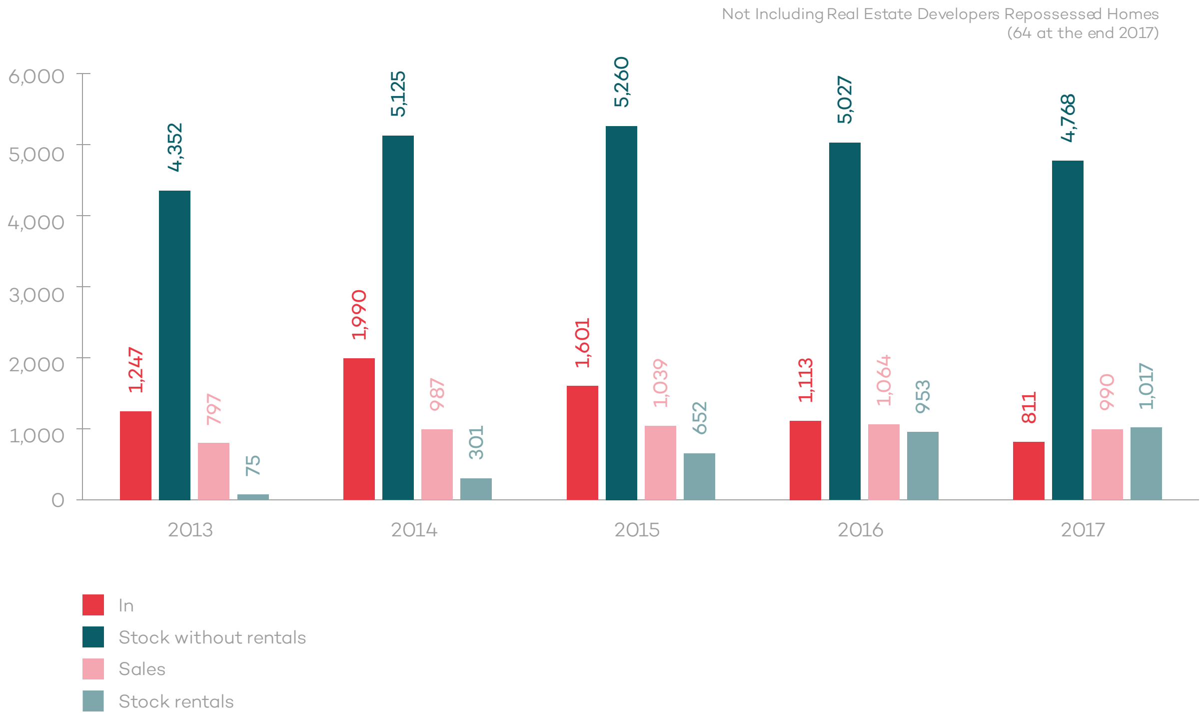
Defaults and Hedging

The default rate, excluding subjective doubtful, in assets managed by UCI in Spain increased from 10.36% at 2016 closing to 10.50% at 2017 closing. Without the abovementioned specific effects, the rate would have been virtually stable in 10.39%.

This ratio's stability on a decreasing balance reflects a decrease of the default balance of 15 million, net of the specific effect above. This reduction has been generalized on the three countries: 4.2 million in Spain, 10.2 million in Portugal, where the default rate decreased (from 3.9% to 2.9%), and 0.6 million in Greece.

Subjective doubtful balance experienced an increase during 2017 of 111 million Euros,

UCI Spain: N° REO Homes



equivalent to 4.3% of total balance, essentially as a consequence of the concatenation of payment agreements provided to clients who, even when willing to pay, still suffer the consequences of the economic crisis. Subjective doubtful balances at 2016 closing were of 3.2%.

UCI has maintained its main axis in the area of recoveries throughout 2017, performing a detailed follow-up of the credit portfolio, and diversifying definitive solutions proposed to clients who undergo payment difficulties.

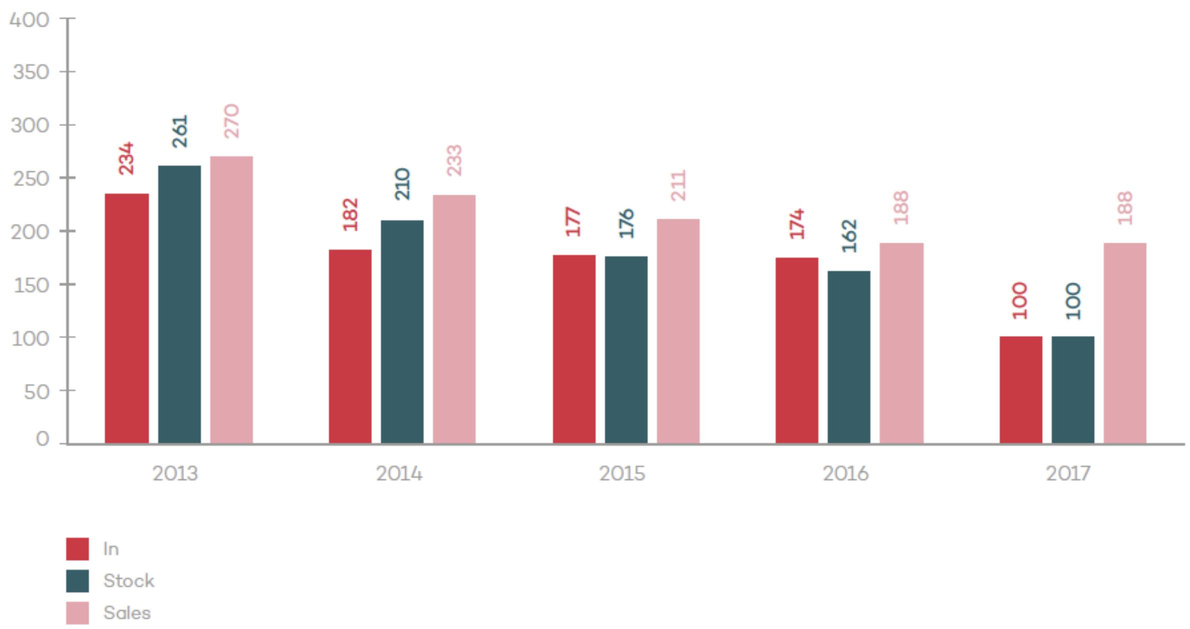
Sales of estates have maintained a strong activity, generating a positive impact by 3.8 M€ in the income statement of the year, as a consequence of high levels of provisions of said assets, as well as the progressive improvement of the real estate market.
In 2017, as in previous years, new formalized operations, within a general responsible credit policy, have maintained a low risk profile.

Without the abovementioned specific impact of the reclassification of products in suspense, allocations for insolvency risk hedges have been close to 48 million Euros. Allocations to hedge transient properties and results from the sale of said assets have been considerably reduced (28.3 million in 2017, with regards to 34.4 million in 2016).

During 2017, UCI maintained high generic provisions, above the minimum limits required by regulations; stock at 2017 closing amounted to 28.1 million Euros (-6.7 M€ with regards to 2016). At 2017 closing, UCI covers provisioning requirements set by the applicable regulations (Circular Bank of Spain 4/2004, RDL 2/2012 and RDL 18/2012, and Letter by the Regulation General Directorate of Bank of Spain of April 30, 2013).

Favourable evolution of securities of guarantees in doubtful credits have led the hedging rate of the doubtful portfolio of the balance of UCI Spain to amount to 23.4%, in comparison with the equivalent indicator of 25.3% at 2016 closing. The hedging of the portfolio with payment delays of 90 days or more on the entity's balance in Spain, calculated under the same criteria, remained at 33.6% (these percentages do not consider

UCI Portugal: Nº REO Homes



the additional protection provided through the valuation of mortgage guarantees).

UCI's transient properties in Spain (foreclosed assets), classified as assets held for sale, had a value at 2017 closing net of provisions of 356.9 million Euros, vs. 384.8 million at 2016 closing. This decrease derives from good results achieved in the trading of foreclosed estates, as well as from the result from the lease policy in a portion of estates, launched three years ago.

The Estates Trading Network in Spain has managed the trading of 1,305 goods (+14% than in 2016): 1,042 goods owned by UCI (-3% over 2016) and 263 goods owned by clients under payment difficulties. Therefore there is a tripled increase with regards to 2016.

With a net balance of transient properties of 8.6M€, the trading activity in UCI Portugal has experienced a decrease of the stock value by 29% with regards to 2016. In Greece, the portfolio of foreclosed goods has maintained very low levels: 0.3 million Euros, half of the park of the 2016 closing.

Consolidated results

In 2017, the Group has generated positive results of 6.5 million Euros, slightly higher than the 6.3 million Euros of 2016. Results essentially derive from the reduction of provisioning needs in the year on the portfolio generated before the crisis, and from the good behaviour of the subsequently generated portfolio, despite the substantial reduction of liabilities' restructuring operations.

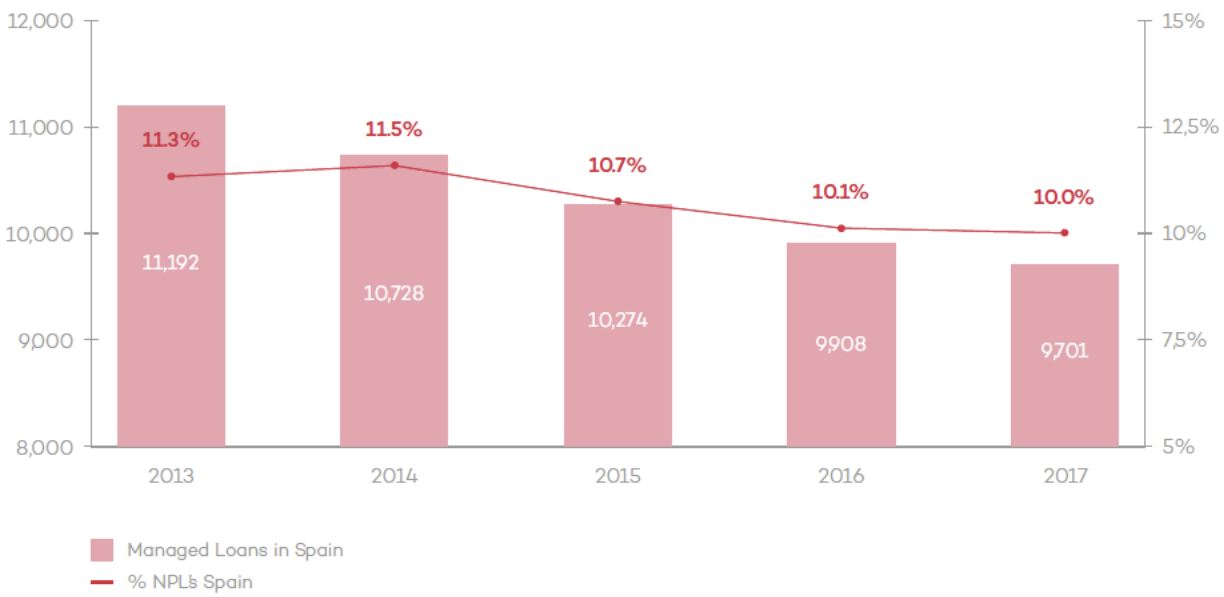
UCI, SA, EFC has closed the year with positive results after tax of 10.3M€, in comparison with 11.7M€ in 2016.

Retama Real Estate (UCI Group's Asset Manager) achieved negative results of -3.3M€, showing a strong reduction with regards to -4.2M€ in 2016.

UCI SPPI registered its second year of profits (28 thousand Euros), after the 6 thousand Euros of 2016, as a consequence of the strong reorientation of the entity's activity in 2015.

Comprarcasa Portugal again approached a deadlock, with -50 million Euros after -70 million Euros in 2016 (with a positive second half of 2017 by 40 thousand).

NPL's > 180 Days Total Managed Loans



Risks and uncertainties

With regards to the main risks and uncertainties, we note 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 2017.
- Operating risk: operating 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 23.2 million Euros, out of which 23.1 million are generated by the company Unión de Créditos Inmobiliarios, EFC.

During 2017, the average period of payment to UCI's suppliers has been of 15 days, within the legally established term of 60 days.

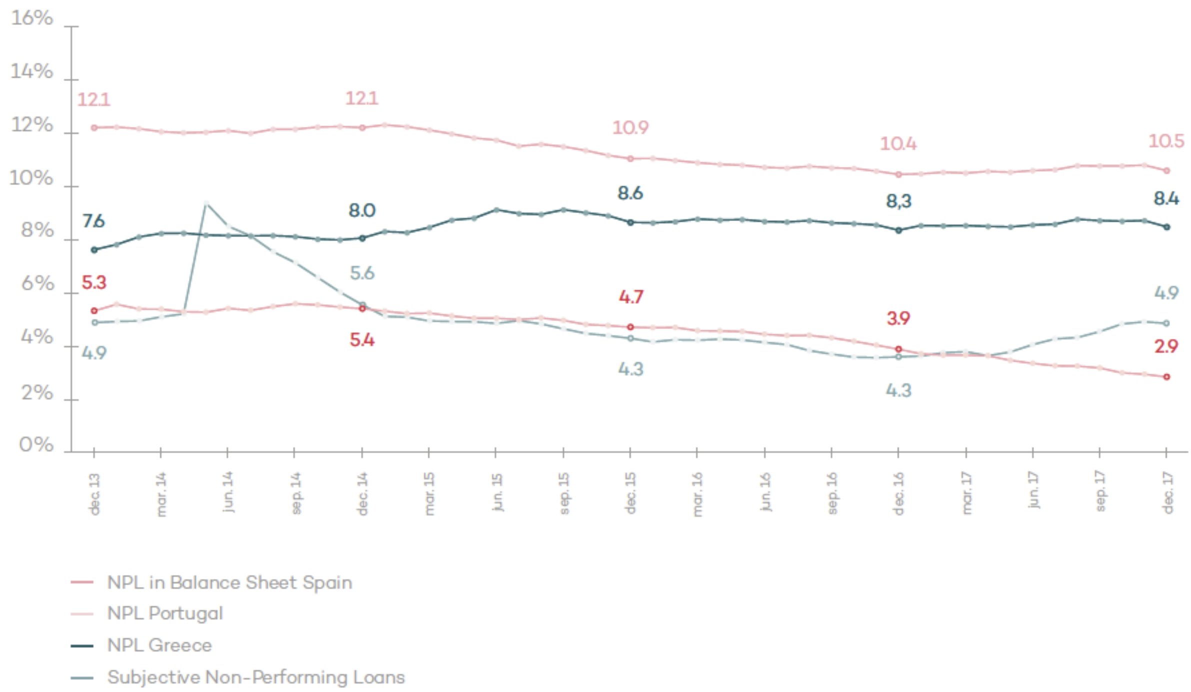
Due to the Entity's activity, there are no relevant environmental questions.

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 2017.

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

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



Equity and Solvency Ratios

UCI Group has preserved its solid capital base and held, at 2017 closing, an equity solvency with comfortable capital ratios.

At December 2017, UCI Group's computable equity amounted to 536 million Euros, which implies an excess by 74 million Euros with regards to the applicable regulation's criteria (Circular 3/2008), including positive results in the year (6.5 million Euros), out of which 80M€ correspond to subordinated debt, which are recorded as second-category capital. The Operating Risk implies a consumption of 23.2 M€ with the standard method, essentially generated by the company UCI, SA, EFC. Deferred tax assets at December 2017 amounted to 68.8 million Euros.

Thus, the UCI Group's solvency ratio amounted, at 2017 closing, to 9.28%.

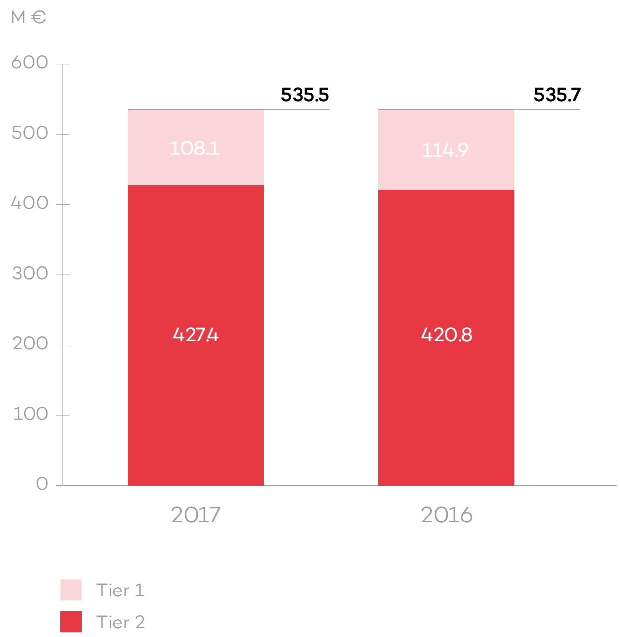
Group's expected evolution

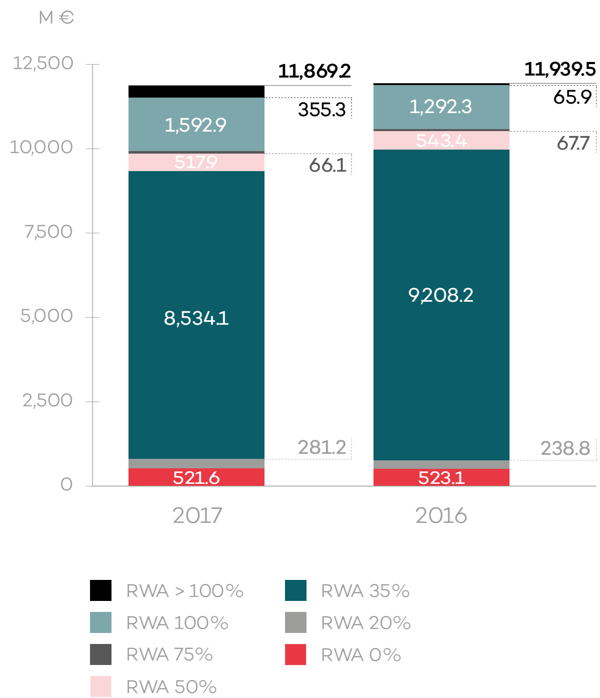
Economies in the Iberian Peninsula present a higher dynamism than the average in the Euro area, with improving macroeconomic data. This should indicate the maintenance of the positive trend that began in 2015 and was confirmed in 2016 and 2017.

UCI will continue actively managing the context, maintaining the implementation of the management model, focused in facing its clients' real needs and transparency in all processes. On the commercial activity in Spain, as complement to its supporting actions to real estate professionals and its presence in the channel, UCI will continue developing its direct channel, particularly through its brand "hipotecas.com", focusing its product offering, within a responsible credit strategy and management of margins, towards fixed-rate credits and mixed-rate credits with a first long-term fixed-rate period.

In the portfolio's management, clients' satisfaction and crossed selling, together with recoveries, the sale of foreclosed assets and the cost control will continue being the main priorities.

Capital Ratio 2017





Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.

MAZARS

Independent Auditor's Report on the Consolidated Annual Accounts

To the Shareholders of
UCI S.A.

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of UCI, S.A. (hereinafter, the parent Entity) and its subsidiaries (hereinafter, the group), comprising the balance sheet at December 31, 2017, the profit and loss account, the statement of recognized income and expenses, the statement of changes in equity, the statement of cash flows, and the notes thereto, all consolidated, corresponding to the year therein ended.

In our opinion, the accompanying consolidated annual accounts express, in all material respects, the true and fair view of the consolidated equity and consolidated financial position of the Group as of December 31, 2017, as well as the results and cash flows, all consolidated, corresponding to the year therein ended, in accordance with the applicable International Financial Reporting Framework, adopted by the European Union (IFRS-EU) and other provisions within the financial reporting framework applicable in Spain.

Basis for the opinion

We have carried out our audit in accordance with audit regulations in force in Spain. Our responsibilities, under those standards, are described below on the section Auditor's Responsibilities in relation to the audit of the consolidated annual accounts of our report.

We are independent from the Group, in accordance with the ethics requirements, including those regarding independence, that are applicable to our audit of the consolidated annual accounts in Spain, as required by audit regulations. In this sense, we have not provided any services other than the audit of annual accounts, nor have any situations or circumstances arisen, under the aforementioned regulations, which would have affected the required independence such that it would have been compromised.

We consider that the audit evidence we have obtained is sufficient and appropriate to provide basis for our opinion.

Key audit matters

Key audit matters are those that, in our professional judgement, have been considered as most significant in our audit of the consolidated annual accounts as of and for the period ended at December 31, 2017. These matters have been dealt with in the context of our audit of the consolidated annual accounts as a whole, and in forming our corresponding opinion, and we do not express a separate opinion on such matters.

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MAZARS Auditores, S.L.P. Corporate address: Calle Diputació, 260 - 08007 Barcelona
Mercantile Registry of Barcelona, Book 30,734, Folio 212, Page B-180111, Inscription 1, VAT no. B-61622262
Inscribed under number S1189 on the Spanish Accounting Auditors Official Registry (ROAC)

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Impairment for credit risk and of foreclosed property assets

The determination of impairment due to credit risk is one of the most significant and complex estimates in the preparation of the enclosed consolidated annual accounts.

In order to estimate credit risk provisions, guarantees, real or personal, considered effective are taken into account. The assessment of the recoverable amount considers the regulations, with an estimate of their value of reference, selling costs and possible discounts. In order to determine the value of real estate guarantees, the reference taken is the different appraisals provided by appraisal entities.

The estimate of the value of property assets originated from the credit activity, foreclosed by the Group through court or through a property swap process, is subject to the abovementioned criteria.

Our audit approach has included both the assessment of the most relevant controls established by the Group, related to the impairment calculation, and the performance of tests of detail and substantive tests. The main procedures performed have consisted, among others, on the following:

- Verification of the adequacy of the different internal control policies and procedures established, as per applicable regulation requirements.

- Verification of the different databases used, reviewing their reliability and the coherence of data sources used on calculations.

- Assessment of the review performed on borrowers' files to ensure their appropriate classification and, if applicable, possible impairment.

- Evaluation of criteria and policies established for refinancing and restructuring operations.
- For tests of detail, we have performed:
    - Verification of calculation methods and appropriate accounting classification.
    - Review for a sample of individualized loans of their correct accounting registration and classification, appraisal performed by an independent expert and, if applicable, the corresponding impairment.
    - Review for a sample of files of property assets originated from foreclosures and property swaps of their correct accounting registration and classification and, where applicable, the corresponding impairment.

As a result from our tests with regards to estimates of the impairment amount of credit risk and property assets originated from foreclosures and property swaps, we have not identified differences above a reasonable range.

Valuation criteria used and disclosures related to the abovementioned items are included on enclosed note 11 d), g) and p) and notes 16 and 17 to the consolidated accounts.

Risks associated to Information Technology

The Group's activity and reporting processes are largely dependent from information systems.

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Information systems' general internal control framework in relation to the financial reporting processing and accounting registration is considered essential for our internal control assessment.

In this context, we consider that it is necessary to assess the effectiveness of internal control General Controls related to Information Technology systems.

Our audit approach has therefore included the assessment of the most relevant general controls performed by the Group, as well as automatic controls in key processes. The main procedures performed by us have considered, among others, on the following:

- Tests of general controls on the main applications, assessing:
    - *Applications' development and maintenance;*
    - *Security;*
    - *Governance and functioning of the information systems' area;*
    - *Authorization system.*
- On automatic controls on key processes of our audit, we have determined which the main business processes are, as well as existing information flows, such as loans' classification as per credit quality, or the generation and registration of revenue from interests, analyzing threats and safeguards related to the completeness and accuracy of information.

As a result from our tests, we have not identified differences above a reasonable range.

Other information: Consolidated Directors' Report

Other information exclusively comprises the consolidated directors' report for the year ended December 31, 2017, which elaboration is under the responsibility of the Parent Entity's Directors, and is not an integral part of the consolidated annual accounts.

Our auditor's opinion on the consolidated annual accounts does not encompass the consolidated directors' report. Our responsibility on the consolidated directors' report, as required by audit regulations, consists on assessing and reporting on the concordance of the consolidated directors' report with the consolidated annual accounts, on the basis of our understanding of the Group obtained when performing the audit of said consolidated annual accounts, and not including information other than the one obtained as evidence throughout the audit. Furthermore, our responsibility consists on assessing and reporting whether the contents and presentation of the consolidated directors' report comply with the applicable regulations. If, on the basis of our work, we concluded that there are material misstatements, we are compelled to report them.

On the basis of our work, according to the paragraph above, the information contained on the consolidated directors' report agrees with the consolidated annual accounts of 2017 and its contents and presentation comply with the applicable regulations.

Directors' responsibilities in relation to the audit of the consolidated annual accounts

The Parent Company's Directors are responsible for the preparation of the accompanying consolidated annual accounts, so they express fairly UCI Group's equity, consolidated financial situation and consolidated results, in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as they determine necessary to enable the preparation of consolidated annual accounts free from material misstatement, whether due to fraud or error.

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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In the preparation of the consolidated annual accounts, the Parent Company's Directors are responsible for the valuation of the Group's ability to continue as going concern, disclosing, as applicable, matters related to going concern, and using the accounting going concern principle, except when such Directors intend to liquidate the Group or cease its operations, or have no other realistic alternative but to do so.

Auditor's responsibilities in relation to the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance that the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report containing our opinion.

Reasonable assurance is a high level of assurance, but does not ensure whether an audit conducted in accordance with the prevailing legislation regulating the audit of annual accounts in Spain will always detect an existing material misstatement. Misstatements can arise from fraud or error, and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated annual accounts.

As part of an audit, in accordance with the prevailing legislation regulating the audit of annual accounts in Spain, we exercise our professional judgement and maintain an attitude of professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures to respond to those risks, and obtain sufficient and appropriate audit evidence to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, deliberate omissions, intentional misrepresentations, or the override of internal control.

- Obtain an understanding of the relevant internal control to the audit in order to design appropriate audit procedures in the circumstances, and not for the purpose of expressing an opinion on the effectiveness of the UCI Group's internal control.

- Assess whether applied accounting policies are appropriate and the reasonableness of accounting estimates and the corresponding disclosures made by the Parent Company's Directors.

- Conclude on the appropriateness of the Parent Company Directors´ use of the going-concern basis of accounting and, based on audit evidence obtained, conclude on whether a material uncertainty exists related to events or conditions that may cast significant doubts on the Group's ability to continue as going concern. If we conclude that there is a material uncertainty, we are required to draw attention in our auditor's report on the corresponding disclosures in the consolidated annual accounts or, if such disclosures are not appropriate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. Nonetheless, future events or conditions may cause the Group to cease to continue as a going concern.

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- Assess the global presentation, structure and contents of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities of business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent Company's Directors in relation, among other questions, to the scope and timing of the planned audit and significant audit findings, as well as any significant internal control deficiency identified during the audit.

From the matters communicated to the Parent Company's Directors, we determine those matters of most significance in the audit of the consolidated annual accounts of the current period and which, consequently, are those considered as the key matters.

We describe these matters in our auditor's report, unless laws or regulations preclude public disclosure about the matter.

AUDITORES
INSTITUTO DE CENSORES JURADOS DE CUENTAS DE ESPAÑA

MAZARS AUDITORES, S.L.P

Año 2018 Nº 01/18/03597
COPIA

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

Madrid, 10 de abril de 2018

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

Carlos Marcos Corral
ROAC Nº 17.577

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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

Consolidated Balance Sheets
at 31 December 2017 and 2016
(Expressed in thousands of Euros)

ASSETS	Note	2017	2016 (*)
Cash and deposits with central banks		11	6
Financial assets held for trading	23	5,130	-
Deposits with credit entities		-	-
Credits to customers		-	-
Debt securities		-	-
Capital instruments		-	-
Trading derivatives		5,130	-
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	10,680,689	10,728,003
Deposits with credit entities		149,090	126,277
Credits to customers		10,531,599	10,601,726
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		2,695	-
Non-current assets held for sale	17	367,018	397,541
Investments		-	-
Associates		-	-
Jointly controlled entities		-	-
Insurance contracts linked to pensions		-	-
Tangible assets		104,923	97,254
Property, plants and equipment	18	2,879	3,046
For own use		2,879	3,046
Other assets leased out under an operating lease		-	-
Investment properties	19	102,044	94,208
Memorandum item. Acquired under a finance lease		-	-
Intangible assets		482	572
Goodwill		-	-
Other intangible assets		482	572
Tax assets	20	70,310	73,490
Current		1,494	1,317
Deferred		68,816	72,173
Other assets	21	458,510	453,891
TOTAL ASSETS		**11,689,768**	**11,750,757**
Memorandum item			
Contingent risks		-	-
Contingent commitments	29	11,587	11,242

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

UCI.

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

Consolidated Balance Sheets
at 31 December 2017 and 2016
(Expressed in thousands of Euros)

LIABILITIES AND EQUITY	Note	2017	2016 (*)
LIABILITIES			
Financial liabilities held for trading	23	6,966	-
Deposits from central banks			
Deposits on credit institutions		-	-
Deposits from other creditors		-	-
Debt certificates including bonds		-	-
Trading derivatives		6,966	-
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	11,214,883	11,290,937
Deposits from central banks			
Deposits on credit institutions		7,198,297	7,590,361
Deposits from other creditors		2,471,363	2,715,073
Debt certificates including bonds		1,464,900	905,165
Subordinated liabilities		80,323	80,338
Other financial liabilities		-	-
Changes in the fair value of the hedged items in portfolio hedges of interest rate risk		-	-
Hedging derivatives	24	759	16,852
Hedging derivatives liabilities associated with non-current assets held for sale		-	-
Hedging derivatives liabilities associated with non-current assets held for sale		3,354	2,049
Provisions for pensions and similar obligations		-	-
Provisions for taxes and other legal contingencies		-	-
Provisions for contingent exposures and commitments		-	-
Other provisions		3,354	2,049
Tax liabilities	20	2,263	6,22
Current		1,455	6,22
Deferred		808	-
Other liabilities	21	31,785	24,464
TOTAL LIABILITIES		**11,260,010**	**11,340,522**
EQUITY		429,758	410,235
Own funds	26	427,872	421,368
Capital or endowment fund		98,019	98,019
Issued		98,019	98,019
Less: unpaid and uncalled		-	-
Share premium		-	-
Reserves		323,344	317,052
Other equity instruments		-	-
Equity component of compound financial instruments		-	-
Other equity instruments		-	-
Less: Treasury shares		-	-
Profit or loss attributed to the parent company		6,509	6,297
Less: Dividends and remuneration		-	-
Valuation adjustments	25	1,886	-11,133
Financial assets held for sale		-	-
Cash flow hedges		1,886	-11,133
Hedge for net investment in foreign		-	-
Exchange differences		-	-
Non-current assets held for sale		-	-
Other valuation adjustments		-	-
Non-controlling interests		-	-
TOTAL EQUITY AND LIABILITIES		**11,689,768**	**11,750,757**

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

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

Consolidated Profit and Loss Accounts at 31 December 2017 and 2016

(Expressed in thousands of Euros)

	Note	2017	2016(*)
Interests and similar income	30	231,575	232,629
Interests and similar charges	31	76,172	82,493
NET INTEREST INCOME		**155,403**	**150,136**
Return on equity instruments		-	-
Share of profit or loss of entities accounted for using the equity method		-	-
Fee and commission income		11,531	11,498
Fee and commission expenses		3,691	2,811
Net gains (losses) on financial assets and liabilities		8,786	46,955
Held for trading		-405	-121
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		9,101	47,076
Rest			
Net exchange differences			
Other operating income		4,976	10,185
Other operating expenses			
GROSS INCOME		177,005	215,963
Administration expenses			
Personnel expenses	32	32,557	32,548
Other administrative expenses	33	47,934	52,346
Depreciation and amortization		2,898	1,449
Provisioning expense (net)		1,299	114
Impairment losses on financial assets (net)		55,500	81,204
Loans and receivables		55,500	81,204
Other financial instruments not at fair value through profit or loss		-	-
NET OPERATING INCOME		36,817	48,302
Impairment losses on other assets (net)		196	641
Goodwill and other intangible assets		-	-
Other assets		196	641
Gains (losses) on derecognized assets not classified as non-current assets held for sale		-483	-
Negative goodwill		-	-
Gains (losses) on non-current assets held for sale not classified as discontinued operations		-31,063	-41,050
INCOME BEFORE TAX		5,075	6,611
Income tax	27	1,434	-314
INCOME FROM CONTINUING TRANSACTIONS		6,509	6,297
Income from discontinued transactions (net)			
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		6,509	6,297
Net income attributed to non-controlling interests		-	-
NET INCOME ATTRIBUTED TO THE GROUP		6,509	6,297

(*) 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 2017 and 2016

(Expressed in thousands of Euros)

	2017	2016(*)
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	**6,509**	**6,297**
OTHER RECOGNIZED INCOME (EXPENSES)	**13,019**	**6,205**
Financial assets held for sale		
Revaluation gains/(losses)		
Amounts transferred to the income statement		
Other reclassifications		
Cash flow hedges	**18,599**	**8,864**
Revaluation gains/(losses)	18,599	8,864
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	-5,580	-2,659
Income tax		
TOTAL RECOGNIZED INCOME/EXPENSES	**19,528**	**12,502**

(*) 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 2017 and 2016
(Expressed in thousands of Euros)

	EQUITY									
	Common stock	**Share premium**	**Reserves**	**Other equity instru-ments**	**Profit/ (loss) for the year**	**Less: dividends and remu-neration**	**Non-con-trolling interests**	**Total Stock-holders' Funds**	**VALUATION ADJUST-MENTS**	**TOTAL NET EQUITY**
1. Adjusted closing balance 31/12/2016	98,019		317,052		6,297		-	421,368	-11,133	410,235
2. Total recognized income/expenses			-		19,528		-	19,528	-	19,528
3. Other variations in net equity	-	-	6,292	-	-19,316	-	-	-13,024	13,019	-5
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			6,297		-6,297			-		-
3.10 Increase/ reduction due to business combinations										
3.11 Payments with equity instruments										
3.12 Rest of increases/ reductions in total equity					-13,019			-13,019	13,019	-
3.13 Exchange differences			-5					-5		-5
4. Closing balance at 31/12/2017	98,019		323,344		6,509		-	427,872	1,886	429,758

UCI.

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. y Sociedades Dependientes (UCI Group)

Consolidated cash-flow statements corresponding to years ended at 31 December 2017 and 2016

(Expressed in thousands of Euros)

	2017	2016 (*)
CASH FLOWS FROM OPERATING ACTIVITIES	34,518	52,323
Profit or loss for the period	6,509	6,297
Adjustments to profit or loss	91,449	114,713
Depreciation and amortization	2,898	1,449
Other adjustments	88,551	113,264
Net increase/decrease in operating assets	5,363	236,518
Financial assets held for trading	-5,130	-
Other financial assets designated at fair value through profit or loss	-	-
Financial assets held for sale	-	-
Loans and receivables	14,627	240,146
Other operating assets	-4,134	-3,628
Net increase/decrease in operating liabilities	-67,762	-303,277
Financial assets held for trading	6,966	-
Financial liabilities at amortized cost	-79,054	-313,775
Other operating liabilities	1,326	10,498
Collections/payments for income tax	-1,041	-1,928
CASH FLOWS FROM INVESTING ACTIVITIES	-11,7	-32,102
Investment	-63,298	-127,367
Tangible assets	-1,140	-1,501
Intangible assets	-362	-351
Investments	-	-
Non-current assets held for sale and associated liabilities	-61,796	-125,515
Divestments	51,598	95,265
Tangible assets	5,160	3,330
Non-current assets held for sale and associated liabilities	46,438	91,935
CASH FLOWS FROM FINANCING ACTIVITIES	-	-
Investment		
Dividends		
Divestments		
EFFECT OF EXCHANGE RATE CHANGES		
NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (A+B+C+D)	22,818	20,221
CASH OR CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	126,283	106,062
CASH OR CASH EQUIVALENTS AT END OF THE PERIOD	149,101	126,283
MEMORANDUM ITEM:		
COMPONENTS OF CASH AND EQUIVALENTS AT END OF THE PERIOD		
Cash	11	6
Balance of cash equivalent in central banks		
Other financial assets	149,090	126,277
Total cash or cash equivalents at end of the period	149,101	106,283

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

Consolidated Notes to the Financial Statements

Ended at 31 december 2017

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, 2017 and 2016, 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, 2017 and 2016, 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 2017 and 2016
(Expressed in thousands of Euros)

ASSETS	2017	2016
Cash and balances with central banks	11	6
Financial assets held for trading	3,412	-
Loans and advances to credit institutions	-	-
Loans and advances to other debtors	-	-
Debt securities	-	-
Equity instruments	-	-
Trading derivatives	3,412	-
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	11,111,864	11,158,282
Loans and advances to credit institutions	82,665	74,541
Loans and advances to other debtors	11,029,199	11,084,742
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	2,695	-
Non-current assets held for sale	334,331	359,343
Investments	-	-
Associates	-	-
Jointly controlled entities	-	-
Group entities	-	-
Insurance contracts linked to pensions	-	-
Tangible assets	102,255	95,186
Property, plants and equipment	2,658	2,783
For own use	2,658	2,783
Other assets leased out under operating lease		
Investment properties	99,597	92,403
Memorandum item. Acquired under a finance lease	-	-
Intangible assets	471	571
Goodwill	-	-
Other intangible assets	471	570
Tax assets	51,501	57,333
Current	8	773
Deferred	51,493	56,56
Other assets	492,645	470,843
TOTAL ASSETS	12,099,185	12,141,564
Memorandum item		
Contingent risks	-	-
Contingent commitments	11,587	11,242

Unión de Créditos Inmobiliarios, S.A.
Entidad Financiera de Crédito Sociedad Unipersonal.
Balance sheets at 31 December 2017 and 2016
(Expressed in thousands of Euros)

LIABILITIES AND NET EQUITY	2017	2016
LIABILITIES		
Financial assets held for trading	3,619	-
Deposits from central banks		
Deposits from credit institutions	-	-
Deposits from other creditors	-	-
Debt certificates including bonds	-	-
Trading derivatives	3,619	-
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	11,666,034	11,714,689
Deposits from central banks	-	-
Deposits from credit institutions	7,198,297	7,590,361
Deposits from other creditors	4,307,239	3,963,820
Debt certificates including bonds	-	-
Subordinated liabilities	160,498	160,507
Trading derivatives	-	-
Other financial liabilities	-	-
Changes in the fair value of the hedged items in portfolio hedges of interest rate risk	-	-
Hedging derivatives	759	16,852
Hedging derivatives liabilities associated with non-current assets held for sale	-	-
Provisions	2,584	1,285
Provisions for pensions and similar obligations	-	-
Provisions for taxes and other legal contingencies	-	-
Provisions for contingent exposures and commitments	-	-
Other provisions	2,584	1,285
Tax liabilities	2,113	1,962
Current	1,305	1,962
Deferred	808	-
Other liabilities	27,654	33,69
TOTAL LIABILITIES	**11,702,763**	**11,768,477**
NET EQUITY	**396,422**	**373,086**
Own funds	394,536	384,219
Capital or endowment fund	38,280	38,280
Issued	38,280	38,280
Less unpaid and uncalled	-	-
Share premium	-	-
Reserves	345,939	334,198
Other equity instruments	-	-
Equity component of compound financial instruments	-	-
Other equity instruments	-	-
Less: Treasury shares		
Profit or loss for the period	10,317	11,741
Less: Dividends and remunerations		
Valuation adjustments	1,886	-11,133
Financial assets held for sale	-	-
Cash flow hedges	1,886	-11,133
Hedge of net investment in foreign operations	-	-
Exchange differences	-	-
Non-current assets held for sale	-	-
Other valuation adjustments	-	-
TOTAL NET EQUITY AND LIABILITIES	**12,099,185**	**12,141,563**

Unión de Créditos Inmobiliarios, S.A.
Entidad Financiera de Crédito Sociedad Unipersonal.
Income statements at 31 December 2017 and 2016
(Expressed in thousands of Euros)

	2017	2016
Interests and similar income	231,818	232,708
Interests and similar charges	75,973	82,567
NET INTEREST INCOME	**155,845**	**150,141**
Return on equity instruments	-	-
Fee and commission income	11,512	11,479
Fee and commission expenses	3,691	2,811
Net gains (losses) on financial assets and liabilities	8,786	46,955
Financial assets held for trading	-405	-121
Other financial instruments at fair value through profit or loss	-	-
Liabilities at amortized cost	-	-
Financial instruments not at fair value through profit or loss	9,191	47,076
Other	-	-
Exchange differences (net)	-	-
Other operating income	2,696	8,263
Other operating expenses	-	-
GROSS INCOME	**175,148**	**214,027**
Administration expenses		
Personnel expenses	31,795	31,805
Other administrative expenses	43,658	46,786
Amortization	2,815	1,399
Provisioning expense (net)	1,299	114
Impairment losses on financial assets (net)	55,288	82,104
Loans and receivables	55,288	82,104
Other financial instruments not at fair value through profit or loss	-	-
NET OPERATING INCOME	**40,293**	**51,819**
Impairment losses on other assets (net)	200	600
Goodwill and other intangible assets	-	-
Other assets	200	600
Gains (losses) on derecognized assets not classified as non-current assets held for sale	-483	-
Negative goodwill	-	-
Gains (losses) on non-current assets held for sale not classified as discontinued operations	-29,047	-37,932
RESULT BEFORE TAX	**10,563**	**13,287**
Income tax	246	1,546
PROFIT OR LOSS FOR THE PERIOD FROM CONTINUING TRANSACTIONS	**10,317**	**11,741**
Income from discontinued transactions (net)		
PROFIT OR LOSS FOR THE PERIOD	**10,317**	**11,741**

Unión de Créditos Inmobiliarios, S.A.
Entidad Financiera de Crédito Sociedad Unipersonal.
Comprehensive income statement corresponding to years ended at 31 December 2017 and 2016.
(Expressed in thousands of Euro)

	2017	2016
PROFIT OR LOSS FOR THE PERIOD	**10,317**	**11,741**
OTHER RECOGNIZED INCOME (EXPENSES)	**13,019**	**6,205**
Financial assets held for sale		
Revaluation gains/(losses)		
Amounts transferred to the income statement		
Other reclassifications		
Cash flow hedges	18,599	8,864
Revaluation gains/(losses)	18,599	8,864
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	-5,580	-2,659
TOTAL RECOGNIZED INCOME/EXPENSES	**23,336**	**17,946**

Unión de Créditos Inmobiliarios, S.A.
Entidad Financiera de Crédito Sociedad Unipersonal.

Statement of changes in equity corresponding to years ended at 31 December 2017 and 2016

(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 (31/12/2016)	38,280	-	334,198			11,741	-	384,219	-11,133	373,083
2. Adjusted opening balance	38,280	-	334,198			11,741	-	384,219	-11,133	373,083
3. Total recognized income/expenses	-	-	-	-	-	23,336		23,336	-	23,336
4. Other variations in net equity	-	-	11,741			-24,760		-13,019	13,019	-
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	-	-	11,741	-	-	-11,741	-	-	-	-
4.10 Increase/reduction due to business combinations										
4.11 Payments with equity instruments										
4.12 Rest of increases/reductions in total equity	-	-	-	-	-	-13,019	-	-13,019	13,019	-
5. Closing balance at (31/12/2017)	38,280	-	345,939			10,317	-	394,536	1,886	396,422

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Unión de Créditos Inmobiliarios, S.A.
Entidad Financiera de Crédito Sociedad Unipersonal.
Statement of changes in equity corresponding to years ended at 31 December 2015y 2016
(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)	38,280	-	362,198			2,649	-	403,127	-17,338	385,789
2. Adjusted opening balance	38,280	-	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	-	-	-28,000			-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)	38,280	-	334,198			11,741	-	384,219	-11,133	373,086

Unión de Créditos Inmobiliarios, S.A.
Entidad Financiera de Crédito Sociedad Unipersonal.

Cash-flow statements corresponding to years ended at 31 December 2017 and 2016
(Expressed in thousands of Euros)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES	51,863	56,297
Profit or loss for the period	10,317	11,741
Adjustments to profit or loss	117,363	114,285
Depreciation and amortization	2,815	1,399
Other adjustments	114,548	112,886
Net increase/decrease in operating assets	-21,823	6,771
Financial assets held for trading	-3,412	-
Other financial assets designated at fair value through profit or loss	-	-
Financial assets held for sale	-	-
Loans and receivables	254	26,612
Other operating assets	-18,665	-19,841
Net increase/decrease in operating liabilities	-53,994	-76,5
Financial assets held for trading	3,619	-
Financial liabilities at amortized cost	-48,654	-82,491
Other operating liabilities	-8,959	5,991
Collections/payments for income tax	-	-
CASH FLOWS FROM INVESTING ACTIVITIES	-42,734	-39,012
Investment	-88,691	-120,363
Tangible assets	-1,127	-1,453
Intangible assets	-349	-351
Investments	-87,215	-118,559
Non-current assets held for sale and associated liabilities	45,957	81,351
Divestments	5,071	2,010
Tangible assets	-	-
Non-current assets held for sale and associated liabilities	40,886	79,341
CASH FLOWS FROM FINANCING ACTIVITIES	-	-30,649
Investment		
Dividends	-	-30,649
Divestments		
EFFECT OF EXCHANGE RATE CHANGES	-	-
NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (A+B+C+D)	9,129	(13,364)
F. CASH OR CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	73,547	86,911
G. CASH OR CASH EQUIVALENTS AT END OF THE PERIOD	82,676	73,547
MEMORANDUM ITEM:		
COMPONENTS OF CASH AND EQUIVALENTS AT END OF THE PERIOD		
Cash	11	6
Balance of cash equivalent in central banks		
Other financial assets	82,665	73,541
Total cash or cash equivalents at end of the period	82,676	73,547

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, 2017 (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 2017 have been formulated by the Directors on the meeting held by the Board of Directors on February 16, 2018. The Group's consolidated financial statements and the Group Companies' financial statements corresponding to 2017 will be subject to approval by the General Shareholders' Meeting to be held on the first half of 2018. Nevertheless, the Board of Directors understands that such consolidated financial statements will be approved without changes.

The consolidated financial statements corresponding to 2016 were formulated by the Directors in the Board of Directors' meeting held on February 28, 2017, and approved by the General Shareholders' Meeting held on June 14, 2017.

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, 2017 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 2017, 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.

- Modification IAS 7 – Disclosure initiative (published on January 2016). It introduces additional disclosure requirements in order to improve information provided to users.
- Modification IAS 12 – "Recognition of deferred tax assets for unrealized losses" (published on January 2016). Clarification of principles established in relation to the recognition of deferred tax assets for unrealized losses.
- IFRS Improvement Cycle 14-16 – Clarification in relation to IFRS 12. The clarification in relation to the scope of IFRS 12 and its interaction with IFRS 5 are effective on this period.

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, 2017. 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.

- Amendment IFRS 2 - Classification and measurement of share based payment transactions (published on June 2016). Limited amendments that clarify specific questions such as the effects from accrual conditions on share-based payments to be settled in cash, classification of share-based payments when net liquidation clauses are included, and some aspects of modifications of the type of share-based payment.
- Amendment IFRS 4 – Insurance contracts (published on September 2016). It allows entities within the scope of IFRS 4 to opt for applying IFRS 9 ("overlay approach") or its temporary exemption.
- IFRS 9 – Financial instruments (last phase published on July 2014). It substitutes classification, measurement, recognition and write-off requirements for financial assets and liabilities, hedge accounting and impairment of IAS 39.

- IFRS 15 – Revenues from contracts with customers, clarifications (published on April 2016). Identification of performance obligations, principal versus agent, concession of licences and accrual at a point in time or throughout time, as well as certain clarifications of the transition rule.
- IFRS 16 - Leases (published on January 2016). It substitutes IAS 17 and associated interpretations. The main development is that the new standard proposes one single accounting model for lessees, who will include on the balance sheet all leases (with certain limited exemptions) with a similar impact than current financial leases (asset's amortization for the right of use and financial expense for the liability's amortized cost).
- Amendment IAS 40 – Reclassification of property investments (published on December 2016). The amendment clarifies that the investment's reclassification from or towards property investment is only allowed when there is evidence of change of use.
- IFRIC 22 – Transactions and prepayments in foreign currency (published on December 2016). This interpretation establishes the "transaction date", for the purpose of determining the applicable exchange rate on transactions with prepayments in foreign currency.
- IFRS Improvements Cycle 2014-2016 (published on December 2016). Minor amendments of a series of standards (different effective dates).
- IFRIC 23 – Uncertainty on tax treatments (published on June 2017). This interpretation clarifies how to apply registration and measurement criteria from IAS 12 when there is uncertainty regarding the tax authorities' acceptance of a given tax treatment used by the entity.
- Amendment IFRS 9 – Prepayment features with negative compensation (published on November 2017). It aims to clarify the classification of certain financial assets that can be early cancelled by applying IFRS 9.
- Amendment IAS 28 – Interests in associates and joint ventures (published on November 2017). Clarification of the registration of interests in associates and joint ventures if not registered under equity method.
- IFRS Improvements Cycle 2015-2017 (published on December 2017). Minor amendments of a series of standards.
- IFRS 17 – Insurance contracts (published on May 2017). It substitutes IFRS 4. It includes registration, measurement, presentation and disclosure principles of insurance contracts, in order for the entity to provide relevant and reliable information to allow users to determine the contracts' effect on the financial statements.
- Amendment IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and its associate / joint venture (published on September 2014). Clarification related to the result from these operations whether they are businesses or assets.

The main accounting and valuation principles and criteria applied in the preparation of the 2017 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 2017, the amounts referred to 2016.

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:

a. **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.

b. **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.

c. **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, 2017 and 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 SERVICIOS PARA PROFESIONALES INMOBILIARIOS, S.A. (before 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 (before 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.

The contribution to the Group's results from each entity during 2017 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	UCI hellas Credit and Loan Receivables Servicing S.A.	Total Consolidated
-564	3,285	7,032	-49	28	-3,338	6	117	6,509	-8

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

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, 2017 and 2016, 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. Minimum 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, 2017 and 2016, and during such years, computable individual and consolidated equity exceeded those required by the regulation in force at each date.

6. Information by market segment and additional information

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 152.89 and 117.86 at December 31, 2017 and 2016, respectively) and in Greece (0.68 at December 31, 2016). The remaining activity is held in Spain.

c. Agency contracts

Neither at 2017 and 2016 closings, nor throughout such years, has the Group 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, 2017 and 2016, 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 (144 thousand Euros in 2016).

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 2017 by professionals comprised on the Entity's key personnel and by Board Members as Directors amounted to 2,513 thousand Euros (2,514 thousand Euros in 2016), fully corresponding to fixed remuneration.

There have not been any severance payments to key personnel in 2017 or 2016.

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 2017 and 2016, 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 2017 consolidated Income statement amount to 61,845 euros (62,080 Euros in 2016).

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, minus 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:

a. 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.

b. 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.).

c. 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.

d. 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 2017, 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:

V. 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.

VI. 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.

VII. 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.

VIII. 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.

IX. 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.

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

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

XII. 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, 2017 and 2016, 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

	Thousands of Euros							
	Carrying value	**2017**			**Carrying value**	**2016**		
		LEVEL 1	**LEVEL 2**	**LEVEL 3**		**LEVEL 1**	**LEVEL 2**	**LEVEL 3**
Financial assets								
Cash and balances with central banks	11		11	-	6		6	-
Trading portfolio	5,130		5,130		-	-	-	-
Other financial assets designed at fair value through profit or loss	-	-	-	-	-	-	-	-
Financial assets held for sale	-	-	-	-	-	-	-	-
Loans and receivables	10,680,689		10,680,689		10,728,003		10,728,003	
Non-current assets held for sale	367,018	-	367,018	-	397,541	-	397,541	-
Investment at maturity	-	-	-	-	-	-	-	-
Hedging derivatives	2,695		2,695	-	-	-	-	-
Financial liabilities								
Financial liabilities held for trading	6,966		6,966		-			
Financial liabilities at amortized cost	11,214,883	-	11,214,883	-	11,290,937	-	11,290,937	-
Hedging derivatives	759	-	759	-	16,852	-	16,852	-

considered as significant when it is important when determining the fair value as a whole.

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, minus 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 minus 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.

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

II. 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, 2017 approximately amount to 68.8 M€ (72 M€ at December 31, 2016), are expected to be recovered with foreseen future profits as per the Group's Business Plans.

l. Property, plant and equipment

Property, plant and equipment 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 minus the corresponding accumulated depreciation and, as applicable, minus 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 minus 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. Intangible 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 minus, 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, minus 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 2/2016 of February 29, which adopts the RLD 2/2016, 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, minus 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

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 2017.

During 2017, the total number of complaints / claims amount to 695, which implies an increase by 292%, quadrupling the number of claims in 2016. These 695 claims received have been presented as follows:

- 373 processed by the Customer Service.
- 322 processed by the Customers' Ombudsman.

The most significant reasons for the total complaints / claims presented during 2017 are the following:

- Operation's processing expenses.
- Disagreement with the application of the IRPH as review reference.
- Late interests, early maturity and loan's fees, including opening fees.
- Loan's payment difficulty.

We note that the abovementioned reasons have been included on joint or individual claims, sometimes reiterated by clients.

At December 31, 2017, 685 complaints/claims had been solved and 10 are awaiting resolution.

Furthermore, it should be noted that, out of all received claims, a total of 215 have been filed before Bank of Spain's Department of Market Conduct and Claims (32 in 2016). Additionally, and although they do not properly constitute claims, a total of 53 claims have been presented on the CIRBE Service (45 in 2016).
At December 31, 2017, complaints/claims have been solved as follows:

Favourable to the customer	35
Unfavourable to the customer	650
Not accepted	0

Out of claims solved in favour of the client, economic rights were recognized for the client in 4 cases. 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 2017 of 11,448.07 Euros (9,811.55 Euros in 2016).

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, since the Entity adhered to the Best Practice Code, clients are informed and responded based on these regulations.

UCI Management considers that provisions allocated in relation to these procedures are appropriate at December 31, 2017.

MONEY LAUNDERING

Regulation compliance and money laundering prevention

During 2017, 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 2017, UCI 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. Adaptation and spreading of the KYS procedure to know suppliers.
- 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 2017, a total amount of 447 alerts have been analyzed in Spain (506 in 2016), out of which 6 were communicated to the OCI and 1 to the SEPBLAC (10 and 3, respectively, during 2016). In Greece, 27 alerts have been analyzed during 2017 (none during 2016) and, in Portugal, 138 alerts (64 during 2016), 1 of which (2 in 2016) 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 2017, 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

INTRODUCTION

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
- Operating 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.

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 2017.

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:

Expected loss %	=	Probability of default %	x	Severity %

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 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 2017, 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, 2017 and 2016, 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, 2017 is the following:

RISKS CONCENTRATION BY ACTIVITY AND GEOGRAPHICAL AREA (Carrying values) TOTAL ACTIVITY	**TOTAL 31.12.2017**	**Spain**	**Rest of European Union**	**America**
1. Credit entities	149,090	122,166	26,924	-
2. Public Administrations				
3. Other financial institutions				
4 Non-financial companies and individual employers	7,820	7,820		-
4.1 Real estate construction and development	7,820	7,820		-
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	10,523,779	9,216,651	1,307,128	-
5.1 Homes	10,523,360	9,216,232	1,307,128	-
5.2 Consumption				
5.3 Other purposes	419	419	-	-
TOTAL	**10,680,689**	**9,346,637**	**1,334,052**	

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**	**-**

Refinancing and restructuring operations - 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 Group 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 6/2014 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 6/2014, of Bank of Spain, in relation with restructured/refinanced operations in force at December 31, 2017. 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 respective hedges, detailed at December 31, 2017, are the following:

COVERAGES 31.12.2017	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	14,472	2,086,056	789	150,748	590	14,099	3,459	526,152	493	93,268	258	7,670	9,550
Total	14,472	2,086,056	789	150,748	590	14,099	3,459	526,152	493	93,268	258	7,670	9,550

	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	3,007			2,599	7	3,248	2,599
Financing to real estate construction and development	3	241	4	3,007			2,599	7	3,248	2,599
Rest of physical persons	3,774	518,555	4,587	823,810	482	13,988	258,450	28,904	4,234,346	268,000
Total	3,777	518,796	4,591	826,817	482	13,988	261,049	28,911	4,237,594	270,599

The respective hedges, detailed at December 31, 2016, are the following:

COVERAGES 31.12.2017	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 amount of operations which, after the refinancing or restructuring, have been classified as doubtful in 2017 and 2016 are the following:

REFINANCING BALANCES IN FORCE AND RESTRUCTURING OPERATIONS 31.12.2017	**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	185	3	2,550			5	2,735
Financing to real estate construction and development								
Rest of physical persons	2,225	315,467	2,630	494,117	161	4,899	5,016	814,483
Total	2,227	315,652	2,633	496,667	161	4,899	5,021	817,218

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

Total financings granted to customers at December 31, 2017 and 2016, detailed by counterpart, were the following:

DISTRIBUTION OF LOANS AND ADVANCES TO OTHER DEBTORS BY ACTIVITY (carrying value) 31.12.2017				Credit with real guarantee. Loan to value				
	TOTAL	Real estate guarantee	Without guaran-tee	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	7,820	4,572	3,248	591	1,491	1,136	1,354	3,248
3.1 Real estate construction and development (b)	7,820	4,572	3,248	591	1,491	1,136	1,354	3,248
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	10,523,779	9,085,974	1,420,120	1,368,948	2,975,385	3,309,428	1,432,213	1,419,701
4.1 Homes (d)	10,523,360	9,085,974	1,419,701	1,368,948	2,975,385	3,309,428	1,432,213	1,419,701
4.2 Consumption (d)	-	-	-	-	-	-	-	-
4.3 Other purposes (d)	419	-	419	-	-	-	-	-
TOTAL	10,531,599	9,090,546	1,423,368	1,369,539	2,976,876	3,310,564	1,433,567	1,422,949
MEMORANDUM ITEM								
Refinancing, refinanced and restructured operations	4,201,837	3,095,245	1,106,592	20,426	777,659	1,193,083	1,104,077	1,106,592

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 guaran-tee	Without guaran-tee	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	2,866	4,624	707	835	1,257	67	4,624
3.1 Real estate construction and development (b)	7,490	2,866	4,624	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	9,457,432	1,044,857	1,477,621	2,959,510	3,541,940	1,487,361	1,044,857
4.1 Homes (d)	10,593,548	9,457,432	1,044,169	1,477,621	2,959,510	3,541,940	1,487,361	1,044,857
4.2 Consumption (d)	-	-	-	-	-	-	-	-
4.3 Other purposes (d)	688	-	688	-	-	-	-	-
TOTAL	10,601,726	9,460,298	1,049,481	1,478,328	2,960,345	3,543,197	1,478,428	1,049,481
MEMORANDUM ITEM								
Refinancing, refinanced and restructured operations	4,735,216	3,672,366	1,018,192	244,382	877,428	1,349,946	1,177,685	1,041,117

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 90.63% is at variable rate (94.14% at December 31, 2016), 5.08% is a mixed rate (5.05% at December 31, 2016), with a first period at fixed rate and subsequent reviews at variable rate, and only 4.28% at strict fixed rate (0.81% at December 31, 2016).

Within credits granted with variable rate, 81.97% review its rate each half year (81.27% at December 31, 2016) and 18.03% each year (18.73% at December 31, 2016).

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 23 securitization funds in Spain for an initial overall amount of 16,922 million Euros, mostly in capital markets, including the issuance in June 2015, March 2016, October 2016, April 2017 and November 2017 of RMBS Prado I, Prado II, Prado III, Prado IV and Prado V for an amount of 450M€, 540M€, 420M€, 390M€ and 415M€ respectively, which, at December 2017, represented 5,055.2 million Euros (4,569.7 million Euros at December 31, 2016), or 52.91% of the overall balance it manages in Spain, financed to maturity by the capital markets (41% in 2016).

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 2017, the balance of UCI 18 amounts to 759 M€ (813 M€ at December 31, 2016), or 7.94% (8.4% in 2016) of the global balance managed in Spain.

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 two rating of at least A, and granted by different rating agencies to be able to access the condition of eligible assets on ECB's liquidity operations, most securitization bonds have lost such condition. However, bonds Prado I, II, III, IV (series A) and V (series A) are eligible assets.

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, 2017 and 2016, the liquidity gap is the following:

31.12.2017	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	9	2	-	-	-	-	11
Loans and advances to credit institutions	149,090	-	-	-	-	-	149,090
Loans and advances to other debtors	37,803	82,018	397,947	1,435,107	1,512,079	7,422,347	10,887,301
Total Assets	**186,902**	**82,02**	**397,947**	**1,435,107**	**1,512,079**	**7,422,347**	**11,036,402**
LIABILITIES:							
Loans and advances to credit institutions	338,823	4,992,951	1,118,542	166,810	242,474	338,697	7,198,297
Loans and advances to other debtors	7,208	14,416	55,606	296,564	296,564	1,801,005	2,471,363
Loans and advances represented by marketable securities	4,273	8,545	32,960	175,788	175,788	1,067,546	1,464,900
Subordinated liabilities	323	-	-	-	-	80,000	80,323
Total Liabilities	**350,627**	**5,015,912**	**1,207,108**	**639,162**	**714,826**	**3,287,248**	**11,214,883**
Difference Assets less Liabilities	**-163,725**	**-4,933,892**	**-809,161**	**795,945**	**797,253**	**4,135,099**	**-178,481**

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**

15. Other market risks: operating risk management

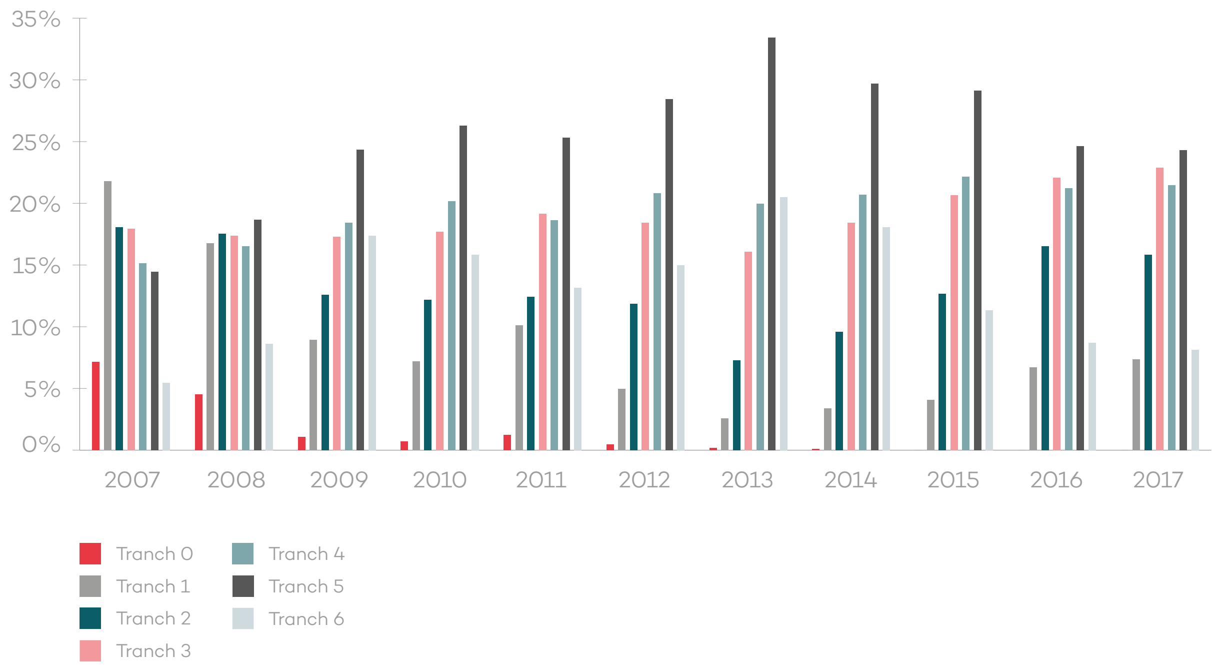
UCI follows closely the development of the standards on this risk as presented in the Basle II agreements, approved in June 2004, progressing in its project for identifying, mitigating, managing and quantifying operating risk. On this aspect and within the overall ISO 9001:2000 quality certification 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 operating 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 operating risk.

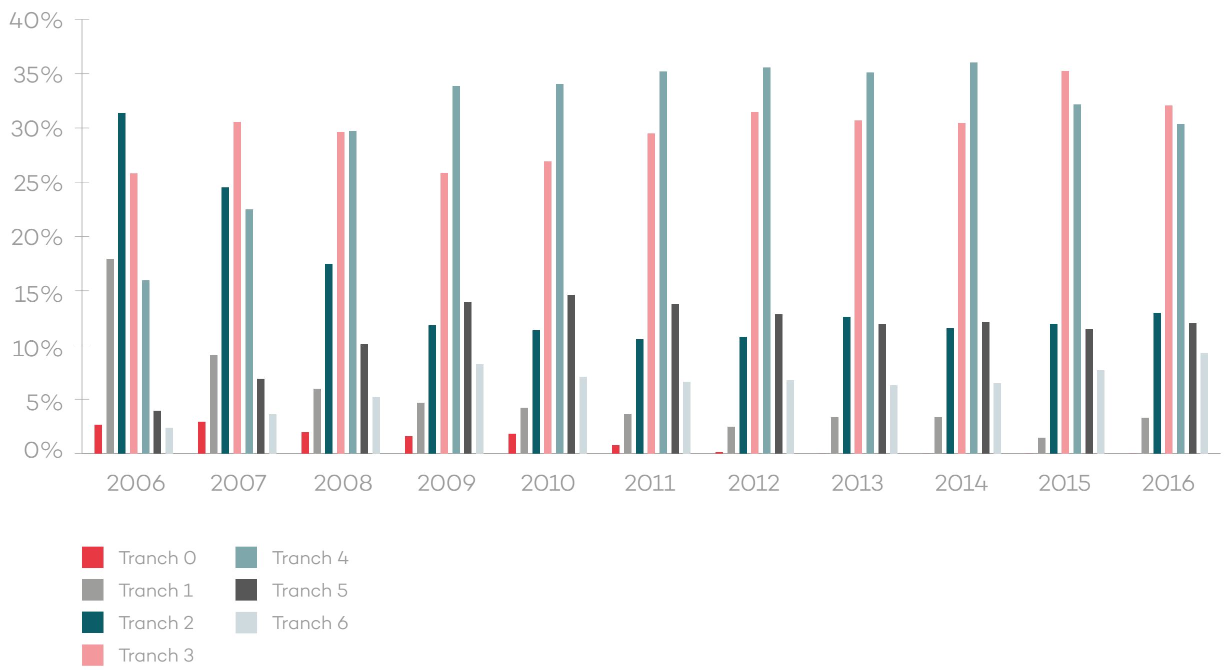
The parameterization of the different types of operating risk can be classified in accordance with the following matrix:

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

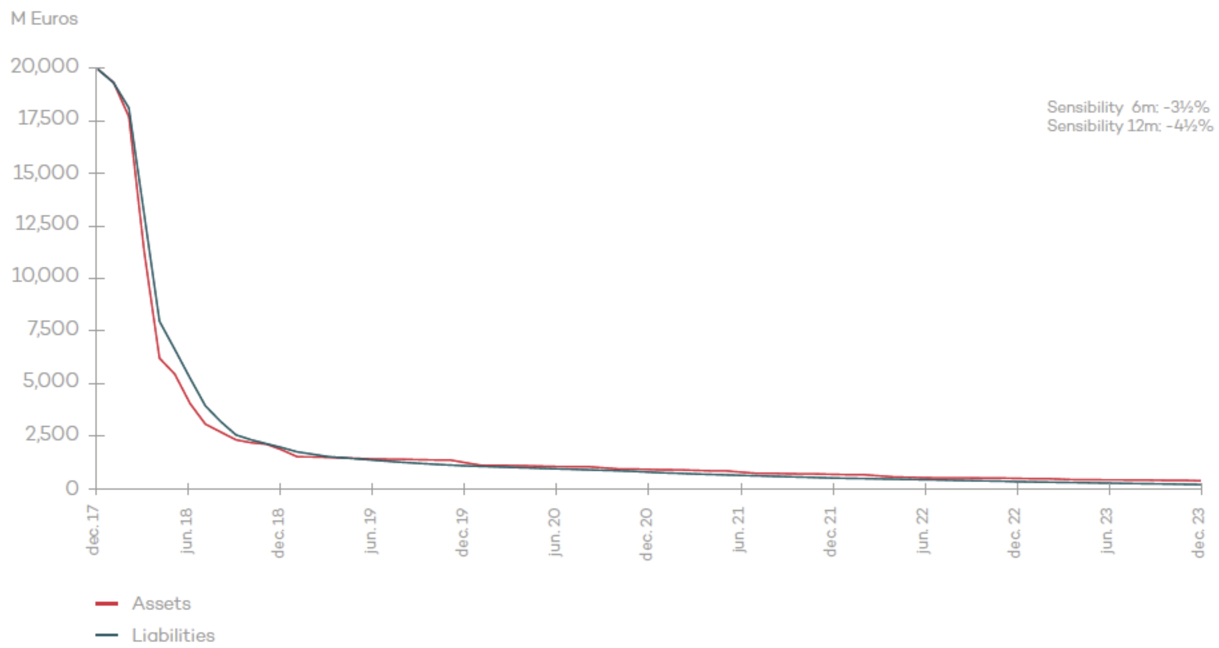
Spain: Score Rating Distribution



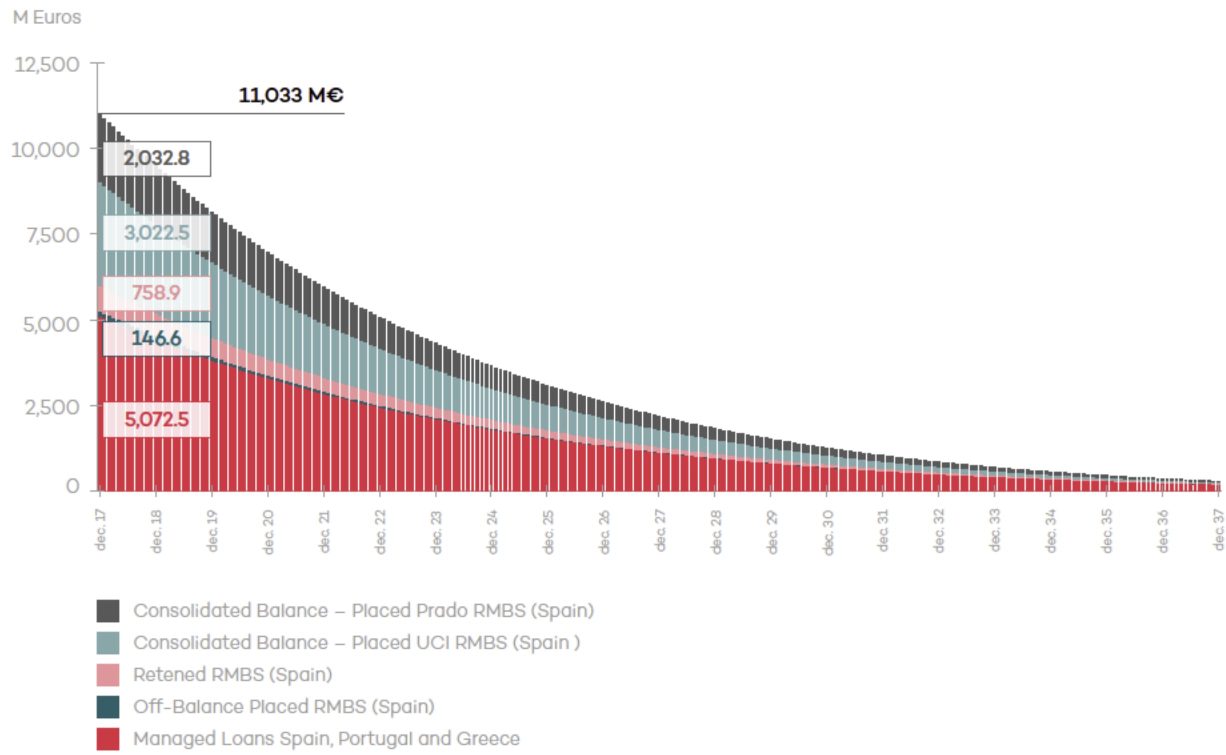
Portugal: Score Rating Distribution



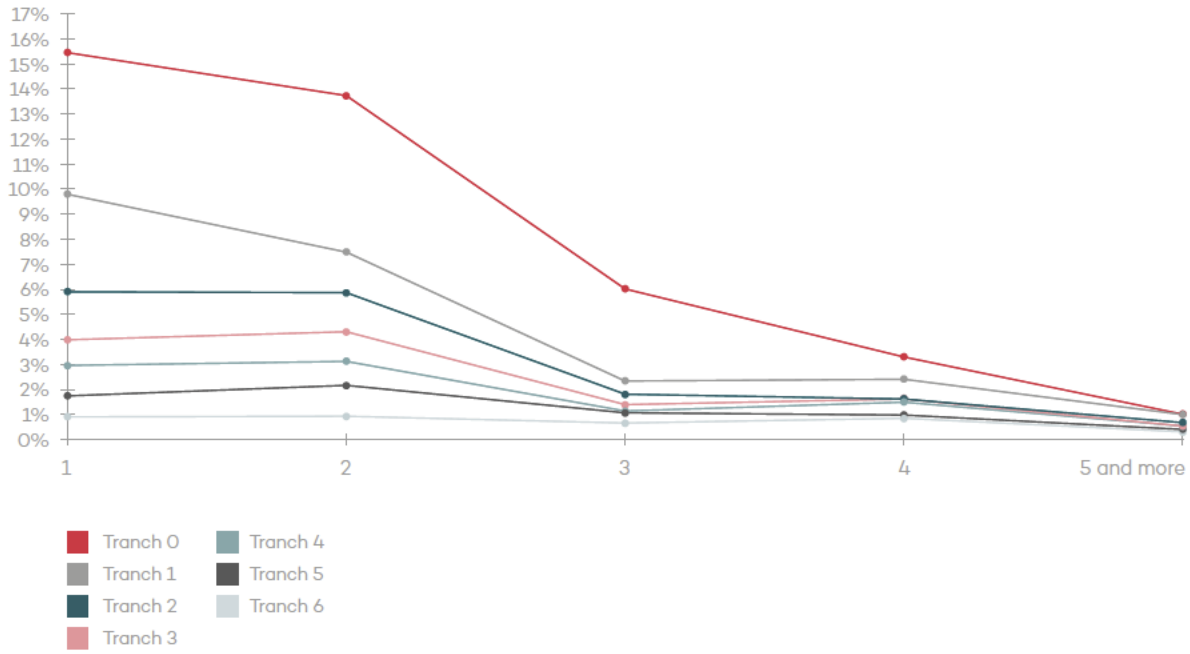
Consolidated Interest Rate Risk Coverage 2017



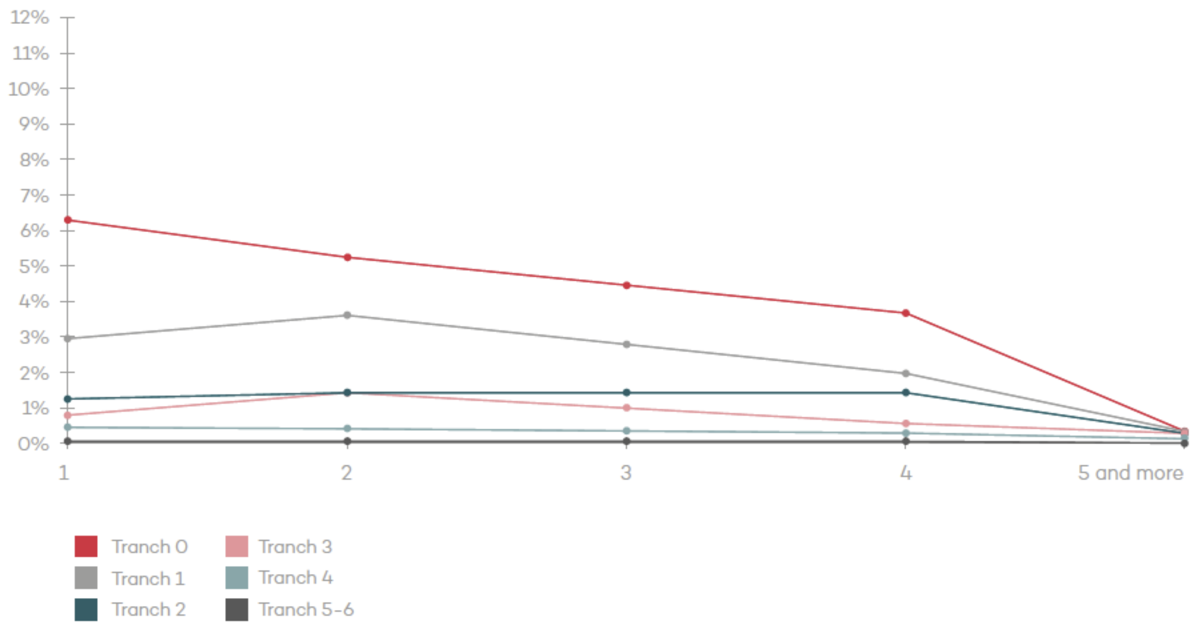
Downbreak Ooutstanding Managed Loans Balance and Secured 2017



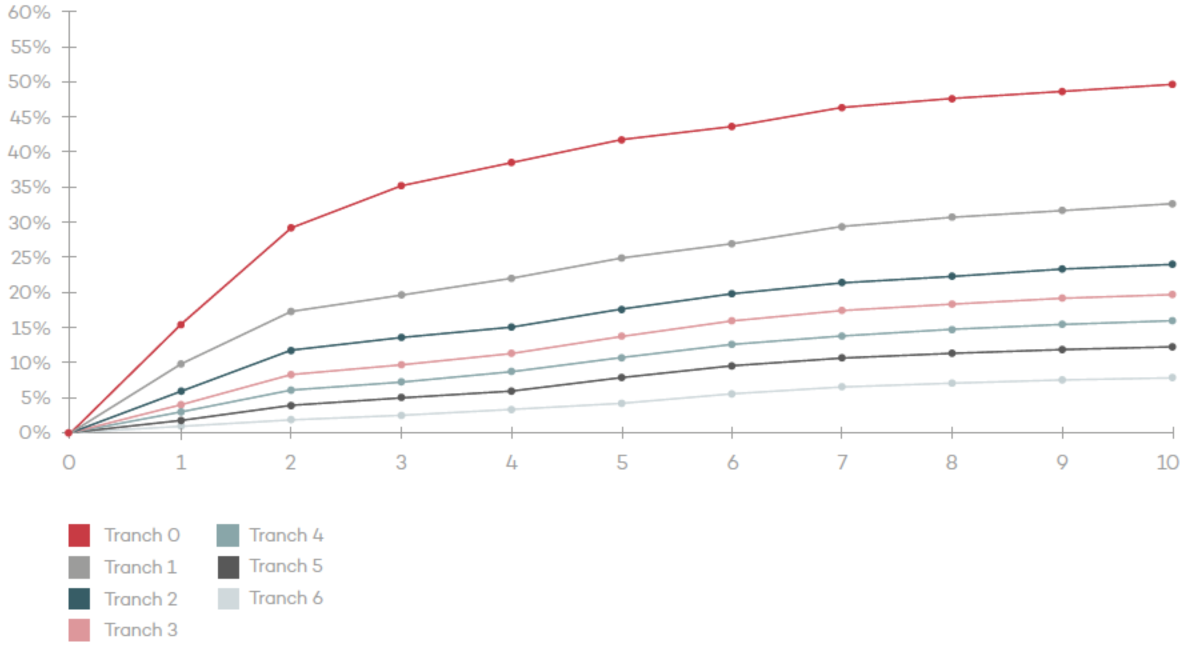
Spain: Probability of Default by Scoring Tranches Years 2007-2017



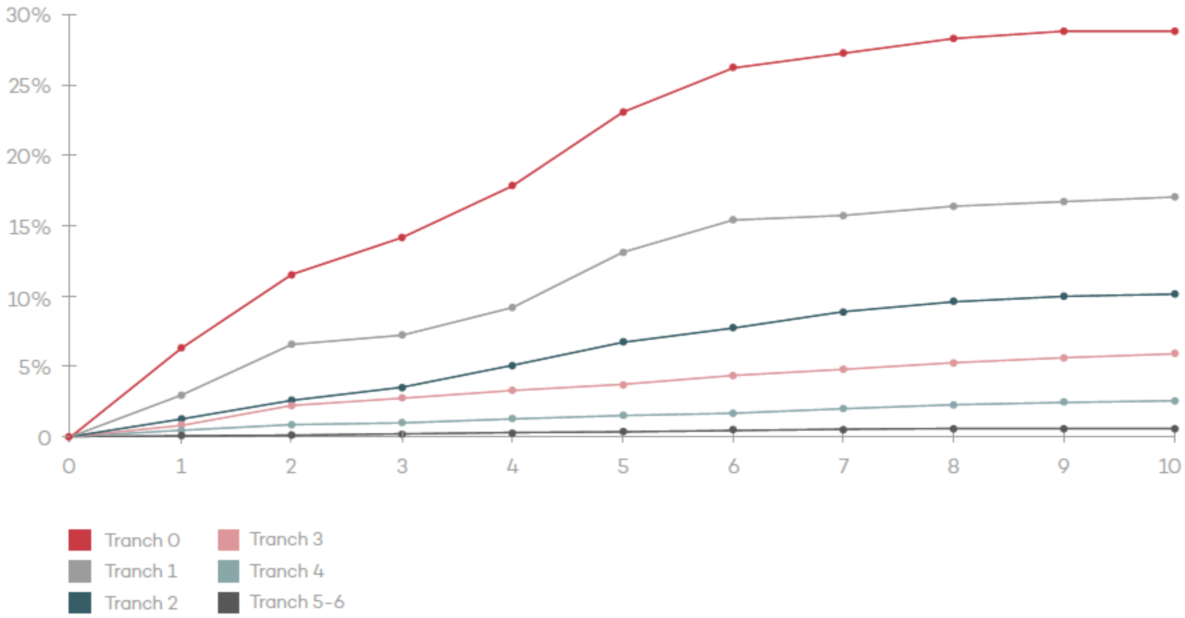
Portugal: Probability of Default by Scoring Tranches Years 2007-2017



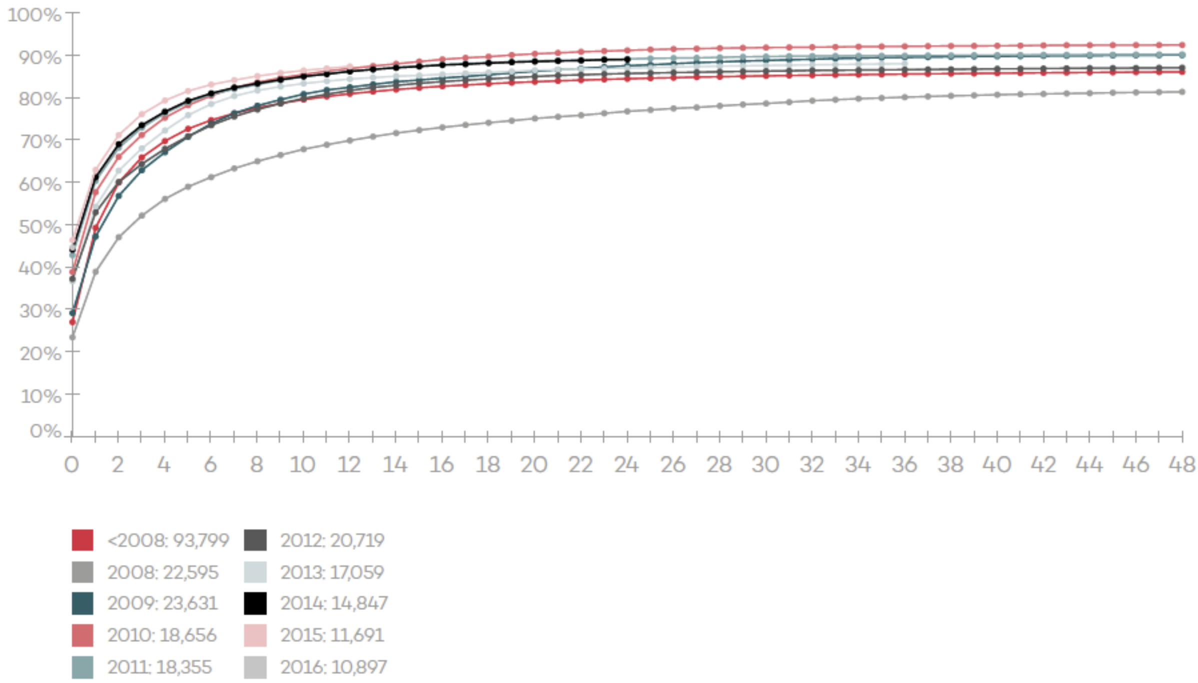
Spain: Score Rating
Defaulting Years 2007-2017



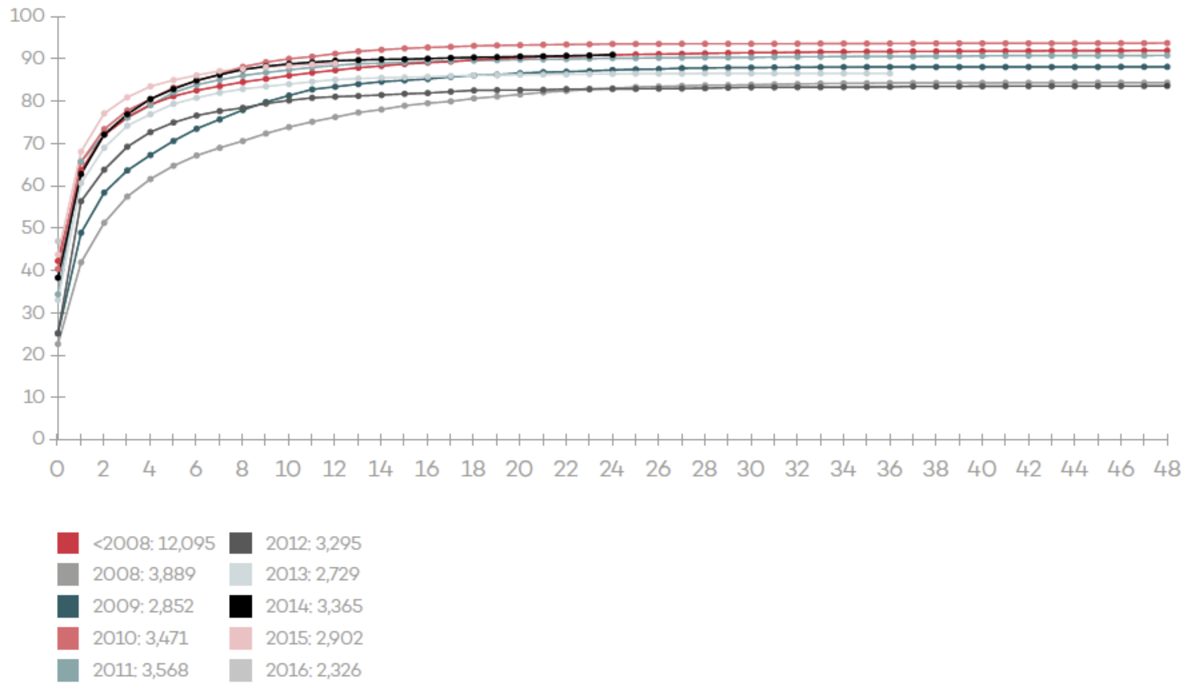
Portugal: Score Rating
Defaulting Years 2007-2017



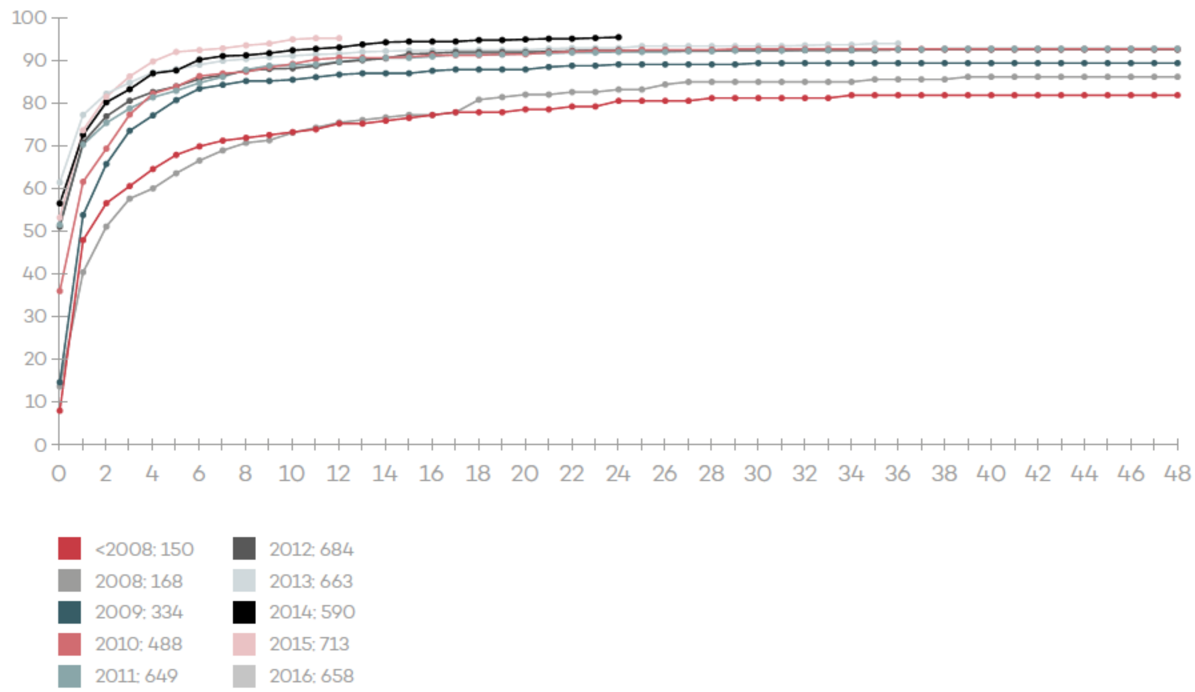
Spain: Defaulting Entries Back to Normality Performance



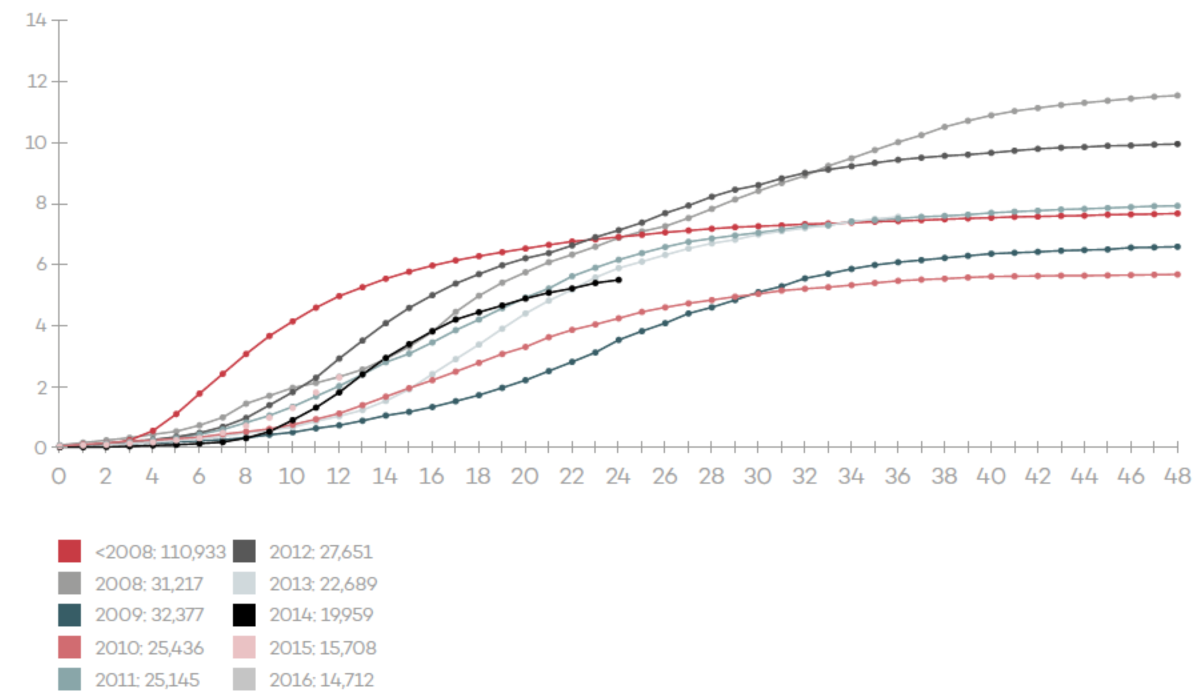
Portugal: Defaulting Entries Back to Normality Performance



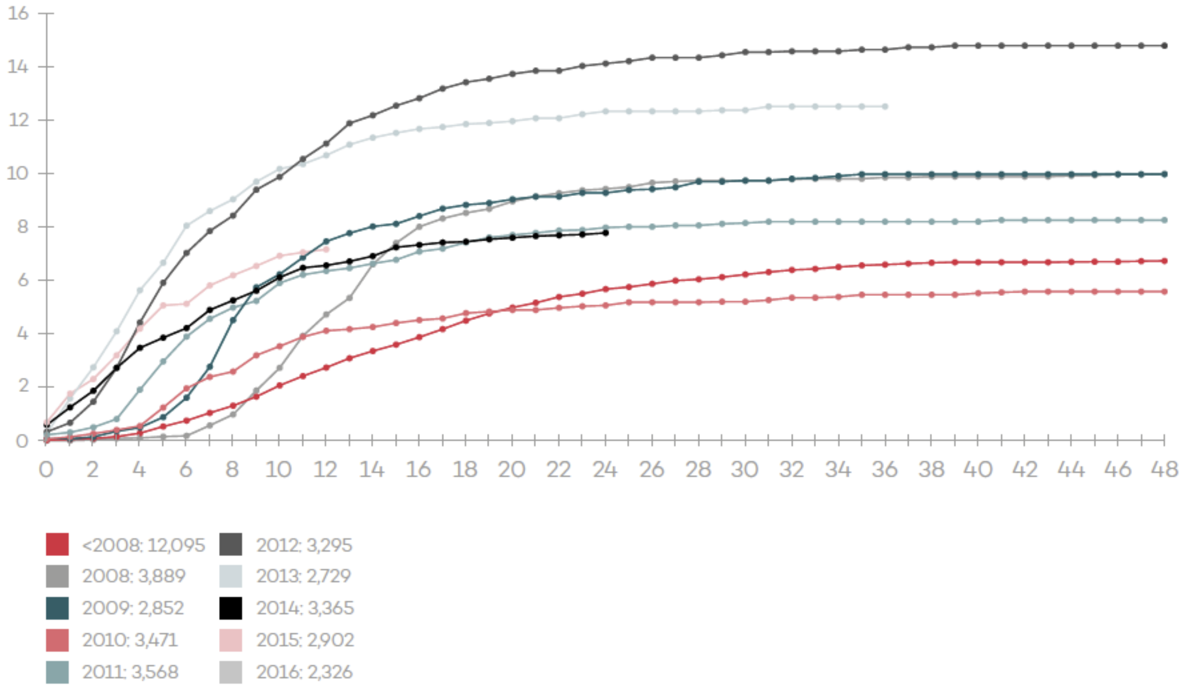
Greece: Defaulting Entries
Back to Normality Performance



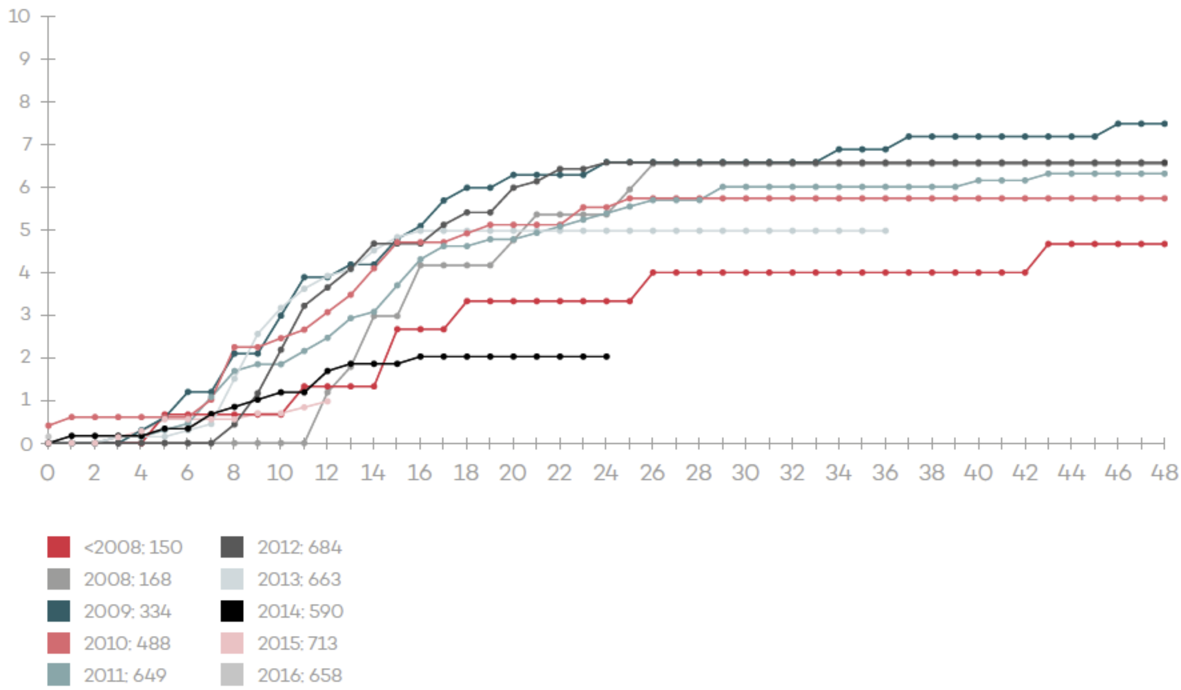
Spain: Defaulting Entries
Auctions and Foreclosures



Portugal: Defaulting Entries Auctions and Foreclosures



Greece: Defaulting Entries Auctions and Foreclosures



16. Credit investments

The detail of this caption at December 31, 2017 and 2016 is the following:

	31.12.17	31.12.16
Loans and advances to credit institutions	149,049	126,277
Loans and advances to other debtors	10,887,301	10,977,766
	11,036,391	11,104,043
Value corrections for asset impairment	-347,734	-356,791
Adjustments for accrued valuation interests	20,085	15,425
Adjustments for valuation of commissions	-28,053	-34,674
	10,680,689	**10,728,003**

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

	31.12.17	31.12.16
Debtors with real guarantee residents	6,198,032	6,884,222
Credit with real guarantee non-residents	1,308,843	1,338,750
Doubtful debtors	1,539,444	1,443,040
Other term loans	1,838,374	1,309,705
Loans on demand and sundry	2,608	2,049
	10,887,301	**10,977,766**

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, 2017 and 2016 is as follows:

	31.12.17	31.12.16
On demand	37,803	36,430
Between 1 month and 3 months	82,018	78,875
Between 3 months and 6 months	397,947	382,007
Between 6 months and 1 year	1,435,107	1,385,005
Between 1 year and 5 years	1,512,079	1,457,190
Over 5 years	7,422,347	7,638,260
	10,887,301	10,977,766

The detail of the balance of impairment corrections for to Loans and Credits assets at December 31, 2017 and 2016 is as follows:

	31.12.17	31.12.16
Specific coverage	319,605	321,912
Generic coverage	28,129	34,879
Final balance	347,734	356,791

The Group, during 2017 and 2016, 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, 2017 and 2016, 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	
	31.12.17	**31.12.16**
Particular:		
Real guarantees		
Mortgage	1,504,695	1,405,370
Securities	-	-
Other	-	-
No guarantee	21,441	24,951
Developers:		
Real guarantees	-	-
Mortgage	13,308	13,094
TOTAL	**1,539,444**	**1,443,415**

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, 2017 and at December 31, 2016, classified by type of financial instruments:

	THOUSANDS OF EUROS	
	31.12.17	**31.12.16**
By type of counterpart	2,865	2,516
Public administrations		
Other sectors residents	2,348	2,05
Other sectors non-residents	517	466
TOTAL	**2,865**	**2,516**

Credit quality of financial assets not overdue or impaired

Below, we present, at December 31, 2017 and 2016, 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 628,674 thousand Euros at 2017 closing (682,597 thousand Euros at 2016 closing).

	THOUSANDS OF EUROS	
	31.12.17	**31.12.16**
No appreciable risk	-	-
Low risk	4,518,491	5,030,129
Mid-low risk	1,252,770	830,723
Mid risk	688,503	176,252
Mid-high risk	6,001	3,746
High risk	2,250,902	2,808,388
TOTAL	**8,716,667**	**8,849,238**

Credit risk with real estate construction and development

At December 31, 2017 and 2016, financing aimed to construction and real estate development amounted to 15,705 and 16,783 thousand Euros, out of which 12,187 and 13,094 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.

Quantitative information on real estate risk at December 31, 2017 is the following, in thousands of Euros:

	Gross amount	**Excess on guarantee value**	**Specific coverage**
Credit risk	15,705	10,439	8,964
Defaulter	12,187	3,488	8,722
Subjective doubtful	-	-	-
Substandard	1,121	821	241
Memorandum item			
Generic coverage fund	-		-
Failed	-		-

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

	31.12.2017	31.12.2016
Without specific guarantee	-	-
With mortgage guarantee	15,705	16,783
Finished buildings-houses	10,240	9,568
Finishes buildings-others	-	-
Buildings under construction-houses	679	695
Buildings under construction-others	-	-
Urbanized land	4,786	6,520
Land-other		

Risk retail mortgage portfolio

The quantitative information regarding the retail mortgage portfolio at December 31, 2017 and 2016 is the following:

	31.12.2017	31.12.2016
Credit to acquire houses	11,362,336	11,434,790
Without mortgage guarantee	104,167	108,334
Doubtful	21,441	24,951
With mortgage guarantee	11,258,169	11,326,456
Doubtful	1,505,816	1,405,370

Ranges of loan to value (LTV) of the retail mortgage portfolio at December 31, 2017 are the following:

	LTV ≤ 40%	40% < LTV ≤ 60%	60% < LTV ≤ 80%	80% < LTV ≤ 100%	LTV > 100%
Live credits to acquire houses. With mortgage guarantee	1,200,386	2,531,263	2,686,435	1,683,517	3,156,568
Doubtful credits to acquire houses. With mortgage guarantee	14,689	57,275	170,397	330,948	932,507

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

Securitization transactions

During 2017, the Group has assigned mortgage loans to securitization funds Prado IV and Prado V, for a total value of 390 million Euros and 415 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 305 million Euros and 339 million Euros, respectively. The Company has granted a subordinated loan on both securitizations, for 9.9 and 10.9 million Euros, respectively, 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 2016, the Group assigned 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 maintained 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.

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, 2017 and 2016.

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.

UCI.

(In thousands of euros)	2017	2016
Asset Securitization Fund UCI 7	-	37,978
Asset Securitization Fund UCI 8	-	58,107
Asset Securitization Fund UCI 9	146,552	163,932
TOTAL	**146,552**	**262,017**

The chart below shows a detail of balances registered on the enclosed balance sheets at December 31, 2017 and 2016, associated to these transactions:

(In thousands of euros)	2017	2016
Asset Securitization Fund UCI 10	110,034	122,641
Asset Securitization Fund UCI 11	179,577	195,64
Asset Securitization Fund UCI 12	254,752	275,218
Asset Securitization Fund UCI 14	471,205	504,335
Asset Securitization Fund UCI 15	561,629	598,156
Asset Securitization Fund UCI 16	786,587	844,536
Asset Securitization Fund UCI 17	677,21	727,764
Asset Securitization Fund UCI 18	759,124	813,439
Asset Securitization Fund Prado I	380,137	407,678
Asset Securitization Fund Prado II	474,266	510,152
Asset Securitization Fund Prado III	389,009	414,419
Asset Securitization Fund Prado IV	377,206	-
Asset Securitization Fund Prado V	412,112	-
TOTAL	**5,832,848**	**5,413,978**

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.

During 2017, 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 was below 10% of the Fund's initial asset. The Entity 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 2017 and 2016 was the following:

	31.12.15	Additions	Write offs	Reclassi-fication	31.12.16	Additions	Write offs	Reclassi-fication	31.12.17
Foreclosed estates	594,291	125,515	-127,417	-36,685	510,704	92,034	-111,028	-16,642	475,068
Provisions foreclosed estates	-135,265	-30,762	33,784	7,141	-113,163	-31,383	33,044	2,307	-109,195
	425,965				391,541				365,873

Additionally, this caption of the balance sheet includes a prepayment to suppliers, for an amount of 1,145 thousand Euros (47 thousand Euros at December 31, 2016).

The amount registered as reclassification corresponds to estates that, during 2017 and 2016, have been reclassified into the caption of Property Investments of the balance sheet (note 19).

The sale of estates in 2017 has implied profits on the net book value by 4,308 thousand Euros (losses by 1,698 thousand Euros in 2016). 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, 2017 is the following:

	Accounting entry value	Coverage
Real estate assets originated from financing to construction and real estate development companies	6,614	(3,244)
Finished buildings: housing or others	5,863	(2,951)
Buildings under construction: housing or others	-	-
Land: urbanized land or others	751	(293)
Real estate assets originated on mortgage financing to families to acquire houses	468,454	(105,951)
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, 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	-	-

The classification of foreclosed assets, at December 31, 2017 and 2016, based on their nature and permanence in the balance sheet, is the following:

2017	Less than 3 years	More than 3 years	Total
Finished buildings	233,414	240,903	474,317
Buildings under construction	-	-	-
Land	37	714	751

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

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 2017 and 2016, 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 2017, to finance this kind of operations amounted to 71,184 thousand Euros (59,643 thousand Euros during 2016).

The outstanding balance of this kind of financing at December 31, 2017 and 2016 amounted to 613,663 and 568,904 thousand Euros, respectively.

The average percentage financed for operations of this kind, outstanding at December 31, 2017 and at December 31, 2016, corresponds to the one established by the Group on concession policies on the credit risk.

18. Property, plant and equipment

The detail of these headings in the enclosed balance sheets at December 31, 2017 and 2016 is the following:

	31.12.15	Additions	Write-offss	31.12.16	Additions	Write-offss	31.12.17
Assets in own use	28,334	1,501		29,835	1,14		30,975
Accumulated amortization of goods for own use	-25,723	-1,066		-26,789	-1,307		-28,096
	2,611			3,046			2,879

The amount of fully-depreciated elements accounts for 25,896 thousand Euros in 2017 (25,750 thousand Euros in 2016).

19. Property investments

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

	31.12.15	Additions	Write-offss	31.12.16	Additions	Write-offss	31.12.17
Assets in own use	71,762	29,544	-3,685	97,621	14,335	-5,449	106,507
Accumulated amortization of goods for own use	-2,365	-	355	-2,01	-1,139	141	-3,008
Impairment corrections	-504	-1,759	8660	-1,403	-200	148	-1,455
	68,893			94,208			102,044

Additions in 2017 and 2016 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 2.6 million Euros (2.1 million Euros at December 31, 2016) and operating expenses for all associated concepts have been of 3,188 thousand Euros (2,482 thousand Euros at December 31, 2016), out of which 1,330 thousand Euros correspond to amortization and value corrections (545 thousand Euros at December 31, 2016). 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, 2017 and 2016 is the following:

As a consequence of the Corporate Income Tax regulations applicable to the Group, certain differences arose in the financial years 2017 and 2016 between accounting and tax criteria recorded in deferred taxes when calculating and recognizing the corresponding Corporate Income Tax.

	Assets 2017	Assets 2016	Assets 2017	Assets 2016
Current taxes	1,494	1,317	1,455	6,220
Deferred taxes	68,816	72,173	808	-
For commissions	-	107		
For derivatives		4,535		
For impairment corrections	50,459	51,917		
Tax credits	18,357	15,614		
	70,31	73,490	2,263	6,220

21. Other assets and other liabilities

The detail of other assets at December 31, 2017 and 2016 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, 2017, of an asset by approximately 449 million Euros (446 million Euros at December 31, 2016), 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 3,354 thousand Euros (2,049 thousand Euros in 2016) 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, 2017 and 2016 is the following:

	31.12.17	31.12.16
Accruals	23,367	18,311
Other concepts	8,418	6,153
TOTAL	**31,785**	**24,464**

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, 2017, 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.

	2017	2016
	Days	Days
Average payment period to suppliers	15	16
Ratio of paid operations	83.06%	76.01%
Ratio of payable operations	16.94%	23.99%
	Amount (thousands of euros)	Amount (thousands of euros)
Total settled payments	41,458	38,325
Total outstanding payments	8,454	9,196

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.

22. Financial liabilities at amortized cost

The detail in thousands of Euros at December 31, 2017 and 2016 is the following:

	31.12.17	31.12.16
Loans and advances to credit institutions	7,198,297	7,590,361
Deposits from other creditors – Issued interests	2,471,363	2,715,073
Debits represented by marketable securities	1,464,900	905,165
Subordinated liabilities	80,323	80,338
	11,214,883	11,290,937

UCI.

The detail of financial liabilities at amortized cost as per their residual term at December 31, 2017 and 2016 is the following:

	31.12.17	31.12.16
Up to 3 months	5,331,774	5,655,380
From 3 to 6 months	748,182	677,010
From 6 months to 1 year	370,360	281,445
Over 1 year	747,981	976,525
	7,198,297	7,590,361

In 2017, interest rates of live financial liabilities ranged between 2.021% and 0.119%.

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

The caption "Deposits from other creditors – issued interests", for an amount of 2,471,363 and 2,715,073 thousand Euros at December 31, 2017 and 2016, respectively, includes 4,007,412 and 4,302,264 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 1,528,641 and 1,581,407 thousand Euros at December 31, 2017 and 2016, respectively.

During 2017 and 2016, the Group has carried out several repurchases of securitization bonds of Funds UCI 10-17, for a total nominal amount of 60,602 thousand Euros at December 31, 2017 (149,007 thousand Euros at December 31, 2016) , 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 8,585 thousand Euros (41,076 thousand Euros in 2016), booked under the caption "Results from financial operations (net)" of the profit and loss account of 2017 and 2016.

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.

Furthermore, during 2017, securitization bonds Prado I and Prado II have been sold, for a nominal amount of 37,818 thousand Euros, generating capital gains by 527 thousand Euros, registered on caption "Profit/(Loss) from financial operations (net)" on the profit and loss account of 2017.

The detail of subordinated liabilities and their main conditions at December 31, 2017 is the following:

Financial entity	Date	Interest rate	Instalments	THOUSANDS OF EUROS Non-current liability	Current liability	Total
BS	28/11/2024	Euribor + 3.33	Half-yearly	10,000	29	10,029
BS	28/10/2024	Euribor + 3.35	Half-yearly	17,500	94	17,594
BS	30/05/2023	Euribor + 3.75	Anual	12,500	39	12,539
SAGIP	28/11/2024	Euribor + 3.33	Half-yearly	10,000	29	10,029
SAGIP	28/10/2024	Euribor + 3.35	Half-yearly	17,500	94	17,594
SAGIP	30/05/2023	Euribor + 3.75	Anual	12,500	38	12,539
TOTAL				**80,000**	**323**	**80,323**

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

Financial entity	Date	Interest rate	Instalments	THOUSANDS OF EUROS Non-current liability	Current liability	Total
BS	28/11/2024	Euribor + 3.33	Half-yearly	10,000	29	10,029
BS	28/10/2024	Euribor + 3.35	Half-yearly	17,500	99	17,599
BS	30/05/2023	Euribor + 3.75	Anual	12,500	40	12,54
SAGIP	28/11/2024	Euribor + 3.33	Half-yearly	10,000	29	10,029
SAGIP	28/10/2024	Euribor + 3.35	Half-yearly	17,500	99	17,599
SAGIP	30/05/2023	Euribor + 3.75	Anual	12,500	42	12,542
TOTAL				**80,000**	**338**	**80,338**

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. Assets and liabilities trading portfolio

The detail of these captions on the balance sheets at December 31, 2017 and 2016 is the following:

THOUSANDS OF EUROS	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	5,130	6,996	-	-
	5,130	6,996	-	-

The detail per currency, maturity and notional of caption Trading derivatives on balance sheets at December 31, 2017 and 2016 is the following:

IN THOUSANDS OF EUROS	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Per currency:				
in Euros	5,130	6,996	-	-
	5,130	6,996	-	-

The detail of the balance on caption Trading derivatives on balance sheets at December 31, 2017 is the following:

	2017		
	Notional value	Fair value	
THOUSANDS OF EUROS		Assets	Liabilities
Other operations on interest rates:	1,063,914	5,13	6,966

24. Asset and liability hedging derivatives

These captions on the consolidated balance sheets at December 31, 2017 and 2016 break down as follows:

THOUSANDS OF EUROS	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	2,695	759	-	16,852
	2,695	759	-	16,852

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 hedge derivatives of the consolidated balance sheets at December 31, 2017 and 2016 is the following:

IN THOUSANDS OF EUROS	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Por moneda:				
Per currency in Euro:	2,695	759	-	16,852
	2,695	759	-	16,852

The detail of the balance on the caption Hedging Derivatives on the balance sheets at December 31, 2017 is the following:

	2017		
	Notional value	Fair value	
THOUSANDS OF EUROS		Assets	Liabilities
Other operations on interest rates:			
Financial swaps	5,551,385	2,695	759

The detail of the balance on the caption Hedging Derivatives on the balance sheets at December 31, 2016is 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 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.

25. Adjustments for net equity valuation

The detail of this caption on the consolidated balance sheets at December 31, 2017 and 2016 is the following:

IN THOUSANDS OF EUROS	2017	2016
Financial assets held for sale:		
Debt securities	-	-
Cash flow hedges	1,886	(11,133)
Other valuation adjustments	-	-
	1,886	**(11,133)**

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 2017 and 2016 is the following:

IN THOUSANDS OF EUROS	2017	2016
Opening balance	-11,133	-17,337
Additions	13,019	6,204
Withdrawals	-	-
	1,886	**-11,133**

26. Equity

The share capital at December 31, 2017 and 2016 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, 2017 and 2016 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, 2017 and 2016:

	2017	2016
Basic equity	427,379	420,785
Second-category equity	108,129	114,879
Deductions basic and second-category equity	-	-
	535,508	535,664
Minimum requirements	461,457	423,690

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, 2017 and 2016, 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	Var.	Exchange	Balance	Var.	Exchange	Balance
	31.12.14	year	Difference	31.12.15	year	Difference	31.12.16
Parent company	21,200	(220)	-	20,980	(907)	30,649	50,722
Consolidated companies	303,596	(7,526)	(2)	296,072	7,199	(30,649)	272,622
	324,796			317,052			323,344

27. Balances and transactions with group companies

Balances with Group Companies at December 31, 2017 and 2016 are the following:

	31.12.17	31.12.16
Loans and receivables-loans and advances in credit institutions		
Santander	33,480	30,755
BNP Paribas	28,044	28,119
BNP Paribas Real Estate, S.A.	-	3
Securitizations		
Account receivable Managing entity securitization funds	448,642	446,424
Financial liabilities at depreciated cost		
Santander	3,321,789	3,662,890
BNP Paribas	3,601,552	3,792,074
Societe Anonyme de Gestion D'Investissements et de Participations (SAGIP)	40,162	40,170
Financial expenses-loans		
BNP Paribas	15,451	20,349
Santander	16,168	21,233
Societe Anonyme de Gestion D'Investissements et de Participations (SAGIP)	1,310	1,368
Financial results net-Financial instruments		
Expenses swaps Santander	5,683	4,837
Expenses swaps BNP Paribas	13,420	17,719
Expenses CMS BNP Paribas	416	546
Expenses CMS Santander	-	15
Santander	-	7
Fees perceived		
Santander	31	68

28. Tax position

The Group has open for tax audit the tax years 2014 to 2017, 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 2013.

Involved tax returns 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 2017 and 2016 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:

	31.12.17	31.12.16
Accounting result before tax	5,075	6,611
Results from subsidiaries not included in the tax consolidation	-7,106	-2,167
Consolidated accounting result before tax	-2,031	4,444
Permanent differences	717	-1,094
Temporary differences	-6,874	33,208
Tax assessment basis	-8,188	36,558
Compensation of tax assessment bases	-2,456	10,967
Tax charge	-	-2,911
Compensation temporary differences (25%)	-	-2,179
Compensation tax losses carried forward (25%)	-40	117
Others	-1,041	1,928
CIT interim payments	-3,537	4,066
Tax payable	-40	117

The tax expense's calculation is the following:

	31.12.17	31.12.16
Accounting result before tax	5,075	6,611
Results from subsidiaries not included in the tax consolidation	-7,106	-2,167
Consolidated accounting result before tax	-2,031	4,444
Permanent differences	717	-1,094
Total	-1,314	3,350
Tax expense	-394	1,005
Tax previous years	-1,028	544
Tax expense Branch in Portugal	821	520
Temporary differences	-833	-1,755
Tax expense	-1,434	314

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.

29. Contingent commitments

The detail of this caption, at December 31, 2017 and 2016 is the following:

	31.12.17	31.12.16
COMMITMENTS		
Commitments – available by third parties	11,587	11,242
For other residing sectors	11,587	11,242

At December 31, 2017 and 2016, there are no contingent commitments in addition to the above. On both dates, amounts available by third parties are not subject to any restriction.

30. Interests and similar yields

The detail of this consolidated income statement heading for the financial years ended December 31, 2017 and 2016 is as follows:

	31.12.17	31.12.16
Loans and advances to credit institutions	-	65
Loans and advances to other debtors	190,555	179,293
Doubtful assets	30,549	46,876
Other interests	10,471	6,395
	231,575	232,629

31. Interests and similar charges

The detail of this consolidated income statement heading for the financial years ended December 31, 2017 and 2016 is as follows:

	31.12.17	31.12.16
Loans and advances to credit institutions	39,827	48,049
Other interests	36,345	34,444
	76,172	82,493

32. Personnel costs

The composition of this heading in the enclosed consolidated income statement is as follows:

	31.12.17	31.12.16
Wages and salaries	24,382	24,233
Contributions to Social Security	8,175	8,315
	32,557	32,548

The average number of the Group's employees, distributed by categories and gender, at December 31, 2017 and 2016, has been the following:

	12/31/2017			12/31/2016		
	Male	Female	Total	Male	Female	Total
Group III						
A	99	174	273	100	175	275
B	51	78	129	60	74	134
C	46	67	113	43	67	110
Group II						
A	15	8	23	15	8	23
B	3	0	3	4	0	4
C	50	54	104	46	54	100
Group I						
A	20	3	23	21	2	23
B	26	4	30	26	4	30
C	1	4	5	1	5	6
Others						
TOTAL	**331**	**392**	**703**	**314**	**390**	**704**

33. Other administration overheads

The composition of this heading in the enclosed consolidated income statement is as follows:

	31.12.17	31.12.16
On properties, installations and materials	8,219	7,392
Information technology	1,440	1,389
Communication	1,529	1,553
Advertising and Propaganda	3,620	3,176
Legal and lawyers' fees	3,118	3,487
Technical reports	149	-
Insurance premiums	403	290
Representation costs and trips	1,251	1,156
Membership fees	39	35
Sub-contracted administrative services	3,889	3,875
Local levies and taxes	6,520	11,109
Other charges	17,757	18,884
	47,934	**52,346**

4

UCI GROUP CORPORATE ORGANIZATION

UCI Group:
Affiliated and subsidiaries entities and branches 2017

UCI.

- 50% Santander
- 40% [redacted]
- 10% BNP PARIBAS

- UCI. S.A., E.F.C.
  100% UCI S.A.
  - UCI Spain
  - UCI Portugal
    Subsidiary
  - UCI Hellas Greece(1)
    Subsidiary
- UCI Servicios para Profesionales Inmobiliarios S.A. (Spain)
  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. (Portugal)
  99,9% UCI S.A.
- UCI-Mediaçao de Seguros Unipessoal LDA (Portugal)
  100% UCI S.A.
- UCI Hellas Credit and Loan Receivables (Grecia)
  100% UCI S.A.

(1) In February 2018, all the loans from UCI Hellas have been reasigned to UCI S.A. E.F.C, and are pending administrative closure. All UCI Hellas employees have been transfered to UCI LMS.

Boards of Directors

On April 10, 2018

U.C.I., S.A.

Chairman
Matías Rodríguez Inciarte
Chairman of Santander Universidades

Member of the board
Remedios Ruiz Maciá
Global Head EWRM Santander Group
Santander Totta Board Member

Member of the board
Alain Van Groenendael
Chairman of BNP Paribas Personal Finance

Member of the board
Michel Falvert
Key Partner 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
Chairman of Santander Universidades

Member of the board
Remedios Ruiz Maciá
Global Head EWRM Santander Group
Santander Totta Board Member

Member of the board
Alain Van Groenendael
Chairman of BNP Paribas Personal Finance

Member of the board
Michel Falvert
Key Partner BNP Paribas Personal Finance

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Eduardo Isidro Cortina Romero
Head of Legal Department and Compliance Officer of UCI

Retama Real Estate, S.A.U.

Single Administrator
Roberto Colomer Blasco
Chief Executive 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 Associationes of Real Estate Agents

Member of the board
Fernando García Erviti
Independent Real Estate Consultant

Secretary & Member of the board
Eduardo Isidro Cortina Romero
Head of Legal Department and Compliance Officer of UCI

CCPT – Comprarcasa, Rede Serviços Imobiliários S.A.

Chairman
Roberto Colomer Blasco
Chief Executive Officer of UCI

Member of the board
Pedro Megre
Chief Executive Officer of UCI Portugal

Member of the board
Luis Mário Nunes
Chief Executive Officer 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)

Secretaria del Consejo
Magda Andrade
Head of Legal Department at UCI Portugal

UCI Holding Brasil L.T.D.A.

Company Administrator
Dylan Leworthy Boyle
Financial and administrative Director

Company Administrator
Carlos Joao Lourenço Nisa de Brito Vintem
Sales Director

Companhia Promotora UCI., S.A.

Chairman
Jose Antonio Carchedi

Vice-chairman
Roberto Colomer Blasco
Chief Executive Officer of UCI

Member of the board
Luis Felipe Carchedi
Chief Executive Officer

Member of the board
Pedro Megre
Chief Executive Officer of UCI Portugal

Trustee
Dylan Leworthy Boyle
Financial and administrative Director

UCI Hellas Credit and Loan Receivables Servicing Company, S.A.

Chairman
Pedro Megre
Chief Executive Officer of UCI Portugal

Chief Executive Officer
Aristidis Arvanitakis

Member of the board
Dominique Bernard Marie Servajean
Managing Partner of Bedor Excem

Management and Executive Committee

On April 10, 2018

Grupo UCI

Management Committee

Roberto Colomer Blasco
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

Pedro Megre
Chief Executive Officer of UCI Portugal

Olivier Rodríguez
Head of General Accounting

Grupo UCI

Executive Committee

Anabel del Barco del Barco
Direct Channel Manager

José Antonio Borreguero Herrera
Head of IT

Eduardo Isidro Cortina Romero
Head of Legal Department and Compliance Officer of UCI

Fernando Delgado Saavedra
Marketing Manager

Francisco José Fernández Ariza
Head of Professional Services

Luis Nicolás Fernández Carrasco
Sales Manager

Cecilia Franco García
Head of After Sale Customer Assistance and Real Estate Manager

José García Parra
Project Manager of UCI´s Commercial Organization

Marta Pancorbo García
Head of Change Management

Tomás Luis de la Pedrosa Masip
Head of Internal Control

Miguel Ángel Romero Sánchez
Head of Client Management

UCI Portugal

Management and Executive Committee

Pedro Megre
Chief Executive Officer

Greg Delloye
Financial & Risk Manager

José Portela
Head of Customer Service

Luis Nunes
Chief Executive Officer of Comprarcasa

Pedro Pereira
Marketing Manager

Carlos Vintem
Sales and Marketing Manager

UCI Hellas Credit and Loan Receivables Servicing Company, S.A.

Executive Committee

Aristidis Arvanitakis
Chief Executive Officer

Pedro Megre
Chief Executive Officer of UCI Portugal

Thanasis Diorelis
Aftersales & Property Sales Manager

Christos Gramatikopoulos
Director Administrativo y Financiero

Thanasis Philipppou
Operations & Collections Manager

Compahnia Promotora UCI S.A.

Executive Committee

José Antonio Carchedi
Chairman

Roberto Colomer Blasco
Chief Executive Officer of UCI

Luis Felipe Carchedi
Chief Executive Officer

Pedro Megre
Chief Executive Officer of UCI Portugal

UCI.

List of UCI Branch Offices

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04004 Almería

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08007 Barcelona

Av. Gran Vía, 16-20, 4º A
08902 Hospitalet

Av. Francesc Maciá, 30, Torre A, 2º 2ª
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List of Websites

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www.ucinet.net
www.uciplus.com
www.ucimortgages.com

www.hipotecas.com

www.creditohabitacao.com

www.retamarealestate.com

www.comprarcasa.com
www.comprarcasa.pt

www.lahipotecaresponsable.com

www.siralia.com
www.inmocionate.com

www.crsspain.es