Madrid, 21 de abril de 2017

Uro Property Holdings SOCIMI, S.A. (la "**Sociedad**" o “**URO**”) en virtud de lo previsto en la Circular 15/2016 del Mercado Alternativo Bursátil (**MAB**) sobre información a suministrar por empresas en expansión y SOCIMI incorporadas a negociación en el MAB, por medio de la presente a continuación hace público la siguientes información financiera correspondiente al año 2016:

- Informe de auditoría, Cuentas Anuales Individuales e Informe de Gestión del ejercicio finalizado el 31 de diciembre de 2016.

  Se hace constar que dichas Cuentas Anuales no han sido firmadas por el consejero D. Jonathan Kendall, por no encontrarse físicamente presente en la sesión del Consejo de Administración de 28 de marzo de 2017 en la que esas Cuentas se formularon. No obstante, el Sr. Kendall participó en dicha sesión por vía telefónica y votó a favor de la formulación de las mencionadas Cuentas.

- Informe sobre la estructura organizativa y sistema de control interno de la sociedad para el cumplimiento de las obligaciones de información que establece el mercado.

La documentación anterior también se encuentra a disposición del mercado en la página web de la Sociedad (www.uropropertyholdings.com).

Uro Property Holdings SOCIMI, S.A.
D. Carlos Martínez de Campos y Carulla
Presidente del Consejo de Administración

This version of our report is a free translation from the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INDEPENDENT AUDITOR'S REPORT ON ANNUAL ACCOUNTS

To the Shareholders Uro Property Holdings SOCIMI, S.A.:

Report on the Annual Accounts

We have audited the accompanying annual accounts of Uro Property Holdings SOCIMI, S.A., consisting of the balance sheet at 31 December 2016, the income statement, the statement of changes in equity, the cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Annual Accounts

The directors are responsible for the preparation of the accompanying annual accounts such that they present fairly the financial position of Uro Property Holdings SOCIMI, S.A., and the results of its operations in accordance with the financial reporting framework applicable to the entity in Spain, which is identified in note 2 to the accompanying annual accounts and the internal control considered necessary to permit the preparation of annual accounts which are free from material misstatement, due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit requires the application of procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. When carrying out those risk assessments, the auditor considers internal control relevant to the entity's preparation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the annual accounts taken as a whole.

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

Opinion

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of Uro Property Holdings SOCIMI, S.A. as at 31 December, 2016, and its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework, and in particular, with the accounting principles and criteria included therein.

Report on Other Legal and Regulatory Requirements

The accompanying Directors' Report for 2016 contains the information that the Company's Directors consider relevant to Uro Property Holdings SOCIMI, S.A.'s position, the development of its business and other matters and does not form an integral part of the annual accounts. We have verified that the accounting information contained in the directors’ report is in agreement with that of the annual accounts for 2016. Our work as auditors is limited to checking the directors’ report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the company's accounting records.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by Rafael Pérez Guerra

31 March 2017

URO PROPERTY HOLDINGS SOCIMI, S.A.

Financial Statements and Directors' Report for the Financial Year ended 31 December 2016

URO PROPERTY HOLDINGS SOCIMI, S.A.

Balance sheet at 31 December 2016 and 2015
(Expressed in Euro)

A S S E T S	NOTES	31.12.2016	31.12.2015
NON-CURRENT ASSETS		**1,599,540,706**	**1,618,581,071**
Investment properties	**5**	**1,575,851,938**	**1,594,649,562**
Non-current financial investments	**9**	**23,688,768**	**23,931,509**
Other financial assets		23,688,768	23,931,509
CURRENT ASSETS		**67,329,553**	**99,791,692**
Trade and other receivables	**9**	**2,554,868**	**14,300,283**
Trade receivables		2,390,885	4,629,663
Sundry receivables		60,627	-
Other receivables from public entities	**13**	103,356	9,670,620
Cash and cash equivalents	**10**	**64,774,685**	**85,491,409**
Cash		64,774,685	85,491,409
TOTAL ASSETS		**1,666,870,259**	**1,718,372,763**

Notes 1 through 20 of the accompanying notes to the annual accounts form an integral part of these financial statements.

URO PROPERTY HOLDINGS SOCIMI, S.A.

Balance sheet at 31 December 2016 and 2015
(Expressed in Euro)

EQUITY AND LIABILITIES	NOTE	31.12.2016	31.12.2015
EQUITY		**178,815,097**	**188,978,594**
CAPITAL AND RESERVES		**178,815,097**	**188,978,594**
Capital	**11**	**8,997,504**	**8,282,178**
Authorized capital		8,997,504	8,282,178
Share premium	**11**	**417,179,285**	**402,188,271**
Reserves	**11**	**244,978,475**	**237,154,124**
Other reserves		244,978,475	237,154,124
Prior year results		**(508,367,733)**	**(508,367,733)**
(Prior year losses)	11	(508,367,733)	(508,367,733)
Other shareholder contributions	**11**	**5,720,000**	**-**
Profit/for the year		**15,807,566**	**67,721,754**
(Interim dividend)		**(5,500,000)**	**(18,000,000)**
NON-CURRENT LIABILITIES		**1,421,367,732**	**1,443,678,735**
Non-current borrowings	**12**	**1,218,817,660**	**1,264,070,844**
Other financial liabilities		1,218,817,660	1,264,070,844
Non-current payables to Group companies and associates	**17**	**196,283,811**	**176,400,000**
Accruals and deferred income (non-current)	**12**	**6,266,261**	**3,207,891**
CURRENT LIABILITIES		**66,687,430**	**85,715,434**
Current payables		**54,755,599**	**47,420,602**
Other financial liabilities		54,755,599	47,420,602
Trade and other payables	**12**	**3,016,648**	**28,905,337**
Sundry payables		1,341,289	4,927,209
Other payables to public entities	**13**	1,675,359	23,978,128
Accruals and deferred income	**15**	**8,915,183**	**9,389,495**
TOTAL EQUITY AND LIABILITIES		**1,666,870,259**	**1,718,372,763**

Notes 1 through 20 of the accompanying notes to the annual accounts form an integral part of these financial statements.

URO PROPERTY HOLDINGS SOCIMI, S.A.

Income statement for financial years ended 31 December 2016 and 2015
(Expressed in Euro)

CONTINUING OPERATIONS	NOTE	2016	2015
Net Revenues	**5, 14.1**	**108,857,566**	**109,831,953**
Services rendered		108,857,566	109,831,953
Other operating income		**1,480,243**	**67,817**
Sundry and other income		1,480,243	67,817
Personnel expenses		**(545.940)**	**(554,003)**
Wages, salaries and similar remuneration		(518.026)	(527,282)
Employee benefit expenses	**14.2**	(27,914)	(26,721)
Other operating expenses	**14.3**	**(8,201,293)**	**(13,419,724)**
External services		(6,311,408)	(12,223,046)
Taxes		(1,889,885)	(1,196,678)
Losses, impairment and changes in provisions for commercial transactions		-	-
Fixed asset depreciation	**5**	**(18,274,682)**	**(17,836,947)**
Impairment and profit/(loss) on disposals of assets and investment properties		**1,007,056**	**8,650,904**
Impairment and losses	5	1,115,045	8,650,904
Profit/(Loss) on disposals and other items		(107,989)	-
Other results		**6,797**	**940,597**
OPERATING PROFIT/(LOSS)		**84,329,747**	**87,680,597**
Financial income	**14.4**	**508**	**32,697,575**
From third parties		508	32,697,575
From Group companies		-	-
Financial expenses	**14.5**	**(68,417,784)**	**(73,382,922)**
On payables to Group companies and associates		(19,883,811)	(18,900,000)
On payables to third parties		(48,533,973)	(54,482,922)
Change in the fair value of financial instruments	**14.6**	**-**	**(6,260,475)**
Trading portfolio and other		-	(6,260,475)
Exchange variations		**-**	**(2,275)**
FINANCIAL INCOME/(EXPENSE)		**(68,417,276)**	**(46,948,097)**
PROFIT/(LOSS) BEFORE INCOME TAX		**15,912,471**	**40,732,500**
Corporate income tax	**13**	**(104,905)**	**-**
PROFIT/(LOSS) FOR YEAR FROM CONTINUING OPERATIONS		**15,807,566**	**40,732,500**
Profit/(loss) for the year from discontinued operations	**8**	**-**	**26,989,254**
PROFIT FOR THE YEAR		**15,807,566**	**67,721,754**

Notes 1 through 20 of the accompanying notes to the annual accounts form an integral part of these financial statements.

URO PROPERTY HOLDINGS SOCIMI, S.A.

Statement of changes in equity for financial years ended 31 December 2016 and 2015
(Expressed in Euro)

A) Statement of recognized income and expenses relating to the financial years ended 31 December 2016 and 2015

		Year ended 31 December	
	Notes	2016	2015
Profit/(loss) recognized in the income statement		15,807,566	67,721,754
Income and expenses directly attributed to equity			
I. Cash flow hedges	11.2	-	9,986,580
Total income and expenses directly attributed to equity		-	9,986,580
Amounts transferred to the income statement			
VII. Cash flow hedges		-	(36,057,951)
Total transfers to the income statement		-	(36,057,951)
TOTAL RECOGNIZED INCOME AND EXPENSES		15,807,566	41,650,383

Notes 1 through 20 of the accompanying notes to the annual accounts form an integral part of these financial statements.

URO PROPERTY HOLDINGS SOCIMI, S.A.

Statement of changes in equity for the financial years ended 31 December 2016 and 2015
(Expressed in Euro)

B) Statement of total changes in equity for financial years ended 31 December 2016 and 2015

	Authorized capital (Note 11.1)	Share premium (Note 11.1)	Reserves (Note 11.1)	Prior years' results (Note 11.1)	Other shareholder contributions (Note 11.1.e)	Profit/(loss) for the year	Interim dividend (Note 11.1)	Measurement adjustments (Note 11.2)	Total Equity
BEGINNING BALANCE 2015	5,194,020	317,449,216	3,579,356	(508,367,733)	-	387,901,939	-	26,071,371	231,828,169
Total recognized income and expenses	-	-	-	-	-	67,721,754	-	(26,071,371)	41,650,383
Operations with shareholders or owners									
(Dividend distribution)	3,088,158	84,739,055	-	-	-	(154,327,171)	-	-	(66,499,958)
(Interim dividend)	-	-	-	-	-	-	(18,000,000)	-	(18,000,000)
Other changes in equity	-	-	233,574,768	-	-	(233,574,768)	-	-	-
ENDING BALANCE 2015	8,282,178	402,188,271	237,154,124	(508,367,733)	-	67,721,754	(18,000,000)	-	188,978,594
Adjustments due to errors in 2015 (Note 11.1.e)	-	-	(5,720,000)	-	5,720,000	-	-	-	-
BEGINNING BALANCE 2016	8,282,178	402,188,271	231,434,124	(508,367,733)	5,720,000	67,721,754	(18,000,000)	-	188,978,594
Total recognized income and expenses	-	-	-	-	-	15,807,566	-	-	15,807,566
Operations with shareholders or owners									
(Dividend distribution)	715,326	14,991,014	-	-	-	(54,177,403)	18,000,000	-	(20,471,063)
(Interim dividend)	-	-	-	-	-	-	(5,500,000)	-	(5,500,000)
Other changes in equity	-	-	13,544,351	-	-	(13,544,351)	-	-	-
ENDING BALANCE 2016	8,997,504	417,179,285	244,978,475	(508,367,733)	5,720,000	15,807,566	(5,500,000)	-	178,815,097

Notes 1 through 20 of the accompanying notes to the annual accounts form an integral part of these financial statements.

URO PROPERTY HOLDINGS SOCIMI, S.A.

Cash flow statement for financial years ended 31 December 2016 and 2015.
(Expressed in Euro)

		Year ended 31 December	
	Notes	**2016**	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES			
1. Profit before taxes		**15,912,471**	**90,365,290**
2. Adjustments to results		**85,684,900**	**7,038,758**
a) Asset depreciation/amortization	5.1	18,274,682	17,836,947
b) Impairment of investment properties	5.1	(1,115,045)	(8,650,903)
d) Change in provisions		-	-
e) Profit/(loss) on write-offs and disposals of assets		107,987	(50,714,296)
f) Financial income	15.5	(508)	(37,844,397)
g) Financial expense	15.6	68,417,784	79,165,487
h) Changes in fair value of financial instruments	15.6	-	7,245,920
3. Changes in working capital		**2,222,192**	**(567,882)**
b) Trade and other receivables		848	-
c) Other current assets and liabilities		(474,312)	(1,319,928)
d) Trade and other payables		(434,796)	(37,116)
e) Other non-current assets and liabilities		3,130,452	(789,162)
4. Other cash flows from operating activities		**(58,270,033)**	**(30,163,684)**
a) Interest payments		(44,456,309)	(62,618,620)
c) Collection of interest		508	38,404,576
d) Corporate income tax refunded/paid		(13,814,232)	(5,949,640)
CASH FLOWS FROM OPERATING ACTIVITIES		**45,549,530**	**66,672,482**
CASH FLOWS FROM INVESTING ACTIVITIES			
6. Amounts paid on investments		**-**	**(516,619)**
a) Group companies and associates		-	-
e) Other financial assets		-	(516,619)
7. Amounts collected from divestments		**1,530,000**	**310,706,022**
a) Investment properties		1,530,000	308,691,519
e) Other financial assets		-	2,014,503
CASH FLOWS FROM INVESTING ACTIVITIES		**1,530,000**	**310,189,403**
CASH FLOWS FROM FINANCING ACTIVITIES			
10. Payments received and made on financial liability instruments		**(41,825,191)**	**(223,926,730)**
a) Loan related to Bond Issue		-	1,295,501,180
4. Other debts		-	1,295,501,180
b) Return and repayment of		(41,825,191)	(1,519,427,910)
2. Bank borrowings		-	(1,513,461,650)
4. Other payables		(41,825,191)	(5,966,260)
11. Payments of dividends		**(25,971,063)**	**(84,499,958)**
CASH FLOWS FROM FINANCING ACTIVITIES		**(67,796,254)**	**(308,426,688)**
NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS		**(20,716,724)**	**68,435,197**
Cash and cash equivalents at start of the year		85,491,409	17,056,212
Cash and cash equivalents at end of the year		64,774,685	85,491,409
Net change		20,716,724	68,435,197

Notes 1 through 20 of the accompanying notes to the annual accounts form an integral part of these financial statements.

URO PROPERTY HOLDINGS SOCIMI, S.A.

Notes to the financial statements for the financial year ended 31 December 2016 (Euro)

1. COMPANY ACTIVITIES

Uro Property Holdings SOCIMI, S.A. (hereinafter “the Company”) was incorporated on 2 October 2007 and is registered as a public limited liability company with the Madrid Mercantile Registry in volume 24783, sheet 216, section 1, page M-446073.

On 23 November 2007 the Company purchased from Banco Santander, S.A. (hereinafter “Banco Santander”) 1,152 bank branch offices located in Spain for € 2,040,000,000 (plus costs totalling €44,430,134 directly attributable to the transaction), and subsequently leased them back to the bank for an average initial term of 25 years, with three potential seven-year extensions each (Note 5.2). After the sale of 10, 4, 2, 381 and 7 offices to individual investors in 2011, 2012, 2013, 2015 and 2016, respectively, and the office exchange that took place in 2016 under which 26 offices were exchanged for 10 offices, the investment properties held by the Company consist of 731 offices, of which 698 are leased by Banco Santander.

In 2014, Sant Midco Holdings (domiciled in Holland) sold all of its shares and the new shareholders at 31 December 2014 were Ziloti Holding S.a.r.l. (since renamed Ziloti Holding S.A.), domiciled in Luxembourg (85%) and Banco Santander, S.A. domiciled in Spain (15%).

The Company’s registered office is located at Calle Serrano 21, 28001 Madrid, Spain.

On 27 October 2014 the Company changed its name from Samos Servicios y Gestiones, S.L. Sociedad Unipersonal to its current name. On 23 December 2014 the Company was converted into a public company with limited liability.

Pursuant to a decision by the Sole Shareholder, the Company was included in the regime regulated by Law 11/2009 (26 October), which governs Listed Real Estate Market Investment Companies ("SOCIMI") as from 24 September 2013 (effective from 1 January 2013).

The Company´s statutes state its corporate purpose as:

- The acquisition and development of urban real estate properties for lease. The development activity includes the rehabilitation of buildings under the terms established by Law 37/1992 (28 December) on Value Added Tax.
- The possession of shares in the share capital of SOCIMIs or in other entities not resident in Spain that have the same corporate purpose and which are subject to a regime similar to that established for SOCIMI as regards the mandatory, legal or statutory policy of distributing profits and that comply with the investment requirements established for SOCIMI.
- The possession of shares in Real Estate Collective Investment institutions regulated by Law 35/2003 (4 November) on Collective Investment Institutions.

In March 2015 the Company was listed on the Alternative Stock Market and therefore fulfilled all of the requirements established by Articles 4 and 5 of Law 11/2009 (26 October), that regulates Listed Real Estate Market Investment Companies (“SOCIMI”).

2. BASIS OF PRESENTATION

2.1 Fair presentation

The financial statements have been prepared on the basis of the Company's accounting records and are presented in accordance with prevailing commercial legislation and the provisions of the Chart of Accounts approved by Royal Decree 1514/2007 (16 November), which has been amended by Royal Decree 1159/2010 (17 September) and by Royal Decree 602/2016, so as to fairly present the Company's equity, financial situation and results and furthermore accurately reflect the cash flowing through the cash flow statement.

2.2 Critical aspects of the valuation and estimation of unknown factors

When preparing the Company´s financial statements, the Directors have made estimates that are based on past experience and other factors that are considered to be reasonable in accordance with current circumstances, such estimates forming the basis on which the carrying value of assets and liabilities may be established where such values are not easily calculated using other sources. The Company reviews its estimates on a continuous basis. However, given the uncertainty inherent in these estimates, there is a high risk that significant adjustments could be made in the future regarding the value of the associated assets and liabilities as a result of significant changes being made in the assumptions, events and circumstances on which they are based.

Key issues relating to the estimation of uncertainty as at year-end associated with a notable risk of significant changes in the value of assets or liabilities, are as follows:

Fair value of investments properties

The best evidence of the fair value of investment properties in an active market are the prices for similar assets. In the absence of such information, the Company determines fair value through a range of fair values. When implementing this judgement, the Company uses a series of sources, including:

i. Current prices in an active market for properties of a different nature, condition or location, adjusted to reflect the differences with the assets owned by the Company.

ii. Recent property prices in other less active markets, adjusted to reflect changes in financial situations since the transaction date.

iii. Discounted cash flows based on estimates deriving from current and projected lease agreement terms and, if possible, on estimates of market prices for similar properties in the same location, using appropriate discount rates that reflect the time factor uncertainty.

In this respect, every year the Company engages the services of an independent appraiser to value its assets on an individual basis. The result of this valuation at 31 December 2016 is an overall value of the branch office portfolio totalling €1,933,600,000 (at 31 December 2015: €1,916,147,000, which includes the valuation of the 7 branches sold in 2016). There has been a reversal of the net impairment totalling €1,115,045 (consisting of new impairments totalling €3,200,857 and a reversal of impairments relating to previous years totalling €4,315,902, all calculated with reference to individual asset valuations). At 31 December 2015, net impairments totalled €8,650,903 (consisting of new impairments totalling €10,793,632 and a reversal of existing impairments totalling €19,444,535).

The Company also recognized a reversal of the impairment totalling €2,070,658 from the provision for impairment due to the sale of 7 offices.

The Company updates the provision for impairment in the event that the lessee exercises its break option in respect of any of the branch offices.. In such cases, the Company takes into consideration the market value of the property excluding the lease (vacant possession value). The addendum signed on 1 August 2014 provides the lessee with break clauses allowing it to terminate the lease agreement early with respect to a limited number of properties in the so-called “Green” portfolio. These early terminations may take place starting on 23 November 2015 provided that 12 months advance notice is given, and a penalty equivalent to six monthly rent instalments is paid. The break clauses cannot exceed 1.2% of all rent accruing on the properties in the Green portfolio. The “Green” portfolio represents 62% of the Company’s portfolio assets. All new impairment recognized at 31 December 2016 and 2015 related to assets being released in accordance with these early terminations (see Note 18).

The Directors consider that, aside from the notification of the break clause on certain branch offices as described above, there are no indications of impairment or any other major events, which may have a significant impact on the value of the branch offices at 31 December 2016.

On an annual basis the appraiser values each of the branch offices on an individual basis using the “all risks yield” method. This method consists of calculating perpetual income, dividing the actual income by the yield. This annual return is called the initial yield and is represented by the initial annual return that the investor receives with respect to the price paid for the property. Potential buyers identify all perceived risks such as a lack of liquidity or the risk of non-payment by a lessee in the initial yield and the price for the property.

Taking into account the length of the lease agreement, Banco Santander risk and the rental profile, the valuer applied a 50 basis point reduction to the yield in each location, on the understanding that the characteristics of both the lease and the lessor represent a high quality credit risk. The appraiser also increased or decreased the expected yield based on the various general and specific property locations, their populations and the quality of the local environment.

Useful lives of investment properties

The Company’s management determines estimated useful lives and related depreciation charges for its investment properties. The useful lives of investment properties are estimated in accordance with the period over which the assets concerned will generate income. At each closing the Company reviews the useful lives of investment properties and if the estimates differ from those made previously the effect of the change is recorded on a prospective basis as from the year in which the change is made.

2.3 Going concern

At 31 December 2016, the Company registered positive equity totalling €178,815,097 (31 December 2015: €188,978,594).

Additionally at 31 December 2016, the Company registered positive working capital totalling €642,123 (positive working capital totalled €14,076,258 at 31 December 2015). The Company has instruments to manage its working capital levels (Note 4.3).

The Company also complied with all of the requirements established by Articles 4 and 5 of Law 11/2009 (26 October) which governs Listed Real Estate Market Investment Companies (“SOCIMI”), which resulted in its listing on the alternative stock market.

Accordingly, the Directors have prepared the financial statements on 31 December 2016 on a going concern basis.

2.4 Grouping of items

For the purpose of facilitating the understanding of the balance sheet, the income statement, the statement of changes in equity and the cash flow statement, these financial statements are presented in a group format and all necessary analysis is set out in the notes to the financial statements.

2.5 Comparability

In accordance with Spanish Commercial Law, for comparative purposes only, 2016 financial year and previous year figures are prepared with each balance sheet item, profit and loss account, statement of changes in equity and the cash flow statement. The report also includes quantitative information from the previous year, except when an accounting standard specifically establishes that it is not necessary.

3. ACCOUNTING AND MEASUREMENT STANDARDS

The main accounting and measurement standards used by the Company when preparing these financial statements are as follows:

3.1 Investment properties

The branch offices that are leased to Banco Santander are classified as investment properties.

Investment properties are initially valued at acquisition cost. The direct costs attributable to the acquisition of assets are included as an increase in the value of the leased asset and are recognized as an expense over the useful life of the asset concerned.

After initial recognition, investment properties are held at cost, less accumulated depreciation and, if appropriate, the accumulated amount of recognized impairment losses.

Expenses relating to repairs and maintenance that do not extend the useful lives of assets are taken directly to the profit and loss account for the year. The costs of expansion or improvement that give rise to an increase in production capacity or an extension of the useful lives of the assets are added as an increase in the value of the asset concerned.

Investment properties are depreciated on a straight-line basis over the estimated useful lives of the assets concerned at the following rates:

	Years
Rental property	25 – 80

At the end of the year, the Company reviews the residual values, useful lives and depreciation methods applied to investment properties and, if necessary, adjustments are applied on a prospective basis.

3.2 Impairment of non-financial assets

At year-end at a minimum, the Company's Directors determine whether or not there is any indication of investment properties having become impaired.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount, understood as the asset's fair value in the market less selling costs or its value in use. Value-in-use is the present value of expected future cash flows using risk-free market interest rates adjusted for the specific risks associated with the asset.

Impairment adjustments, as well as their reversal, are recognised in the income statement. Impairment adjustments are reversed when the circumstances that led to them being recognized cease to exist.

The reversal of impairment is limited by the carrying value of the asset that would have been recorded if the relevant impairment had not been previously recognized.

3.3 Rent

Leases are classified as finance leases when the financial terms determine that substantially all risks and benefits inherent to the ownership of the asset covered by the contract are transferred to the lessee. Otherwise the contracts are classified as operating leases.

<u>Company as the lessor</u>

On 23 November 2007, the Company concluded a lease agreement with Banco Santander covering the 1,152 offices it owns. This lease is classified as an operating lease and the leased assets are recognized under the heading "investment properties" in accordance with their nature.

The revenues deriving from operating leases are recognised in the income statement when accrued on a straight-line basis over the term of the lease.

<u>Company as the lessee</u>

The lease payments for the Company's offices located at Serrano 21 are classified as an operating lease since the lessor retains the risks and benefits deriving from ownership. Operating lease payments (net of any incentive received by the lessor) are charged against the income statement for the year in which they accrue on a straight- line basis over the lease period.

3.4 Exchanges

When property, plant and equipment, intangible assets or property investments are acquired through exchanges of a commercial nature, they are valued at the fair value of the asset delivered plus any monetary compensation paid in exchange, unless there is clearer evidence regarding the asset received and any applicable limits. For these purposes, the Company considers that an exchange is of a commercial nature when the configuration of the cash flows relating to the asset received differs from the configuration of the cash flows relating to the asset delivered, or the present value of the cash flow after taxes relating to the activities affected by this exchange is modified. Furthermore, any of the above differences must be significant with respect to the fair value of the exchanged assets.

If the exchange is not of a commercial nature, or the fair value of the assets involved in the transaction cannot be determined, the asset received is valued at the carrying value of the asset that has been delivered plus any monetary compensation provided, up to the limit of the fair value of the received asset, if it is inferior, and where such fair value is known.

3.5 Financial assets

a) <u>Loans and receivables</u>

Loans and receivables are non-derivative financial assets with fixed or ascertainable payments that are not quoted on an active market. They are included in current assets except for assets maturing in more than 12 months from the balance sheet date, which are classified as non-current assets. Loans and receivables are included under "Trade and other receivables" in the balance sheet.

Financial assets are initially carried at fair value, including directly attributable transaction costs, and are subsequently measured at amortised cost. Accrued interest is recognized at the effective interest rate, which is the discount rate that brings the instrument's carrying amount into line with all estimated cash flows to maturity. Trade receivables falling due in less than one year are carried at their face value at both initial recognition and subsequent measurement, provided that the effect of not discounting flows is not significant.

At the year-end, at a minimum, the necessary value adjustments are made to account for impairment where there is objective evidence that all receivables will not be collected.

The amount of any impairment loss is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate prevailing at the date of initial recognition. Measurement adjustments, and reversals, where applicable, will be recognized in the income statement.

b) Security deposits

The Company has received a security deposit for the lease equal to two months' rent. In accordance with current legislation, any security deposits are deposited with the relevant government institution and therefore the Company must deposit 90% of the security deposit obtained from the lessee at certain official institutions. The security deposit received from the lessee is classified as a non-current liability in the accompanying balance sheet and the amounts deposited at the official institutions are recognized under non-current assets in the balance sheet. The difference between the fair value and the amount of the security deposit for the operating lease is not significant for the purposes of preparing these financial statements and therefore, the security deposit is not restated.

c) Financial assets held for trading

Financial assets held at fair value with adjustments going through the profit and loss account are considered to be all those assets held for trading that are acquired with the intention of being sold in the short-term or which form part of an identified securities portfolio that is jointly managed to obtain profit in the short-term, as well as financial assets designated by the Company at initial recognition to be included under this category as it provides more relevant information. This category includes derivative instruments that have not been designated as hedging instruments (Note 7).

These assets are valued, both initially and subsequently, at fair value and any changes affecting this value are taken to the income statement for the year. Any transaction costs that are directly attributable are recognised in the income statement.

3.6 Financial liabilities

a) Borrowings and payables

This category includes borrowings originating from the acquisition of assets during the Company's course of business and non-trade payables. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

These payables are initially recognised in the balance sheet at fair value which, in the absence of any other evidence, will be the transaction price which equals the fair value of the consideration received plus the directly attributable transaction costs.

After initial recognition, these financial liabilities are stated at their amortised cost using the effective interest rate method. Accrued interest is recorded in the income statement through the application of the effective interest rate method. The effective interest rate is the discount rate that brings the instrument’s carrying amount into line with the expected future flow of payments to the maturity date.

Notwithstanding the above, borrowings for commercial operations maturing within one year, and which do not have a contractual interest rate, which are expected to be paid in the short-term, are measured at their nominal value provided that the effect of not restating flows is not significant.

Where existing liabilities are renegotiated, no substantial modification to financial liabilities is deemed to occur when the new lender is the same party that granted the initial loan and the present value of cash flows pending payments, net of commissions, does not differ by more than 10% with respect to the present value of the cash flows of the original liability, calculated using the same method.

b) Financial liabilities held for trading and other financial liabilities at fair value through changes in profit or loss

Financial liabilities held at fair value with adjustments going through the profit and loss account are considered to be all those liabilities held for trading that are issued with the intention of being required in the short-term or which form part of an identified securities portfolio that is jointly managed to obtain short-term profits, as well as financial liabilities designated by the Company at initial recognition to be included under this category as a result of specific information provided. Derivatives are also classified as held for trading provided that they do not consist of a financial guarantee and have not been designated as hedging instruments. (Note 3.7)

These financial liabilities are measured, both initially and subsequently, at fair value and any changes affecting this value are taken to the income statement for the year. Transaction costs that are directly attributable to such liabilities are recognised in the income statement in the year that they arise.

c) *Cancellation*

The Company eliminates a financial liability when the obligation has been extinguished.

When there is an exchange of debt instruments, provided that they have substantially different terms, the original financial liability is eliminated and the new financial liability is recognized. Similarly, any substantial modification to the existing terms of a financial liability is recognized.

The difference between the book value of the financial liability, or a portion thereof, which has been eliminated and consideration paid, including the attributable transaction costs and where any assigned asset that is different from the assumed asset or liability is recorded, is recognized in the income statement in the year in which this occurs.

When there is an exchange of debt instruments that do not have substantially different terms, the original financial liability is not eliminated from the balance sheet and the amount of any commissions paid will be recorded as an adjustment to the book value. The new amortized cost of the financial liability is calculated by applying the effective interest rate, which makes the book value of the financial liability at the modification date equal to the cash flows payable in accordance with the new terms.

3.7 Financial derivatives and hedge accounting

Financial derivatives are measured, both initially and subsequently, at fair value. The method for recognising the resulting gain or loss depends on whether the derivative has been designated as a hedging instrument or not and, if appropriate, the type of hedge.

The Company designates certain derivatives as:

Cash flow hedges: The effective portion of changes in fair value of the derivatives that are designated and qualify as cash flow hedges is recognised temporarily in equity. It is taken to the income statement in the years in which the projected hedge transaction affects profit and loss, unless the hedge relates to a planned transaction that ends in the recognition of a non-financial asset or liability, in which case the amounts recorded under equity are included in the cost of the asset when acquired or the liability when it is assumed.

Only those transactions that effectively eliminate a risk inherent to the item or position hedged over the entire life of the hedge are designated as hedges, meaning that from the moment the hedge is contracted it is expected to be highly efficient on a prospective basis and that there is sufficient evidence that the hedge has been effective to date with respect to the hedged item or position (retroactive efficiency).

In the case of derivatives that do not qualify for hedge accounting, gains or losses in their fair value are immediately recognized in the income statement.

This category records the derivatives obtained to hedge fluctuations in interest rates applied to bank borrowings and changes in the inflation rate.

The Company contracted hedges for variable rate loans received (Note 8) and obtained cash flow hedges for changes in the consumer price index to be applied to the operating lease for the Banco Santander branch offices (Note 7). However on 5 June 2015 the Company terminated all interest rate hedges and the inflation rate contract held as part of the refinancing operation in which the syndicated loan was cancelled (Note 7 and Note 12.3).

3.8 Non-current assets held for sale and discontinued operations

a) Non-current assets held for sale

Non-current assets (or groups of items available for sale) are classified as held for sale when it is considered that fair value will be recovered through a sale instead of through continued use. This condition is only met when the sale is highly probable, the asset is available for immediate sale in its current condition and the sale is expected to be completed within one year after the classification date. These assets are presented at the lower of their book value and fair value, less the costs necessary for disposal and are not subject to depreciation.

b) Discontinued operations

Discontinued operations consist of any component of the Company that has been sold or otherwise disposed of or has been classified as held for sale and represents a line of business or significant geographic area of operation, forms part of an individual plan or is a subsidiary acquired exclusively for the purposes of resale. The profit or loss generated by discontinued operations is presented in a single specific line in the income statement, net of taxes.

3.9 Cash and cash equivalents

This heading includes petty cash, bank accounts, deposits and assets acquired under repurchase agreements that meet all of the following requirements:

- They are convertible into cash.
- At the time of acquisition the maturity date did not exceed three months.
- They are not subject to any significant risk of any change in value.
- They form part of the Company's normal cash management policy.

For the purposes of the cash flow statement, occasional overdrafts that form part of the Company's cash management are included as a reduction of cash and cash equivalents.

3.10 Equity

Share capital consists of ordinary shares.

The cost of issuing new shares or options is charged directly against equity, as a reduction in reserves.

3.11 Provisions and contingent liabilities

Provisions are recognized in the balance sheet when the Company has a present obligation (either from a legal or contractual provision or an implicit or tacit obligation) deriving from past events, and it is likely that a quantifiable outflow of resources will take place to settle the obligation.

Provisions are stated at the present value of the best possible estimate of the amount necessary to cancel or transfer the obligation to a third party and recognizing those adjustments that arise from the restatement of those provisions as a financial expense as they accrue. When involving provisions that fall due in one year or less, and the financial effect is not significant, no discount is necessary. The provisions are reviewed at each balance sheet closing date and are adjusted with the objective to reflect the best current estimate of the liability concerned at any given moment.

Contingent liabilities are considered to be those possible obligations arising as a result of past events, the materialization of which is subject to the condition that future events take place that are not entirely under the Company's control, and those present obligations arising as a result of past events that are not likely to give rise to an outflow of resources at settlement or which cannot be evaluated with sufficiently reliable. These liabilities are not recorded in the accounts but are detailed in the notes to the accounts, except when the outflow of resources is considered to be remote.

3.12 Current and deferred taxes

Corporate income tax expense and income consists of the expense or revenue deriving from current taxes and a portion of deferred tax expense or revenue. Current tax is the amount that the Company pays as a result of the tax returns it files each year for corporate income tax purposes. Deductions and other tax benefits applicable to tax payable, excluding withholdings and interim payments, and tax loss carry forwards applied in the current year, result in a reduction in current tax.

Deferred tax expense and income relates to the recognition and cancellation of deferred tax assets and liabilities. These include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carry-forwards. These amounts are recorded by applying the timing difference or credit relating to the tax rate at which they are expected to be recovered or settled.

Deferred tax liabilities for all taxable timing differences are recognised, except those deriving from initial recognition of goodwill or other assets and liabilities in a transaction that does not affect taxable or book results and is not a business combination.

Deferred tax assets are recognised to the extent that it is considered probable that the Company will have taxable profits in the future against which the deferred tax assets can be utilised.

Deferred tax assets and liabilities deriving from transactions involving direct charges or credits to equity are also recorded under equity.

The Company is included in the SOCIMI regime by virtue of the notification given by the Sole Shareholder on 23 September 2013, effective 1 January 2013, to the Spanish tax authorities of its decision to apply that regime.

By virtue of Law 11/2009 (26 October), which regulates Listed Real Estate Market Investment Companies, those entities that choose to apply the special tax regime established by that Law are subject to 0% corporate income tax. In the event that tax-loss carry-forwards are generated, Article 25 of the Corporate Income Tax Act, approved by Legislative Royal Decree 4/2004 (5 March) will not be applicable. Accordingly, the deduction and credit system established by Chapters II, III and IV of that Law will not be applicable. All matters not covered by Law 11/2009 will be subject to the provisions of the Corporate Income Tax Act on a supplementary basis.

The company will be subject to a 19% special tax on the full amount of the dividends or shares in profits distributed to shareholders whose stake in the company's share capital is equal to or exceeds 5%, when those dividends are subject to a tax rate of less than 10% at the individual shareholder level. This tax will be considered to be Corporate Income Tax.

3.13 Income and expense

Income and expense are recorded in the income statement on an accruals basis, i.e. in the period in which the income or expense deriving from the goods or services in question is earned or incurred rather than the period in which the cash is actually received or disbursed.

Income from sales and services rendered

The Company leases branch offices to Banco Santander under a lease agreement (Note 5) for which it invoices rent quarterly in advance (Note 15).

Income is recognized when it is likely that the Company will receive the financial benefits and yields deriving from the transaction and the amount of the income and costs incurred, may be reliably measured. Income is stated at the fair value of the compensation received, or to be received, less discounts, reductions in price and other similar benefits that the Company may grant. The indirect taxes levied on transactions and which may be charged to third parties do not form part of income.

Straight-line distribution of rent

As the lease contract provides for a 15% one-off reduction in the quarterly reference rent in the period 2026 to 2028 and a further 12.5% one-off reduction in the period 2031 to 2033 for the Blue and Yellow portfolios, the Company recognises the effect of the straight-line distribution of rent over the contract term under accruals and deferred income (non-current).

Interest received from financial assets

Interest from financial assets accrued after the time of acquisition will be recognised as income in the income statement. Interest is recognised using the effective interest method.

For these purposes, the initial measurement of financial assets is recognized independently based on their maturity and the amount of explicit interest accrued and not accrued at that time. Explicit interest is understood to be that which is obtained by applying the contractual interest rate borne by the financial instrument.

3.14 Related-party transactions

In general, transactions between Group companies are initially recognised at fair value. If applicable, where the agreed price differs from the fair value, the difference is recognised based on the financial reality of the transaction. Subsequent measurement takes place in accordance with applicable standards.

Prices for transactions carried out with related parties are adequately analysed and documented and therefore the Company's Directors consider that there are no risks that could give rise to significant tax liabilities.

3.15 Environmental issues

The costs incurred through the acquisition of systems, equipment and installations whose purpose is the elimination, limitation or control of possible impacts on the normal development of the Company's activities on the environment, which are considered to be an investment in assets.

All other expenses relating to the environment, other than those related to the acquisition of assets, are expensed in the year they accrue.

The Directors consider that given the nature of the activity carried out by the Company the potential impact of environmental contingencies that could arise is low.

4. INFORMATION REGARDING THE NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS

Activities involving financial instruments expose the Company to credit, market and liquidity risk.

4.1 Credit risk

Credit risk arises from the potential losses that may arise from the failure to comply with contractual obligations by the Company's counterparties, i.e. the possibility that financial assets may not be recovered at their carrying value or within the established term.

The directors have performed the appropriate analysis and consider that the credit risk is not significant after measuring the financial instruments.

The maximum exposure to credit risk at 31 December 2016 and 2015 is as follows:

	31 December 2016	**31 December 2015**
Non-current financial investments	23,688,768	23,931,509
Other receivables from public entities	103,356	9,670,620
Trade receivables	2,390,885	4,629,663
Sundry receivables	60,627	-
	26,243,636	**38,231,792**

Operating activities

The possible risk of property lease defaults is insured through a policy that covers the loss of income over two years up to a limit of €10,000,000 plus €2,300,000 for one additional year in respect of 45 principal properties in the portfolio.

Rent is paid on a quarterly basis by Banco Santander within a contractually established 10 day period.

At 31 December 2016 there was no delay and no payment pending by Banco Santander. The lessee's credit rating reduces the possible risk of non-payment.

Investment activities

Non-current financial investments: this category is made up of lease deposits received under the lease to Banco Santander and paid into official landlord deposit schemes run by regional government bodies in Spain amounting to €12,511,304. This sum will be returned once the lease contract is terminated. Additionally, this category includes the account receivable with Banco Santander for branch 100876, and with respect to which the condition precedent signed in clause 2 of the sale-purchase agreement has not been met and under which the Company is entitled to claim repayment of the purchase consideration amounting to €11,177,464.

4.2 Market Risk

Market risk arises from the possible losses that may derive from changes in fair value or in future cash flows from a financial instrument due to changes in market prices. Market risk includes interest rate risk and inflation risk.

Interest rate risk

The Company's exposure to interest rate risk is mainly due to any non-current loans at variable interest rates. On 5 June 2015, the Company repaid the syndicated loan that it had obtained from a consortium of banks at a variable interest rate and obtained a new loan from the company Silverback Finance Limited at a fixed interest rate (Note 12).

The interest rate risk relating to the syndicated loan was mitigated by hedge instruments obtained by the Company (swaps) that covered both the amount and the term of the loans and therefore this risk is eliminated. However on 5 June 2015, these hedge instruments were also cancelled.

The Company maintains a loan from shareholders at a fixed interest rate and therefore there is no risk of any change in interest rate associated with this loan (Note 12.4).

Exchange risk

The Company has no exchange rate risk and only operates in euro.

Inflation risk

The initial lease agreement concluded between Banco Santander and the Company on 23 November 2007 stipulated an annual review of the rent in accordance with the inflation rate plus an additional 2.15% over the first 10 years. This inflation rate was also covered by a financial derivative (swap) at 2.85%, plus 2.15% over the first 10 years, resulting in an annual increase of 5%.

A new addendum to the lease agreement signed in 2007 was concluded on 1 August 2014. As part of this addendum it was agreed that the price index on which the annual rent increase is calculated would be in accordance with the HICP (Harmonised Index of Consumer Prices for the European Union) and excluding the 2.15% additional increase, such change to be applied retroactively from May 2014.

The inflation rate financial derivative was cancelled by the Company on 5 June 2015.

4.3 Liquidity risk

Liquidity risk arises from the possibility that the Company may not have liquid assets, or access to them, of a sufficient amount or at adequate cost, to cover its payment obligations at all times. The Company's objective is to maintain all necessary liquid resources to be able to meet its payment obligations.

The following table shows the cash budget between 31 December 2016 and 31 December 2017 (Million Euro).

Cash at 31 December 2016	**64.7**
Net collection of operating revenues	107.0
Loan interest payment to Silverback	(43.0)
Repayments relating to the capital of the loan from Silverback	(43.8)
Cash dividend payments	(7.3)
Other payments (management fees, legal fees, personnel…)	(2.2)
Cash at the end of the period	**75.4**

5. INVESTMENT PROPERTIES

Investment properties relate to the Company's initial acquisition from Banco Santander, S.A. of 1,152 bank branches throughout Spain on 23 November 2007 for €2,040,000,000, plus the costs directly attributable to the transaction, totalling €44,430,134. Of the total property portfolio initially acquired, 404 assets have been sold. In addition an exchange of 26 branches was completed through which the Company received 10 branches in return. There are a total of 731 branches at 31 December 2016. During 2016 the Company sold 7 former branches.

The loan collateral includes all of the income from 651 branch offices that have been pledged and mortgaged, the income from 40 branch offices that have not been pledged but have been mortgaged as collateral and, finally, the income from 40 branch offices that have not been pledged or mortgaged.

There are currently no fully depreciated assets.

5.1 Movements during the year

The main movements in the accounts included under this heading during 2016 and 2015 are as follows (euro):

<u>Year ended 31 December 2016</u>

	Beginning balance	Additions or allocations	Disposals and reversals	Discontinued operations	Ending balance
<u>Cost</u>					
Land	920,307,106	-	(1,461,052)	-	918,846,054
Buildings	852,693,377	-	(2,587,170)	-	850,106,207
	1,773,000,483	-	(4,048,222)	-	1,768,952,261
<u>Accumulated depreciation</u>					
Buildings	(151,480,639)	(18,274,682)	339,575	-	(169,415,746)
<u>Impairment</u>					
Building	(26,870,282)	(3,200,857)	6,386,562	-	(23,684,577)
Net carrying value	**1,594,649,562**	**(21,475,539)**	**2,677,915**	**-**	**1,575,851,938**

Year ended 31 December 2015

	Beginning balance	Additions or allocations	Disposals and reversals	Discontinued operations	Ending balance
Cost					
Land	890,670,553	-	-	29,636,553	920,307,106
Buildings	867,411,015	-	-	(14,717,638)	852,693,377
	1,758,081,568	-	-	14,918,915	1,773,000,483
Accumulated depreciation					
Buildings	(132,675,209)	(17,836,947)	-	(968,483)	(151,480,639)
Impairment					
Building	(34,848,730)	(10,793,632)	19,444,535	(672,455)	(26,870,282)
Net carrying value	**1,590,557,629**	**(28,630,579)**	**19,444,535**	**13,277,977**	**1,594,649,562**

The Company sold 7 branch offices on an individual basis in 2016 and in so doing derecognized a cost of €4,048,222, accumulated depreciation totalling €339,575 and accumulated impairment amounting to €2,070,658. The net loss on the various sales amounted to €107,989.

On 23 April 2015 the Company sold all the branches that it had reclassified under "Non-current assets held for sale" in 2014, except for 18 branch offices that were subsequently reclassified to "Investment properties".

At the time the properties were acquired, the Company assigned the acquisition value among land, buildings and installations. However, given the low importance of the recoverable value of installations, they were assigned a value of zero.

On 23 November 2016, the Company received notification from Banco Santander of their intention to exercise their break clause in relation to 7 branches, such lease termination being effective 23 November 2017. The Company has recorded an impairment on 31 December 2016 associated with this early termination due to the difference between the vacant value of these branch offices and their carrying value. The impairment recorded during the period ended 31 December 2016 totals €3,200,857 (Note 2.2).

On 15 July 2015, the Company received notification from Banco Santander of their intention to exercise their break clause in relation to 16 branches, effective 23 November 2015. The Company recorded an impairment on 31 December 2015 associated with this early termination due to the difference between the vacant value of these branch offices and their carrying value. The impairment recorded during the period ended 31 December 2015 totals €10,793,632.

On 22 December 2016, the Company exchanged 26 branch offices with Banco Santander who in turn delivered 10 branch offices owned by the bank to the Company. This exchange was undertaken in accordance with the substitution provisions of the lease agreement that is currently in force (Note 5.2).

The substitution took place through the execution of purchase agreements and in one of these agreements the Company signs as the seller of the outgoing 26 offices and in another as the buyer of the incoming 10 offices. The selling price of the outgoing offices totalled €23,120,000 consisting of a debt claim and the purchase price of the incoming offices totalled €23,120,000, offset against the aforementioned debt claim. Although the selling price did not take into consideration the agreement with the lessee, given that the carrying amount is higher at the transaction date due to the lease agreement being taken into consideration, the accounting exchange was performed at the carrying amount of €39,078,039 at the transaction date.

Although from a mercantile point of view the transactions took the form of purchases, for accounting purposes the treatment is that of a non-commercial exchange given that there is no difference between the cash flows from the properties received and the cash flows of the properties delivered. Consequently the assets received have been stated at the carrying amount of the delivered assets.

5.2 Operating lease

On 23 November 2007 the Company signed a lease with Banco Santander for 1,152 branch offices throughout Spain. At 31 December 2016, after the sale of 16 offices in 2011, 2012 and 2013, 381 offices in 2015 and 7 offices in 2016, the lease agreement remains applicable to 638 branches, since 33 offices were released from the lease agreement in 2015.

The operating leases cover urban properties for non-residential use.

The initial mandatory term for the parties is 24, 25 and 26 years, depending on each property and after that the lease may be renewed up to three times for terms of seven years each. In 2010 the Company signed an addendum to the lease agreement with the lessee under which the former increased the break options rights in favour of the lessee and modified the lessee's substitution rights to replace the lease of a certain number of branch offices, under a series of conditions relating to the rent and the fair value of the properties.

On 1 August 2014, the Company signed three further addenda modifying the terms of the lease agreement concluded on 23 November 2007 with Banco Santander, mainly covering the classification of the property portfolio into three types (“Blue”, “Green” and “Yellow”) as the lease expiration date had been modified for all of them (between 2036 and 2047, based on the office and type concerned), together with the extension options for the leases (mainly 1 or 2 seven-year extensions at the request of the lessee). The rent review formula was also modified in accordance with the HICP (consumer price index for the European Union) and the 2.15% annual supplement to the CPI that was applied during the first 10 years was eliminated.

New addenda were concluded on 3 June 2015, where the principal amendment was one that provided a rent floor such that where there is a decline in the HICP resulting in the quarterly rent payable falling below that paid for the quarter August-October 2013, then the lessee will pay the difference. In such cases, this difference paid by the lessee is paid on account of future lease payments. Interest accrues to the lessee on these on account payments and in the event that no offset takes place within five years the outstanding amount may be capitalised at the request of the lessee.

The lease agreement includes a one-off 15% reduction in the quarterly rent of reference between 2026 and 2028 and a further one-off 12.5% reduction between 2031 and 2033 for the “Blue” and “Yellow” portfolios. The rent will be reviewed based on market rents (limited to +-10%) for each extension option. This is applicable to all three portfolios. The Company has recognized the straight-line effect of the rent over the term of the agreement in the heading “Non-current accruals and deferred income” (Note 15).

The lessee pays the rent to the lessor within the first 10 days of each quarter.

Administration, conservation and maintenance expenses, as well as service charges are paid by the lessee, as stipulated in the lease agreement.

The Company contracted an inflation hedge derivative under which it will pay the bank the contractual rent during the first 10 years or it will receive the initial rent increased by 5% per year. This derivative was cancelled on 5 June 2015.

The minimum future payments to be received for the irrevocable operating lease agreements at 31 December 2016 and 2015 are as follows:

Euro	31.12.2016	31.12.2015
Up to one year	107,050,749	106,819,715
Between 1 and 5 years	422,837,776	422,278,451
More than 5 years	1,977,543,082	2,071,115,676
	2,507,431,607	**2,600,213,842**

Taxes

Taxes that are levied on the use of the properties are paid by the lessee. Those levied on the ownership of the property must also be paid by the lessee on behalf of the lessor.

Insurance

The lessee is responsible for insuring the properties and covering certain sums established in the lease agreement.

Purchase option

At the end of each lease term, Banco Santander has an option to acquire the branch offices at the market value prevailing at that time.

The purchase option is independent and supplementary to the lease and has been entered into the Property Registry.

The term is the understood to be the initial term of the lease plus the accumulated term of the renewals established in the contract.

The purchase option has been established free-of-charge. In the event that the option is exercised, the property will be acquired at the prevailing market value at the time the option is exercised.

6. LEASES AND OTHER SIMILAR TRANSACTIONS

The Company has leased its office located at Serrano 21, Madrid, up until 14 November 2017. Subsequently, this lease will automatically renew for two years unless either party (lessor or lessee) terminates the agreement.

The amount of the rent, including expenses, totals €5,500 per month, plus VAT. This amount is currently adjusted on an annual basis in accordance with the inflation rate. No inflation increase was applied in 2016. The minimum future payments to be paid for the irrevocable lease agreement at 31 December 2016 and 2015 are as follows:

Euro	31.12.2016	31.12.2015
Up to one year	60,500	66,000
Between 1 and 5 years	-	60,500
	60,500	**126,500**

7. FINANCIAL DERIVATIVES

The Company uses derivative financial products, mainly to eliminate or significantly reduce the interest rate risks existing in its financial position, as well as inflation risks. These products had been obtained to hedge the interest rate risk relating to mortgage loans obtained on 23 November 2007, as well as to hedge inflation rate change risks affecting the annual rent reviews.

If the terms of the hedging put in place matches the risks being hedged, the hedge is considered to be effective and, therefore, it will be recognized under equity. If the conditions of hedge instruments are not effective, their value will be recognised in the income statement.

The total fair value of hedge derivatives is classified as non-current assets or liabilities if the time remaining to maturity of the risk being hedged is more than 12 months and as current assets or liabilities if the time remaining to maturity of the risk being hedged is less than 12 months.

In 2016 the Company had no interest rate financial swap agreements in place given that all were cancelled in 2015.

During 2015, the Company maintained the following interest financial swaps:

I.R.S. (Interest Rate Swap)								
Bank	**Amount contracted**	**Notional amount at 31/12/14**	**Contract date**	**Effective start date**	**Maturity date**	**Interest rate paid**	**Interest rate received**	**Swap consideration**
Bank of Scotland	420,000,000	420,000,000	05/12/2007	24/11/2014	23/11/2017	4.75%	Euribor 3 months	Hedge (2)
La Caixa	140,000,000	140,000,000	05/12/2007	24/11/2014	23/11/2017	4.75%	Euribor 3 months	Hedge (2)
Societe Generale	140,000,000	140,000,000	05/12/2007	24/11/2014	23/11/2017	4.75%	Euribor 3 months	Hedge (2)
BNP Paribas	180,928,119	180,928,119	29/08/2014	15/11/2014	15/11/2017	0.28%	Euribor 3 months	Hedge (1)
Goldman Sachs	180,928,119	180,928,119	29/08/2014	15/11/2014	15/11/2017	0.28%	Euribor 3 months	Hedge (1)
BNP Paribas	467,150,131	467,150,131	29/08/2014	15/11/2017	15/11/2019	0.86%	Euribor 3 months	Hedge (1)
Goldman Sachs	467,150,131	100,000,000	29/08/2014	15/11/2017	15/11/2019	0.86%	Euribor 3 months	Hedge (1)

1) Senior loan swap hedge.
2) Senior loan swap hedge from 24/11/2014, otherwise considered speculative in nature up until this date.

The Company cancelled all the hedge contracts that it maintained on 5 June 2015 as part of the refinancing transaction through which it repaid the variable interest syndicated loan.

In 2015, the Company transferred financial income totalling €1,630,469 from equity to the income statement and this amount reduced the expense recognised for the derivative settlements paid by the Company totalling €11,923,345.

Additionally, the Company entered into an agreement to hedge the annual rent reviews stipulated in the lease agreement that are based on inflation rates (the consumer price index). The hedge contract date was 22 November 2007, taking effect on 23 November 2007 with maturing on 16 August 2017, all payments under the contract being made on a quarterly basis.

Bank	**Amount contracted**	**Notional amount at 31/12/14**	**Effective start date**	**Maturity date**	**Established amount**
BNP Paribas	25,250,000	25,250,000	23/11/2007	23/11/2017	5.00%

On 5 June 2015, the Company cancelled the inflation rate derivatives that it held at that date. The inflation rate derivative contract was considered to be a hedge until 31 July 2014 and was considered to be speculative after that date. Classifying this item as speculative starting on 1 August 2014 meant

that all payments recognised as an increase in net revenues were from then on recognised as financial income. .

The amount of the inflation settlements that had been recognised as an increase in income totals €0 at 31 December 2015 and the inflation settlements that had been recognised as financial income totalled €3,416,101 at 31 December 2015, while the amount of the valuation recognised under equity that had been transferred to the income statement heading “Financial Income” totals €34,427,482.

Changes in the fair value of derivatives during 2015 were charged against reserves net of the tax effect in the case of the hedge derivatives and against profit and loss in the case of speculative derivatives.

8. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

On 31 December 2014 the Directors decided to reclassify the branch offices included in the so-called “Yellow” portfolio (considered to be a disposable group) as held for sale, given that they had stated the intention of selling them in the short-term. The value of the investment properties assigned to the Yellow portfolio had been recognised in the 2014 annual accounts under the heading “Non-current assets held-for-sale”. Similarly, the security deposits for Yellow branch offices that had been deposited with the appropriate official bodies, the bank borrowings assigned to each Yellow branch office that must be repaid at 120% in the event of a sale and the inflation and interest rate derivatives that would be cancelled if such a sale takes place had all been recognised as “Liabilities associated with non-current assets held for sale” in the 2014 annual accounts.

On 23 April 2015, the Company sold almost all of the branch offices that were included in the Yellow portfolio, consisting of a total of 381 branch offices, for €308,691,519. The carrying amount of the properties sold totalled €257,977,223 at the sale date, which represents a profit of €50,714,296. The Company also repaid the proportional part of the bank borrowings assigned to each branch for which there was an obligation to repay 120% in the event of a sale. It also cancelled the inflation and interest rate derivatives, in proportion to the rent paid on the Yellow branches sold and the debt assigned to them, respectively.

The income statement included the reclassification as Discontinued Operations of all income and expenses associated with the portfolio of branch offices that were classified as held for sale in 2015 in order to maintain comparison criteria.

Profit/(loss) for the year from discontinued operations

Discontinued operations	31/12/2016	31/12/2015
Income	**-**	**6,186,482**
Property lease income	-	5,943,323
Re-invoicing of service charges	-	243,159
Other operating expenses	**-**	**(5,649,091)**
External services	-	(5,649,091)
Impairment and profit/(loss) on disposals of assets and investment properties	**-**	**50,714,296**
OPERATING PROFIT/(LOSS)	**-**	**51,251,687**
Financial income	**-**	**5,146,838**
Financial expense	**-**	**(5,780,290)**
Change in the fair value of financial instruments	**-**	**(985,445)**
FINANCIAL INCOME/(EXPENSE)	**-**	**(1,618,897)**
Corporate income tax	**-**	**(22,643,536)**
Profit/(loss) for the year from discontinued operations	**-**	**26,989,254**

8.2 Statement of cash flows from non-current assets held for sale

	2016	2015
Cash flows from operating activities	-	5,603,280
Cash flows from investing activities	-	308,691,519
Cash flows from financing activities	-	(258,663,145)

9. FINANCIAL ASSETS

9.1 Analysis by Category

The composition of financial assets at 31 December 2016 and 2015, excluding "Cash and cash equivalents", is as follows:

	31 December 2016		31 December 2015	
	Loans, derivatives and other financial assets	Total	Loans, derivatives and other financial assets	Total
Non-current financial assets				
Loans and receivables	23,688,768	23,688,768	23,931,509	23,931,509
	23,688,768	**23,688,768**	**23,931,509**	**23,931,509**
Current financial assets				
Loans and receivables	2,451,512	2,451,512	4,629,663	4,629,663
	2,451,512	**2,451,512**	**4,629,663**	**4,629,663**
	26,140,280	**26,140,280**	**28,561,172**	**28,561,172**

These amounts are broken down in the balance sheet as follows:

	31 December 2016		31 December 2015	
	Loans, derivatives and other financial assets	Total	Loans, derivatives and other financial assets	Total
Non-current financial assets				
Non-current financial investments				
Guarantees provided	12,511,304	12,511,304	12,754,045	12,754,045
Other receivables	11,177,464	11,177,464	11,177,464	11,177,464
	23,688,768	**23,688,768**	**23,931,509**	**23,931,509**

	31 December 2016		31 December 2015	
	Loans, derivatives and other financial assets	Total	Loans, derivatives and other financial assets	Total
Current financial assets				
Trade and other receivables	2,390,885	2,390,885	4,629,663	4,629,663
Trade receivables	60,627	60,627	-	-
	2,451,512	**2,451,512**	**4,629,663**	**4,629,663**
	26,140,280	**26,140,280**	**28,561,172**	**28,561,172**

Guarantees

As stated in Note 3.5, these guarantees are associated with the lease agreements (Note 5) and therefore their maturity is associated with the lease agreements. Movements in 2016 relate to the reimbursement of the guarantees associated with the 7 offices that were sold in 2016.

31 December 2016

	Initial amount	**Acquisitions**	**Disposals**	**Discontinued operations**	**Final amount**
Non-current deposits and guarantees	12,754,045	-	(242,741)	-	12,511,304

31 December 2015

	Initial amount	**Acquisitions**	**Disposals**	**Discontinued operations**	**Final amount**
Non-current deposits and guarantees	12,168,491	516,618	-	68,936	12,754,045

Other non-current receivables

In 2012, the Company reclassified the acquisition cost related to branch office 100876, which totals € 11,177,464 (€ 6,330,051 under buildings and € 4,847,413 under land) as a current receivable, given the fact that Clause 2 of the "Condition Precedent" in the purchase agreement had taken effect by virtue of the conditions established for the transfer of the branch not having been met, as stipulated by the addendum to the agreement signed on 20 November 2012. Under this clause, Banco Santander will be required, upon request by the Company, to refund the amount paid for the branch office in full, and therefore depreciation recognized to date in the amount of € 1,290,448 and the associated impairment of € 631,316 have both been reversed.

On 31 December 2016, the Company recorded the acquisition cost associated with the above branch office to non-current items, given that it does not consider that the collection right will be exercised in less than one year.

Trade and other receivables

The Company recognises €963,460 (€4,626,077 at 31 December 2015) relating to the provision of funds provided to one of its advisors in connection with the cancellation of mortgage guarantees in relation to the syndicated loan, the creation of new mortgage guarantees on the portfolio of branches as part of the refinancing process and for the liquidation of local taxes incurred in relation to the 2015 sale of the “Yellow” portfolio. The Company has also recognised a provision for invoices not yet received for the services rendered by the advisor for the total amounts involved. Once the Company receives the corresponding invoices, it will offset the balances.

In 2016, the Company also recognized the provision of funds to the same advisor in connection with the payment of capital gains and other taxes arising from the office substitutions that took place on 22 December 2016, totalling €1,426,395.

9.2 Analysis by maturity

The amounts of financial asset instruments with a maturity date that is certain or may be determined, classified by year of maturity, are as follows at 31 December 2016:

	2017	2018	2019	2020	2021	Subsequent years	Total
Trade receivables	2,451,512	-	-	-	-	11,177,464	**13,628,976**
Guarantees and deposits	-	-	-	-	-	12,511,304	**12,511,304**
	2,451,512	**-**	**-**	**-**	**-**	**23,688,768**	**26,140,280**

The amounts of financial asset instruments with a maturity date that is certain or may be determined, classified by year of maturity, are as follows at 31 December 2015:

	2016	2017	2018	2019	2020	Subsequent years	Total
Trade receivables	4,629,663	-	-	-	-	11,177,464	**15,807,127**
Guarantees and deposits	-	-	-	-	-	12,754,045	**12,754,045**
	4,629,663	**-**	**-**	**-**	**-**	**23,931,509**	**28,561,172**

10. CASH AND CASH EQUIVALENTS

The breakdown of this category at 31 December 2016 and 2015 is as follows:

	31 December 2016	31 December 2015
On-demand current accounts	64,774,685	85,491,409
	64,774,685	**85,491,409**

The availability of a part of those balances totalling €59,200,483 (€79,127,455 at 31 December 2015) is restricted due to obligations associated with the financing (Note 12).

11. EQUITY

11.1 Equity - Capital and reserves

The composition of capital and reserves is set out below:

a) Share capital

On 8 September 2015, the General Shareholders´ Meeting approved a capital increase of €3,088,158 through the issue of 1,544,079 shares with a par value of €2 each, at a premium of €54.88 per share, amounting to €84,739,055. This increase was fully subscribed through the offset of accounts payable deriving from the distribution of dividends against profits for 2014 (Note 11.1.c).

Additionally, trading of the shares issued as a result of the Company´s share capital increase was approved, such trading taking place on the Alternative Stock Market.

On 30 July 2016, the General Shareholders´ Meeting approved a further capital increase of €715,326 through the issue of 357,663 shares with a par value of €2 each, at a premium of €41.91 per share, amounting to €14,991,014. This increase was fully subscribed through the offset of accounts payable deriving from the distribution of dividends against profits for 2015 profits (Note 11.1.c).

At 31 December 2016 share capital totals €8,997,504 (€8,282,178 at 31 December 2015), represented by 4,498,752 fully subscribed and paid up shares with a par value of €2 each. All the shares carry the same voting and financial rights.

At 31 December 2016, shareholders with a stake of 10% or more are as follows:

Company	Number of shares	Share Value	Authorized share Capital	Stake
Ziloti Holding	3,809,096	2	7,618,192	84.67%
Banco Santander	673,195	2	1,346,390	14.96%
TOTAL	**4,482,291**		**8,964,582**	**99.63%**

As stipulated by Article 5 of Law 11/2009 (26 October), which regulates Listed Real Estate Market Investment Companies, companies that are regulated by the aforementioned legislation must have a minimum of €5 million in share capital. At 31 December 2016, share capital totals €8,997,504, which complies with the requirement for applying this special tax regime.

b) Share premium

The share premium at 31 December 2016 totals €417,179,285 (€402,188,271 at 31 December 2015), which was generated during 2010, 2012, 2014, 2015 and 2016.

During 2015, the Company carried out a capital increase to offset payables deriving from the payment for 2014 dividend, which included a share premium totalling €84,739,055.

During 2016, the Company carried out a capital increase to offset payables deriving from the payment for 2015 dividend, which included a share premium totalling €14,991,014 (Note 11.1.a).

c) Dividends

The breakdown of profits to be presented at the General Shareholder´s Meeting is as follows:

	2016	2015
Available for distribution		
Profit and loss	15,807,566	67,721,754
Distribution		
To Legal Reserve	143,065	617,632
To Voluntary Reserve	3,018,448	12,926,719
To Dividends	12,646,053	54,177,403

With respect to the dividend approved on 30 June 2015 by the General Shareholder´s Meeting amounting to €154,327,171 for 2014, the Company´s two main shareholders agreed to receive 57.2% of their dividend amount in the form of promissory notes on demand, i.e., an amount of €87,827,303. On 8 September 2015, the Company carried out a capital increase through the offset of such payables.

With respect to the dividend approved on 30 June 2016 by the General Shareholder´s Meeting amounting to €54,177,370 for 2015, the Company´s two shareholders agreed to receive 43.6% of their dividend amount in the form of promissory notes on demand, i.e., an amount of €15,706,340. On 30 July 2016, the Company carried out a capital increase through the offset of such payables.

On 5 December 2016, the Company approved an interim dividend for 2016 totalling €5,500,000.

d) Reserves and profit and loss account brought forward

The breakdown of movements in items making up reserves and prior years losses brought forward is as follows:

<u>Year ended 31 December 2016</u>

	31.12.2015	**Distribution of results**	**Adjustments due to errors (Note 11.1.e)**	**31.12.2016**
Legal Reserve	1,038,804	617,632	-	1,656,436
Voluntary reserves	236,115,320	12,926,719	(5,720,000)	243,322,039
Prior-year losses	(508,367,733)	-	-	(508,367,733)
	(271,213,609)	**13,544,351**	**(5,720,000)**	**(263,389,258)**

e) Other shareholder contributions

The amount recognized under “Other shareholder contributions” in the statement of changes in equity relates to the fair value of incentives granted to Company management by some shareholders of Ziloti Holding S.A. granted in contracts signed on 22 September 2015, the date on which it was confirmed that all of the conditions for such incentives to vest had been met. The calculation was made at the fair value at that time.

The fact that the vesting conditions were met in 2015 means that this should have given rise to personnel expenses in the amount of the estimated fair value during the 2015 financial year. Nonetheless the Company has recorded a reduction of voluntary reserves at 31 December 2016.

11.2 Equity – Application and Distribution of profits

a) *<u>Restrictions on dividend distribution</u>*

The Company is under an obligation to transfer 10% of the profit for each year to a legal reserve, until such reserve is equivalent to at least 20% of share capital. Until this reserve exceeds 20% of share capital it cannot be distributed to shareholders.

Once all amounts established by Law or the bylaws have been covered, dividends may only be distributed out of profits for the year or out of freely available reserves if equity is not, or will not, fall below share capital as a result of the distribution. For these purposes, profits taken directly to equity may not be directly or indirectly distributed. If there are prior-year losses that cause the Company's equity to be lower than the share capital figure, profits must first be used to offset those losses.

b) *Mandatory distribution of dividends*

Thanks to the application of the SOCIMI regime and, as stated in Article 29 of its By-laws, the Company is obliged to distribute dividends to its shareholders, once all applicable commercial obligations have been met. In accordance with Article 6 of Law 11/2009 (26 October), which regulates Listed Real Estate Market Investment Companies (SOCIMI), the Company must in general terms distribute 80% of the profit obtained every year.

12. FINANCIAL LIABILITIES

12.1 Analysis by Category

Financial liabilities at 31 December 2016 and 2015 are analysed below:

31 December 2016

	Derivatives and other	Total
Non-current financial liabilities		
Borrowings and payables	1,218,817,600	1,218,817,660
Group loans	196,283,811	196,283,811
	1,415,101,471	**1,415,101,471**
Current financial liabilities		
Borrowings and payables	56,096,888	56,096,889
	56,096,888	**56,096,889**
	1,471,198,359	**1,471,198,359**

31 December 2015

	Derivatives and other	Total
Non-current financial liabilities		
Borrowings and payables	1,264,070,844	1,264,070,844
Group loans	176,400,000	176,400,000
	1,440,470,844	**1,440,470,844**
Current financial liabilities		
Borrowings and payables	52,347,811	52,347,811
	52,347,811	**52,347,811**
	1,492,818,655	**1,492,818,655**

These amounts are broken down in the balance sheet as follows:

	31.12.2016	31.12.2015
Non-current financial liabilities		
Guarantee deposits received (Note 12.5)	14,155,334	14,325,993
Non-current payables to group companies and associates (Note 12.5)	196,283,811	176,400,000
Borrowings from third parties (Note 12.4)	1,204,662,326	1,249,744,851
	1,415,101,471	1,440,470,844
Current financial liabilities		
Trade and other payables	1,341,289	4,927,209
Borrowings from third parties (Note 12.4)	54,755,599	47,420,602
	56,096,888	52,347,811
	1,471,198,359	**1,492,818,655**

12.2 Analysis by maturity date

The maturity dates for financial liabilities at 31 December 2016 are as follows:

						Financial liabilities	
	2017	**2018**	**2019**	**2020**	**2021**	**Subsequent years**	**Total**
Payables to third parties	54,755,599	45,965,117	48,351,747	50,999,500	54,822,922	1,004,523,040	**1,259,417,925**
Guarantees received	-	-	-	-	-	14,155,334	**14,155,334**
Payables to group companies	-	-	-	-	-	196,283,811	**196,283,811**
Trade and other payables	1,341,289	-	-	-	-	-	**1,341,289**
	56,096,888	**45,965,117**	**48,351,747**	**50,999,500**	**54,822,922**	**1,214,962,185**	**1,471,198,359**

The maturity dates for financial liabilities at 31 December 2015 are as follows:

						Financial liabilities	
	2016	**2017**	**2018**	**2019**	**2020**	**Subsequent years**	**Total**
Payables to third parties	47,420,602	43,810,624	45,965,117	48,351,747	50,999,500	1,060,617,863	**1,297,165,453**
Payables to group companies	-	-	-	-	-	176,400,000	**176,400,000**
Guarantees received	-	-	-	-	-	14,325,993	**14,325,993**
Trade and other payables	4,927,209	-	-	-	-	-	**4,927,209**
	52,347,811	**43,810,624**	**45,965,117**	**48,351,747**	**50,999,500**	**1,251,343,856**	**1,492,818,655**

In accordance with Law 25/2010 and the ICAC Resolution dated 29 January 2016, the information on average payment periods for suppliers on trade operations at 31 December 2016 is as follows:

	2016 **Days**	**2015** **Days**
Average payment period for suppliers	28	30
Ratio of transactions paid	30	30
Ratio of transactions pending payment	15	15
Total payments made	1,922,019	8,297,905
Total payments pending	251,174	193,812

12.3 Bank borrowings

On 31 July 2014, the Company completed the syndicated loan refinancing process through the signing of a novation contract for the senior loan financing agreement totalling €1,424,488,000. This refinancing gave rise to the renewal of the senior syndicated loan until 22 November 2019. The interest rate was Euribor plus 3% between 31 July 2014 and November 2017 increasing subsequently to 4% over Euribor until the end of the agreement in November 2019. Interest was payable every quarter on 15 February, 15 May, 15 August and 15 November, or the next business day in each period.

In addition, the Company included the option of extending the term of the contract for a further year to take maturity to November 2020, such option being subject to an increased rate of 5% over Euribor. In accordance with the novation contract the amount borrowed will be repaid at the contract maturity date, although the Company has the obligation to make early repayments each year using any cash surplus resulting from deducting operating expenses from the annual rent received.

This financing accrued interest totalling €20,476,488 in 2015.

On 5 June 2015, the Company repaid the syndicated loan.

12.4 Payables to third parties

On 5 June 2015, the company Silverback Finance Limited signed a loan agreement with the Company for the amount of €1,344,800,000, such facility replacing the refinanced syndicated loan.

In accordance with the terms of the agreement, the loan terms are as follows:

a) Loan Tranche A1 totalling €867,900,000, with a fixed interest rate of 3.1261% and falling due on 20 February 2037. Repayments commenced at the time the loan was granted.
b) Loan Tranche A2 totalling €476,900,000, with a fixed interest rate of 3.7529% and falling due on 20 May 2039. The agreement included a grace period on repayments until 20 May 2025.

Interest is payable every quarter on 20 February, 20 May, 20 August and 20 November.

The loan collateral includes all of the income from 651 branch offices that have been pledged and mortgaged, the income from 40 branch offices that have not been pledged but have been mortgaged as collateral and, finally, the income from 40 branch offices that have not been pledged or mortgaged.

The nominal amount of the loan totals €1,297,008,549 at 31 December 2016 (€1,338,833,740 at 31 December 2015) and the carrying amount at the amortized cost of this loan at 31 December 2016 is €1,259,417,925 (€1,297,165,453 and 31 December 2015), including accrued outstanding interest totalling €5,512,391 (€5,595,411 at 31 December 2015).

12.5 Other non-current financial liabilities

Guarantees received

The Company received from its lessee two months´ rent for each branch office leased by way of a guarantee deposit covering compliance of the obligations established in the lease contract. At 31 December 2016, deposits delivered under leases amounted to €14,155,334 (€14,325,993 at 31 December 2015). During the year ended 31 December 2016, a number of guarantee deposits were returned in connection with the 7 branch offices that were sold in 2016 (Note 5).

Non-current payables to Group companies and associates

At 31 July 2014, the Company contracted a debt with its shareholders Ziloti Holding and Banco Santander totalling € 127,500,000 and € 22,500,000, respectively, due to a lack of liquidity available to meet the payment of the share premium totalling €150,000,000.

This debt generates 12% interest that will be capitalized annually on 31 July and repaid to shareholders at the maturity date, i.e. 2039.

On 30 September 2016 an addendum was signed that modifies the terms of the loan. In accordance with the new terms there is now an annual limit on the nominal accrual of interest in the amount of €60,000,000, and thus the accrued interest is the lower of €60,000,000 and the result of applying the 12% annual rate on the outstanding balance. The modification also allows the payment of all or part of the interest in cash on a voluntary basis every 31 July in lieu of its capitalization and the partial or full payment of the principal on the tenth anniversary of the signing of the loan in July 2014, albeit subject to the approval of the bond trustee. Based on the estimate of the new projected cash flows, the Company considers that as of the date of the addendum the effective fixed interest rate on this loan will be approximately 9.27%.

Given that the present value of the cash flows under the terms of the new loan differ by more than 10% from the cash flows resulting from the former loan agreement, the initial loan was removed from the accounts and the new one registered in accordance with the terms described above for an initial amount of €191,923,200, equivalent to the amount owed up until the date of the addendum. Given that there were no origination costs, there was no impact on the income statement as a result of the cancellation of the initial loan.

The amount owed totals €196,283,811 at 31 December 2016 and interest totalling €19,883,811 was generated during the year. In 2015, accrued interest totalled €18,900,000.

13. TAX SITUATION

A breakdown of the tax assets and liabilities included in this category at 31 December 2016 and 2015 is as follows:

	31 December 2016	31 December 2015
Other receivables from public entities		
Corporate income tax payments	-	9,508,344
VAT to be offset	102,836	162,276
Other	520	-
	103,356	**9,670,620**
Other payables to public administrations		
Corporate income tax on the sale of the “Yellow” portfolio	-	23,217,671
VAT payable	74,111	127,915
IGIC payable	77,501	78,036
IPSI payable	1,691	871
Personal income tax withholdings payable	176,674	11,292
Social Security	2,856	2,808
Other items payable	1,342,525	539,535
	1,675,359	**23,978,128**

The amount under “Other items” recorded at 31 December 2016 relates to the capital gains and stamp duty pending payment as a result of the substitution of offices that took place on 22 December 2016.

In accordance with current legislation, tax returns cannot be deemed definitive until verified by tax authorities or until becoming statute-barred, currently established at four years.

13.1 Calculation of corporate income tax

Corporate income tax is calculated based on the economic or accounting results, obtained on the application of generally accepted accounting principles, which do not necessarily agree with the tax results, understood as the tax base.

In 2012 Royal Decree Law 12/2012 (30 March), approved the limitation of the deduction of financial expenses. This measure governs the non-deductibility of financial expenses deriving from debts with group companies when the funds have been used to:

- ✓ Acquire shares in any company from other group companies.
- ✓ Make contributions to the share capital or equity of other group companies.
- ✓ Net financial expenses exceeding one million euro are not deductible when they exceed 30% of operating profits.

The permanent differences established in the table below are those generated in this respect.

Reporting requirements for SOCIMI companies in accordance with Law 11/2009

The Company formed part of the special tax scheme on 23 September 2013, with retroactive effect as of 1 January 2013, and, in accordance with Law 11/2009 (Note 3.11), it will be taxed at the rate of 0% for corporate income tax purposes, except where minimum holding periods for assets are not met.

By virtue of Law 11/2009 (26 October), regulating Listed Real Estate Market Investment Companies on the property market, entities which choose to apply the special tax regime envisaged in this Law pay tax at a 0% rate for Corporate Income Tax. For tax losses, Article 25 of the restated version of the Corporate Income Tax Law approved by Royal Legislative Royal Decree 4/2004 (5 March) is not applicable. The tax rebates and deductions established in Chapters II, III and IV of this legislation may not be applicable. For anything not envisaged in Law 11/2009, the restated version of the Corporate Income Tax Law will be applicable on a secondary basis.

The Company will be subject to a special 19% tax on the full amount of the dividends or shares of profits distributed to the shareholders with interest in the share capital of the entity which is equal to or higher than 5%, when such dividends are tax exempt or taxed at a rate below 10% in the tax domicile of the shareholder. This will be classified as corporate income tax payable.

The reconciliation of book profit before taxes and the 2016 corporate income tax base is set out below:

2016:

	Increases	Decreases	Total
Income/expense for the year before taxes			**15,912,471**
Permanent differences	**40,081,136**	**(1,254,564)**	**38,826,572**
Temporary differences	**-**	**-**	**-**
Taxable profit			**54,739,043**

As a result of the sale of the "Yellow" portfolio in 2015, the Company failed to comply with the minimum holding period for assets under the SOCIMI regime and therefore the corporate income tax liability for 2013, 2014 and the relevant portion of 2015 was recalculated with regards to the assets sold and combined with the profit generated on the sale, all charged at the appropriate general tax rate.

The calculation of the estimated provision for 2015 is as follows:

	Income statement		
	2013	**2014**	**2015**
Income/expense for the year before taxes	**(9,537,230)**	**42,682,369**	**47,817,192**
Permanent differences	10,955,747	12,721,053	(871,470)
Temporary differences	-	-	-
Offset of prior year tax-loss carry-forwards	(354,629)	(13,850,855)	(11,736,431)
Tax base	**1,063,888**	**41,552,566**	**35,209,292**

When calculating the offset of tax-loss carry-forwards in relation to the Yellow transaction, the Company took into consideration the response to a query addressed to the Directorate General for Taxation and used the net revenues from the entire business, which exceeds €100 million and, therefore, the offset would be limited to 25% of the gross tax payable before the offset. The corporate income tax calculation thus totalled €22,643,536.

The Company also estimated late-payment interest on taxes for 2013 totalling €28,758 and on taxes for 2014 totalling €545,377, respectively.

Corporate income tax expense is obtained by applying the tax rates that are applicable to the respective tax bases. The Company recognised the corporate income tax expense under the heading discontinued operations as it relates relating to the sale of the "Yellow" portfolio. Once the corporate income tax payment for 2015 was made, there was a €104,905 increase in corporate income tax expense, which was recognized in 2016.

As a result of its decision to apply the SOCIMI regime effective 1 January 2013, the Company cancelled all of its deferred tax assets and liabilities that will not be used in accordance with its business plan, although since the business plans used by the Company are based on complex future estimates deriving largely from the lease agreement and the development of the options chosen by the Company, they will be revised and updated on an annual basis.

Tax-loss carry-forwards, after filing the corporate income tax on the sale of the Yellow portfolio that the Company may offset in the future total €393,134,807. Those tax-loss carry-forwards may only be offset in the event that the Company obtains taxable profits from the sale of branch offices before the end of the minimum three-year holding period, in accordance with Law 11/2009, among other situations.

During July 2015, the AEAT reported the initiation of inspection proceedings of corporate income tax for 2010 to 2013 and VAT, withholdings and payments on account of earned income and investment income and withholdings and payments on account of non-residents for the period July 2011 to December 2013. Other years until 31 December 2016 are open to inspection. In the opinion of the Company's Directors, and its tax advisors, no significant tax contingencies are expected to arise from the different interpretations which may be made of the tax legislation applicable to the Company´s operations.

14. INCOME AND EXPENSES

14.1 Revenues

The distribution of revenues from the group's ordinary operations is as follows:

Euro	31.12.2016	31.12.2015
Property lease income (Note 5)	104,182,010	105,326,625
Re-invoicing of service charges	4,675,556	4,505,328
	108,857,566	**109,831,953**

Revenues include the effect of the straight-line distribution of rent, which reduces revenue for 2016 by €3,058,370 (€3,207,891 in 2015).

All revenues for 2016 and 2015 were obtained in Spain.

14.2 Employee benefit expenses

These items break down as follows:

Euro	31.12.2016	31.12.2015
Social Security	27,914	26,721
	27,914	**26,721**

14.3 External services

These items break down as follows:

	31.12.2016	31.12.2015
Leases and royalties (Note 6)	89,305	89,898
Repairs and maintenance	14,611	19,253
Independent professional services	1,359,700	7,010,195
Insurance premiums	48,656	333,678
Banking services	7,681	11,693
Advertising and public relations	-	6,695
Supplies	4,980	5,015
Other services	4,786,475	4,781,061
Other taxes	1,889,885	1,196,678
Other ordinary expenses	-	(34,442)
	8,201,293	**13,419,724**

14.4. Financial income

These items break down as follows:

Euro	**31.12.2016**	**31.12.2015**
Other financial income - Derivatives (Note 7)	-	32,696,745
Other financial income (Notes 7 and 17)	508	830
	508	**32,697,575**

14.5 Financial expense

These items break down as follows:

Euro	**31.12.2016**	**31.12.2015**
Interest payable to group companies (Note 16)	19,883,811	18,900,000
Interest payable to third parties	48,533,973	45,172,410
Senior loan interest (Note 12.3)	-	17,003,676
Interest on Silverback loan (Note 12.4)	48,533,973	28,168,734
Other financial expense - Derivatives (Note 7)	-	8,486,835
Other financial expense	-	823,677
	68,417,784	**73,382,922**

14.6. Change in fair value of financial instruments

The negative change in fair value in 2015 relating to the inflation derivative considered to be speculative since 31 July 2014 totalled €6,260,475. During 2016, the effect has been €0.

15. PREPAYMENTS AND ACCRUED INCOME

Non-current accruals and deferred income

Due to the fact that the lease agreement includes a one-off 15% reduction in the quarterly rent of reference between 2026 and 2028 and a one-off 12.5% reduction between 2031 and 2033 for the "Blue" and "Yellow" portfolios, the Company has recognised the effect of straight-line distribution of the rent under the heading "Accruals and deferred income". The cumulative effect of which at 31 December 2016 reduces rent income by €6,266,261 (€3,207,891 at 31 December 2015).

Current accruals and deferred income

The Company records current prepayments totalling €8,915,183 at 31 December 2016 (€9,389,495 at 31 December 2015) that relate to the deferred portion of the Banco Santander lease agreement for the quarter between 1 November 2016 and 31 January 2017. The accruals have been carried out by calculating the number of days incurred in each year.

16. COMPENSATION AND BALANCES WITH EMPLOYEES AND DIRECTORS

16.1 Personnel structure and senior management compensation

There are three employees at 31 December 2016, two women and one man (2015: two women and one man), whose breakdown by category corresponds to one employee considered as Senior Management, one employee considered as an Intermediate Command and one employee as Administrative.

In 2016, the average number of employees is three (In 2015, the average number of employees was three employees).

The Company has no employees with a disability exceeding 33%.

The Company concluded a Senior Management agreement on 13 November 2014, defined as follows:

- Exercises duties and functions relating to the Company's general objectives. Plans, directs and controls the Company's activities directly or indirectly.

- Carries out duties autonomously and will full responsibility, only limited by the criteria and direct instructions received from the Company's legal owners or other higher governing and administrative bodies that represent those owners.

During 2015, remuneration accrued to the employees considered to be Senior Management amounted to €250,000 (2015: €250,000). Additionally, remuneration in kind has accrued relating to the stock options over shares in Ziloti Holding through the payment of €10,750 in 2015 (Note 11.1.e).

16.2 Shareholdings and positions held, and activities carried out, by members of the Board of Directors in other similar companies.

In order to avoid conflicts of interest with the Company, during the year Directors complied with the obligations established in Article 228 of the Spanish Companies Act 2010. Accordingly, both they and persons associated with them have abstained from entering into the conflicts of interest defined by Article 229 of that law, except in the cases where the appropriate authorization has been obtained.

In 2016 the amount accrued by the members of the Board of Directors totalled €420,000 (2015: €420,000). Additionally, remuneration in kind has accrued relating stock options over shares in Ziloti Holdings through the payment of €36,279 in 2015 (Note 11.1.e).

At 31 December 2016 and 2015, the Company does not record any pension or life insurance obligations relating to previous or current members of the Board of Directors, and has not assumed any obligations with them regarding any guarantees.

17. TRANSACTIONS WITH RELATED PARTIES

The related parties with which the Company has carried out transactions, as well as the nature of that association, in 2016 and 2015 is as follows:

	Nature of the association
Ziloti Holding S.A	Direct parent company
Banco Santander, S.A	Direct parent company
Administrators	Board Members

All transactions with related parties form part of the Company's normal course of business and take place at market prices.

The balance maintained with related parties at 31 December 2016 and 2015 are as follows:

2016	Parent of the group	Direct parent company	Other group companies	Related companies
Non-current loans	-	196,283,811	-	-

2015	Parent of the group	Direct parent company	Other group companies	Related companies
Non-current loans	-	176,400,000	-	-

Transactions with related parties at 31 December 2016 and 2015 are as follows:

2016	Parent of the group	Direct parent company	Other Group companies and associates
Financial expenses	-	19,883,811	-

2015	Parent of the group	Direct parent company	Other Group companies and associates
Financial expenses	-	18,900,000	-

18. OTHER INFORMATION

18.1 Auditors' fees

The audit fees accrued for 2016 by PricewaterhouseCoopers Auditores, S.L. for audit and other verification services totalled €56,700 and €86,630, respectively (€63,000 and €128,250 in 2015, respectively). The fees accruing for services rendered by other companies within the same network as PricewaterhouseCoopers Auditores, S.L. total €0 (€72,600 in 2015).

18.2 Information regarding the environment

The systems, equipment and expenses incurred by the Company to protect and improve the environment are not significant at 31 December 2016 and 2015.

Under the procedures currently implemented, the Company considers that environmental risks are adequately controlled. The Company has not received any environmental grants during the years ended 31 December 2016 and 2015.

18.3 Contingencies

In October 2014, Central Court No. 1 at the National Court signed Preliminary Case No. 78/2014 against the Company and other 64 people based on a complaint of the Fiscal Ministry for alleged crimes against the Public Treasury and money-laundering. The National Court subsequently confirmed a stay in the proceedings and a discontinuance of the action on 15 September 2016 with respect to the Company.

On 19 March 2015, the Company received notification of penalty proceedings by the State Tax Agency due to the existence of a difference between the tax-loss carry-forwards relating to 2012 presented in the corporate income tax return for 2013 and those effectively included in the self-assessment of corporate income tax for 2012. Due to a transcription error the amount included in the corporate income tax self-assessment for 2013 was €48,129,725 higher than the amount considered to be correct.

The notification included a proposed fine totalling €7,219,459, which is 15% of the identified difference. However, a 30% reduction would be applicable if an appeal or claim has not been filed against the regularization from the sanction derives and the settlement has become final.

The State Tax Agency considers that given the fact that the difference was identified through a tax management data verification procedure, instead of being corrected through self-assessments, there could be negligence on the part of the Company.

The Directors consider that there are sufficient arguments to consider that the risk of finally having to make payment of this fine is possible, but not probable. The Company reflected an amount as tax-loss carry-forwards that was erroneously indicated in other accounting documents and therefore it is merely a material transcription error and there is a total absence of intent, which is the subjective element of the violation. Furthermore, due to the fact that the Company is a SOCIMI and applies a 0% corporate income tax rate, it is very likely that it would not be able to apply tax-loss carry-forwards of such an amount. The Company filed an appeal in its defence with the Central Tax and Treasury Court on 20 November 2015.

Given that the fact that a fine is considered to be possible, but not probable, the Company has not recognized any impact whatsoever in its annual accounts that would recognise a liability for the amount claimed by State Tax Agency.

Finally, regarding the break clauses in the operating lease agreement in relation to assets in the "Green" portfolio, as specified in note 2.2 of these annual accounts, the Company will record at "vacant value" the branches which the lessee confirms will be subject to early resolution. Historically, there has been a substantial difference between the fair value of the branches with the lease agreement in place and the value of the same branches when empty, the latter being lower. Management believes that it is not possible to quantify the future effect of the exercise by Banco Santander of the break clauses due to the multiples variables that could affect the calculation, such as the long-term evolution of the fair value of such assets, the number of branch offices which may be affected, etc.

19. REPORTING REQUIREMENTS FOR SOCIMI LAW 11/2009

In compliance with the provisions of Article 11 of Law 11/2009 that regulates listed real estate market investment companies, the following information is set out below:

- At 31 December 2016 there are no reserves deriving from years prior to the application of the tax scheme established by the Law, and there is no need to differentiate the part of income taxed at the general tax rate given that all assets are included under the SOCIMI scheme.

- Due to the application of the SOCIMI regime and, as stated in Article 29 of its By-laws, the company will be obliged to distribute dividends to its shareholders, once the applicable commercial obligations are met, consisting of the profit obtained during the year in accordance with Article 6 of Law 11/2009 (26 October), which regulates Listed Real Estate Market Investment Companies (SOCIMI). In 2015, the Company generated book profits that could be distributed in dividends in the amount of €54,177,403 (Note 11.1.c) as a result of the resolution adopted by shareholders at the general meeting held on 30 June 2016. During 2016, the Company generated an accounting profit which may be distributed through dividends amounting to €15,807,566 (Note 11.1.c).

- The Company has invested at least 80% of its asset value in urban real estate for lease, in accordance with the investment requirements established by Article 3 of the SOCIMI Act. The date the leased real estate was acquired and the details of the transaction is set out in Note 5.

- Of the branch offices that the company acquired in November 2007, at 31 December 2016 it owns 731 offices with an acquisition price of €1,768,952,261 and their carrying amount is € 1,575,851,938. All of these assets fall within the 80% referred to in Article 3.1 of Law 11/2009.

- Share capital was increased to €8,997,504 and therefore complies with the minimum requirement of € 5,000,000.

- The Company started trading on the Alternative Stock Market in March 2015.

20. EVENTS AFTER THE REPORTING PERIOD

On 25 January 2017 and 15 and 16 March 2017, the Company sold three branches whose net book value at 31 December 2016 amounted to € 920,000.

Additionally, there have not been any significant events after the reporting period.

Directors' Report

Company´s evolution

In November 2007 the Company acquired 1,152 properties from Banco Santander pertaining to its branch office network.

Simultaneously, the Company and Banco Santander concluded a lease agreement containing a purchase option at a market price for the lessee (Banco Santander) in relation to each of the acquired properties. The initial term of the agreement is mandatory for both parties and lasts for 24, 25 or 26 years, depending on the asset concerned. After that period the lessee may extend the lease for a maximum of 3 extensions for a seven-year period each. Maintaining this lease agreement is the Company's primary activity.

As its main source of financing, the Company obtained two syndicated loans totalling €1,600,000 and €273,100,000 on 15 November 2007 from a consortium of financial institutions led by BNP. The Company also obtained a participating loan totalling €210,800,000 from its single shareholder, Sant Midco Holdings, B.V.

Simultaneously, the Company contracted a series of derivative financial products in order to eliminate any fluctuation in interest (Euribor) and inflation rates. Thanks to these financial derivatives, the Company eliminated the risk of possible changes in its main income account (rent payments) and expenses (financial expenses).

In 2012, the Company predicted the possibility that it might not be able to comply with some of its obligations at the maturity date of the senior and mezzanine loans in November 2014. That, together with (a) the state of the real estate market and the lack of liquidity in the banking system at that time (ii) the restriction of the tax deductibility of financial expenses from corporate income tax introduced by Royal Decree - Law 12/2012 (30 March) and (iii) the risk that as a result of the impairment of the real estate assets recorded in prior years due to the economic recession and, in particular, the recession in the real estate market, the Company may not be able to comply with certain obligations relating to its debt (established in the financing agreements), led the Company to take the action necessary to design and implement a refinancing strategy and the reorganization of its capital and financial structure together with advisors and financial creditors.

In December 2012 Uro's then sole shareholder, Sant Midco, capitalized the participating loan that it had granted the Company in 2007 (mentioned previously) and in September 2013 it decided that effective 1 January 2013, the Company would apply the special regime for Listed Real Estate Investment Companies (SOCIMI), regulated by the SOCIMI Act.

Within the framework of the aforementioned negotiations, Uro´s the sole shareholder, Sant Midco, and financial creditors deemed it advisable to implement a new, more conservative capital and financial structure for the Company that required the creditors to become shareholders (direct and indirect) of Uro. In this respect and within the framework of the negotiations, on 4 November 2013 the company Ziloti Holding S.àr.l., currently Ziloti Holding, S.A. (“Ziloti”) was incorporated, and one of the then indirect shareholders of Uro acquired all of its share capital on that date through the company Atisha Holding S.àr.l. (“Atisha”). The entry of financial creditors into the share capital of Ziloti (and indirectly in Uro) took place later.

On 15 May 2014, Uro reached a framework for a refinancing, the implementation of which took place between the end of July and beginning of August 2014.

The restructuring accelerated the senior debt, led to the sale of Uro's equity for a nominal value of €1 and the reduction of the financial burden by approximately €446 million, which was capitalized and restored Uro's financial balance.

Within the context of the refinancing, on 31 July 2014 Banco Santander acquired a direct stake of 15% in Uro's share capital in exchange for a part of its stake in Ziloti. As a result, the total shareholding (direct and indirect) held by Banco Santander in Uro rose to 24%.

On 31 July 2014, and as a result of the implementation of the transactions described above, among others, the terms of the financial debt were novated (senior loan granted in 2007 in the amount of € 1,600 million), and therefore Uro's financial debt was established at € 1,424 million. The decrease experienced by the senior loan (from €1,600 million in 2007 to €1,424 million in July 2014), is the result of the repayments of principal carried out in those years.

Within the framework of the implementation of Uro's financial restructuring strategy, on 1 August 2014 the Company´s lease agreement with Banco Santander was novated.

On 27 October 2014, Uro's shareholders, held a Universal Extraordinary Meeting and adopted the resolutions necessary to change the name of the company to its current name Uro Property Holdings SOCIMI, S.A.

On 27 December 2014, the Company's shareholders held a Universal Extraordinary Meeting and adopted the resolutions necessary to transform it into a public limited liability company.

In March 2015 the Company was listed on the Alternative Stock Market as it complied with all of the requirements established by Articles 4 and 5 of Law 11/2009 (26 October) that regulates Listed Real Estate Market Investment Companies ("SOCIMI").

On 23 April 2015, the Company formalised the sale of 381 of its offices in the Yellow portfolio to investors represented by AXA Real Estate. The assets sold represent approximately 15% of the value of Uro's portfolio. The sale totalled €308 million, which was a 10% premium over the appraisal of these assets carried out by CBRE.

On 5 June 2015, the Company concluded a loan agreement with Silverback Finance Limited under which the latter lends Uro all of the funds obtained through a bond issue.

The loan is for a total of €1,344.80 million for a term of 24 years, divided into two tranches amounting to €867.9 million and €476.9 million, which accrue fixed interest at 3.1261% and 3.7529%, respectively.

Uro used the amount from the loan primarily to repay its preceding syndicated loan and its interest rate and inflation derivatives, as well as to pay the costs associated with the transaction.

The repayment of the syndicated loan also included the cancellation of all of the collateral existing for that financing and new collateral agreements were concluded with respect to the new financing, including the mortgage on most of the properties, the pledging of rights to lease income and encumbrances of bank accounts.

At 31 December 2016, Uro has assets with a value of approximately €112 million outside of the financing. The amount of the assets outside of the financing will grow as Banco Santander releases branch offices as is stipulated in the lease agreement.

During 2016, 7 of the 40 offices that Banco Santander released in November 2015 were sold.

In December 2016, Banco Santander exercised for the first time the substitution right granted by the lease agreement. This transaction involved the acquisition by Uro of 10 large offices and the transfer to Banco Santander of 26 smaller offices.

After the sale of the offices and the substitution transaction, Uro's portfolio consists of 732 assets with a constructed area of more than 340,946 m^2.

Additionally, on 23 November 2016, Banco Santander exercised its break option rights by confirming its intention to terminate the rental contract for 7 branch offices on 23 November 2017.

Risk management

Activities involving financial instruments expose the Company to credit, market and liquidity risk.

Credit risk

Credit risk arises from the potential losses that may arise from the failure to comply with contractual obligations by the Company's counterparties, i.e. the possibility that financial assets may not be recovered at their carrying value or within the established term.

The Directors have performed the appropriate analysis and consider that the credit risk is not significant after measuring the financial instruments.

Operating activities

The possible risk of property lease defaults is insured through a policy that covers the loss of income over two years up to a limit of €10,000,000 plus €2,300,000 for one additional year in respect of 45 principal properties in the portfolio.

Rent is paid on a quarterly basis by Banco Santander within the established 10 day period.

At 31 December 2016 there was no delay and no payment pending by Banco Santander. The lessee's credit rating reduces the possible risk of non-payment.

Investment activities

Non-current financial investments: this category is made up of lease deposits delivered in the autonomous regions under the leases entered into amounting to €12,511,304. This will be returned once the relevant lease contract is terminated. Additionally, this includes the account receivable with Banco Santander for branch 100876, and with respect to which the condition precedent signed in clause 2 of the sale-purchase agreement has not been met and under which the Company is entitled to claim repayment of the purchase costs amounting €11,177,464.

Market risk

Market risk arises from the possible losses that may derive from changes in fair value or in future cash flows from a financial instrument due to changes in market prices. Market risk includes interest rate risk and inflation risk.

Interest rate risk

The Company's exposure to interest rate risk is mainly due to the non-current loans at variable interest rates.

On 5 June 2015, the Company repaid the syndicated load that it had obtained from certain banks at a variable interest rate and obtained a new loan from the company Silverback Finance Limited at a fixed interest rate (Note 12).

The interest rate risk relating to the syndicated loan was mitigated by the hedge instruments obtained by the Company (swaps) that covered both the amount and the term of the loans and therefore this risk is eliminated. On 5 June 2015, the hedge instruments were also cancelled.

The Company maintains a loan from shareholders at a fixed interest rate and therefore there is no risk of any change in the interest rate (Note 12.4).

Exchange risk

The Company has no exchange rate risk and only operates in euro.

Inflation risk

The initial lease agreement concluded between Banco Santander and the Company on 23 November 2007 calls for the annual revision of the rent in accordance with the inflation rate plus an additional 2.15% over the first 10 years. This inflation rate was also covered by a financial derivative (swap) at 2.85%, plus 2.15% over the first 10 years, resulting in an annual increase of 5%.

A new addendum to the lease agreement signed in 2007 was concluded on 1 August 2014. It was also agreed that the price index on which the annual rent increase is calculated would be in accordance with the HICP (Harmonised Index of Consumer Prices) and excluding the 2.15% additional increase, such change to be applied retroactively from May 2014.

The inflation rate financial derivative was cancelled by the Company on 5 June 2015.

Liquidity risk

Liquidity risk arises from the possibility that the Company may not have liquid assets, or access to them, in a sufficient amount or at an adequate cost, to cover its payment obligations at all times. The Company's objective is to maintain all necessary liquid resources to attend to its payment obligations.

The following table shows the cash budget between 31 December 2016 and 31 December 2017 (Million Euro).

Cash at 31 December 2016	**64.7**
Net collection of operating revenues	107.0
Loan interest payment form Silverback	(43.0)
Payments relating to the capital of the loan from Silverback	(43.8)
Cash dividend payments	(7.3)
Other payments (management fees, legal fees, personnel…)	(2.2)
Cash at the end of the period	**75.4**

Risk Management

Activities involving financial instruments expose the Company to credit, market and liquidity risk.

Credit Risk

Credit risk arises from the potential losses that may arise from the failure to comply with contractual obligations by the Company's counterparties, i.e. the possibility that the financial assets may not be recovered at their carrying value or within the established term.

The directors have performed the pertinent analysis and consider that the credit risk is not significant after measuring the financial instruments.

Operating activities

The possible risk of property lease defaults is insured through a policy that covers the loss of income over three years up to a limit of €10,000,000 over the first two years and up to €2,300,000 the third year.

Rent is paid on a quarterly basis by Banco Santander within the established 10 day period.

At 31 December 2016 there was no delay and no payment outstanding from Banco Santander, S.A. The lessee's credit rating reduces the possible risk of non-payment.

Investment activities

Non-current financial investments: this heading consists of the tenant guarantee deposit paid into the various official bodies in the regional governments totalling €12,511,304, the return of which will take place when the lease agreement ends. It also includes a receivable from Banco Santander regarding office 100876 with respect to which the termination condition established in Clause 2 of the purchase agreement has not been met and therefore the Company is entitled to claim the refund of the purchase price totalling €11,177,464.

Market Risk

Market risk arises from the possible losses that may derive from changes in fair value or in future cash flows from a financial instrument due to changes in market prices. Market risk includes interest rate risk and inflation risk.

Interest rate risk

The Company's exposure to interest rate risk is mainly due to the non-current loans at variable interest rates.

The Company repaid the syndicated load that it had obtained from certain financial institutions at a variable interest rate on 5 June 2015 by obtaining a new fixed interest rate loan from the company Silverback Finance Limited (Note 12).

The interest-rate risk on the syndicated loan was mitigated by the hedge instruments obtained by the company (Swaps) that covered both the amount and the term of the loans and therefore eliminated this risk. The hedge instruments were also cancelled on 5 June 2015.

The Company maintains a loan from shareholders at a fixed interest rate and therefore there is no risk of any change in the interest rate (Note 12.4).

Exchange risk

The Company has no exchange rate risk and only operates in euro.

Inflation risk

The initial lease agreement concluded between Banco Santander and the Company on 23 November 2007 calls for the annual revision of the rent in accordance with the inflation rate plus an additional 2.15% over the first 10 years. This inflation rate is also covered by a financial derivative (Swap) at 2.85%, plus 2.15% over the first 10 years, resulting in an annual increase of 5%.

A new addendum to the lease agreement initially concluded in 2007 was signed on 1 August 2014. This modification stipulated, among other things, that retroactively to May 2014 the price index on which the annual rent increase is calculated, in accordance with the HICP (Harmonised Index of Consumer Prices) and excluding the 2.15% additional increase.

The inflation rate financial derivative was cancelled by the Company on 5 June 2015.

Liquidity risk

Liquidity risk arises from the possibility that the Company may not have liquid assets, or access them, in a sufficient amount or at an adequate cost, to cover its payment obligations at all times. The Company's objective is to maintain all necessary liquid resources to attend to its payment obligations.

Research and development activities

The Company has not carried out any research and development activities.

Acquisition of treasury shares

The Company has not acquired any treasury shares during the year.

Employees

The Company has employees in order to perform daily internal management duties.

Event after the reporting period

On 25 January 2017 and 15 and 16 March 2017, the Company sold three branches whose net book value at 31 December 2016 amounted to € 920,000.

Additionally, there have not been any significant events after the reporting period.

PREPARATION OF THE ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2016

In compliance with current commercial legislation, on 28 March 2017 the Directors of Uro Property Holdings SOCIMI, S.A. prepared the Annual Accounts and Directors' Report relating to the year ended 31 December 2016, set out on the accompanying pages 1 through 50.

Madrid, 28 March, 2017

Mr. Carlos Martínez de Campos y Carulla Director	Mr. Simon Blaxland Director
Mr. James Preston Director	Mr. Justo Gómez López Director
Mr. Jonathan Kendall Director	

INFORME SOBRE ESTRUCTURA ORGANIZATIVA
Y SISTEMA DE CONTROL INTERNO DE LA
INFORMACIÓN FINANCIERA

URO
Property Holdings

Índice

1. PRESENTACIÓN DE LA SOCIEDAD.

Uro Property Holdings SOCIMI, S.A., en adelante "URO", es una sociedad española con CIF número A-85206605, constituida, por tiempo indefinido, mediante escritura otorgada ante notario de Madrid el 2 de octubre de 2007, número 1.542 de protocolo; inscrita en el Registro Mercantil de Madrid, al tomo 24.783, folio 216, hoja M-446073, inscripción 1ª.

Con fecha 3 de noviembre de 2014 la Sociedad cambió su denominación social de Samos Servicios y Gestiones, S.L a Uro Property Holdings,S.L, escritura otorgada ante notario de Madrid el 3 de Noviembre de 2014, número 4.271 de protocolo; inscrita en el Registro Mercantil de Madrid, , inscripción 32ª de la hoja social.

Con fecha 17 de Noviembre de 2014 la Sociedad cambió su domicilio social a la C/ Serrano 21, Madrid mediante escritura otorgada ante notario e inscrita en el Registro Mercantil de Madrid.

Con fecha 23 de diciembre de 2014 la Sociedad se transformó en sociedad anónima, mediante escritura otorgada ante notario e inscrita en el Registro Mercantil de Madrid.

Con fecha 25 de septiembre de 2013 la Sociedad se acogió al régimen fiscal especial para SOCIMIs, previsto en la ley de SOCIMIs.

La Sociedad cotiza en el Mercado Alternativo Bursátil, segmento SOCIMI, desde el 9 de marzo de 2015.

La Sociedad tiene por objeto social:

- La adquisición y promoción de bienes inmuebles de naturaleza urbana y su arrendamiento.
- La tenencia de participaciones en el capital de otras SOCIMI o en el de otras entidades que tengan como objeto social principal la adquisición de bienes inmuebles de naturaleza urbana para su arrendamiento.
- La tenencia de acciones o participaciones de Instituciones de Inversión Colectiva Inmobiliaria.

La Sociedad no tiene ninguna sociedad dependiente. Su actividad se limita a la gestión de los 732 inmuebles de que es propietaria, que se hallan arrendados en su gran mayoría a Banco Santander.

La Sociedad cuenta en la actualidad con 2 empleados.

2. ESTRUCTURA DE GOBIERNO

El Consejo de Administración de URO es el responsable final que asegura que la información financiera registrada es legítima, veraz y refleja de manera adecuada los acontecimientos y transacciones llevados a cabo durante el ejercicio. Entre las principales responsabilidades del Consejo de Administración se encuentran las siguientes:

- Elaboración, revisión y formulación de las Cuentas Anuales.
- Diseño, supervisión y mantenimiento del Sistema de Control Interno y, específicamente, de los controles relacionados con la información financiera para prevenir la aparición de posibles irregularidades en la elaboración de las Cuentas Anuales.
- Evitar posibles conflictos de intereses.

El Consejo de Administración de URO se reúne como mínimo trimestralmente.

Dicho Consejo de Administración se encuentra formado por las siguientes personas:

- D. Carlos Martinez de Campos y Carulla– Presidente.
- D. Simon Blaxland –Consejero Delegado.
- D. James Preston - Consejero.
- D. Justo Gómez López–Consejero.
- D. Jonathan Kendall–Consejero.

La Sociedad gestiona internamente la llevanza de los libros diarios, así como de la preparación del paquete de Reporting trimestral que la Sociedad prepara.

URO cuenta con un CEO y un Asset Manager que revisan trimestralmente los cierres de manera minuciosa.

Adicionalmente, se realiza una revisión limitada a mitad de año y una auditoría completa a final de año por parte de una auditora de reconocido prestigio, actualmente, “PwC”.

Asimismo, URO cuenta con una Comisión de Auditoría que asegura que la información financiera una vez se hace pública, es veraz y completa.

Por otro lado, la Sociedad tiene un contrato de asesoramiento financiero con una empresa externa denominada Auro Property Advisors.

3. SISTEMA DE CONTROL DE LA COMPAÑÍA

Los Administradores consideran que el entorno de control de URO es adecuado y adaptado al tamaño de la Compañía.

Los mecanismos de Control Interno y de Gestión de Riesgos relacionados con la información financiera los realiza la Comisión de Auditoría.

Realización de presupuestos:

URO realiza un presupuesto anual en noviembre de cada año.

El presupuesto anual incluye:

- Un presupuesto de ingresos confeccionado por el Asset Manager y revisado por el CEO según los contratos firmados con los clientes en ese período.

- Un presupuesto de gastos de los inmuebles confeccionado por el Asset Manager y revisado por el CEO.

- Un presupuesto de gastos generales (auditoría, contabilidad, coste financiero…) confeccionado por el Asset Manager y revisado por el CEO

- Proyecciones sobre potenciales alquileres y ventas elaborada por el Asset Manager y revisado por el CEO

<u>Controles internos:</u>

URO ha definido una serie de controles internos de cara a asegurar un efectivo control interno del proceso de producción de la información financiera así como del funcionamiento de la Sociedad en su conjunto.

Dichos controles puedes desglosarse en los siguientes:

-Partidas a pagar:

Aproximadamente cada 15 días, el Asset Manager" envía al CEO un listado de facturas recibidas previamente y aprobadas por ellos en base al presupuesto. Dicho listado es discutido con el CEO y entre los 2 aprueban los pagos. Si hubiere algún pago que difiriese con el presupuesto se discute y se aprueba/rechaza en base a su justificación.

-Partidas a cobrar:

Los alquileres se facturan trimestralmente al Banco Santander. Alrededor del día 15 del mes anterior al trimestre en cuestión, el Asset Manager envía al CEO la facturación propuesta para su aprobación y tras revisarlo se le envían las facturas al Banco Santander.

En los diez primeros días de cada trimestre, el Asset Manager comprueba que el Banco Santander haya hecho los pagos correspondientes de ese trimestre y en caso de que haya alguna partida abierta, se establece comunicación inmediata con el inquilino.

-Revisión anual de valoraciones:

URO realiza valoraciones de activos de manera anual. Para ello, URO envía a la sociedad tasadora toda la información necesaria un par de meses antes de la emisión de un borrador de informe. Una vez revisadas si las asunciones de renta y ocupación son correctas a tal fecha, la Sociedad da su aprobación para que la sociedad tasadora emita su informe definitivo.

-Revisión trimestral del Paquete de Reporting:

URO realiza trimestralmente un paquete de reporting. Dicho paquete de reporting se compone de información financiera confeccionada por el **Asset Manager** y revisada por el CEO y los asesores financieros de URO.

-Seguimiento de cumplimiento de covenants:

Una vez el paquete de reporting trimestral está realizado, el Asset Manager realiza un análisis del cálculo de covenants para realizar seguimiento.

-Revisión de los Estados Financieros:

Los estados financieros son elaborados por el Asset Manager. Dichos estados financieros son revisados por el CEO antes de enviárselos a los miembros del Consejo de Administración para su formulación.

Adicionalmente y antes de enviárselos a los miembros del Consejo de Administración, los Estados Financieros son revisados por los auditores, los cuales proponen sus sugerencias, que son debatidas entre el Asset Manager y el CEO para su inclusión. Dichas cuentas son posteriormente revisadas por la Comisión de auditoría.

<u>Reglamento de Conducta</u>:

URO ha aprobado un Reglamento de Conducta en los Mercados de Valores, de conformidad con lo dispuesto en el artículo 225.2 del texto refundido de la Ley del Mercado de Valores y en la Circular 14/2016 del MAB. El objeto de dicho Reglamento es fijar las reglas para la gestión y control de la información privilegiada, la comunicación transparente de la información relevante, la realización de operaciones de autocartera y la detección y tratamiento de los conflictos de interés, imponiendo ciertas obligaciones, limitaciones y prohibiciones a las personas sujetas, todo ello con el fin de tutelar los intereses de los inversores en los valores de la Sociedad y prevenir y evitar cualquier situación de abuso, sin perjuicio de fomentar y facilitar la participación de sus administradores y empleados en el capital de la Sociedad dentro del más estricto respecto a la legalidad vigente.

4. EVALUACIÓN DE RIESGOS

URO, como cualquier otra entidad, está expuesto continuamente a una serie de riesgos procedentes de factores tanto internos como externos. Un riesgo es aquella circunstancia que puede incidir negativamente sobre los objetivos y estrategias de la organización.

Los principales riesgos identificados son:

Valor razonable de las inversiones inmobiliarias

La mejor evidencia del valor razonable de las inversiones inmobiliarias en un mercado activo son los precios de activos similares. En la ausencia de dicha información, la Sociedad o los valoradores independientes contratados a tal efecto determinan el valor razonable mediante un intervalo de valores razonables. En la realización de dicho juicio la Sociedad utiliza una serie de fuentes incluyendo:

i. Precios actuales en un mercado activo de propiedades de diferente naturaleza, condición o localización, ajustados para reflejar las diferencias con los activos propiedad de la Sociedad.

ii. Precios recientes de propiedades en otros mercados menos activos, ajustados para reflejar el cambio en las condiciones económicas desde la fecha de la transacción.

iii. Descuentos de flujos de caja basados en estimaciones derivadas de las condiciones de los contratos de arrendamiento actuales, y si fuera posible, de la evidencia de precios de mercado de propiedades similares en la misma localización, mediante la utilización de tasas de descuento que reflejen la incertidumbre del factor tiempo.

Impuesto sobre beneficios

La Sociedad está acogida al régimen establecido en la Ley 11/2009, de 26 de octubre por la que se regulan las Sociedades Anónimas Cotizadas de Inversión Inmobiliario (SOCIMI), lo que en la práctica supone que bajo el cumplimiento de determinados requisitos la Sociedad está sometida a un tipo impositivo en relación al Impuesto sobre Sociedades del 0%. Los Administradores realizan una monitorización del cumplimiento de los requisitos establecidos en la legislación con el objeto de guardar las ventajas fiscales establecidas en la misma, estimando que dichos requisitos serán cumplidos en los términos y plazos fijados, no procediendo a registrar ningún tipo de resultado derivado del Impuesto sobre Sociedades.

Riesgos operativas

El posible riesgo de impago de arrendamientos de los inmuebles está asegurado mediante una póliza que cubre la pérdida de rentas por un periodo de 3 años con un límite de 10.000.000 euros los dos primeros años y hasta 2.300.000 euros para la tercera anualidad.

Los pagos de las rentas se realizan trimestralmente por parte del Banco Santander dentro de los 10 días establecidos para ello.

A 31 de diciembre de 2016 no ha habido ningún retraso y no hay ningún pago pendiente por parte del Banco Santander. La calidad crediticia del inquilino reduce el posible riesgo de impago del mismo.

5. COMUNICACIÓN DE LA INFORMACIÓN FINANCIERA

Para URO, la información constituye un factor determinante para poder desarrollar sus labores de control interno. Para que dicha información tenga relevancia e influya positivamente en el resto del sistema de control interno de la organización, debe ser fiable y de calidad.

La Sociedad lleva sus libros contables en torno a las normas marcadas en el Plan General Contable.

Las Cuentas Anuales de URO son elaboradas siguiendo el principio de empresa en funcionamiento y conforme a los registros contables, donde se recogen tanto las transacciones como los activos y pasivos surgidos en el ejercicio. Adicionalmente, las cuentas anuales se someten anualmente a auditoría financiera y semestralmente a una revisión limitada llevada a cabo por un auditor de reconocido prestigio y son revisadas por la Comisión de auditoría.

6. ACTIVIDADES DE MONITORIZACIÓN

Las actividades de monitorización y supervisión de las organizaciones tienen como objetivo determinar si los distintos componentes del sistema de control interno de las mismas funcionan correctamente.

El Consejo de Administración de URO mantiene también una posición de supervisión continua en las actividades realizadas, llevando a cabo una revisión de los resultados que se reportan trimestralmente en las reuniones periódicas del Consejo.

El constante contacto con los miembros del Consejo de Administración, así como con el Asesor Registrado permite que la información publicada en la página web, las presentaciones corporativas o financieras, las declaraciones realizadas y el resto de información emitida al Mercado sea consistente y se cumpla con los estándares requeridos por la normativa del MAB.