Haya Real Estate, S.L.U. and Subsidiaries (Haya Group)

Consolidated Financial Statements for the year ended 31 December 2017, prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union (IFRS-EU) and Directors' Report, together with the report of the independent auditor

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 3 and 25). In the event of a discrepancy, the Spanish-language version prevails.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 3 and 26). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Sole Shareholder of Haya Real Estate, S.L.U.,

Opinion

We have audited the consolidated financial statements of Haya Real Estate, S.L.U. (the Parent) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2017, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the consolidated financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

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

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Most Significant Audit Matters

The most significant audit matters are those matters that, in our professional judgement, were considered to be the most significant risks of material misstatement in our audit of the consolidated financial statements of the current period. These risks were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on those risks.

Recoverability of "Other Intangible Assets"

Description

Note 5 describes certain intangible assets subject to amortisation recognised by the Group as a result of various operations performed in previous years and in 2017. In this context, the Group tests each of these intangible assets for impairment at each year-end using discounted cash flow-based valuation techniques, for which purpose it employs cash flow projections derived from estimates of inflows and outflows of assets under management, of the investments required to carry on its business activity and other assumptions contained in its business plan. Also, a discount rate is determined on the basis of the general economic situation and the Group's particular circumstances.

The performance of these estimates requires the application of significant judgments, as described in Note 5 to the accompanying consolidated financial statements. As a result of these circumstances, together with the magnitude of the intangible assets recognised in the consolidated statement of financial situation at year-end, the carrying amount of which amounts to EUR 327 million, this matter was determined to be one of the most significant in our audit.

Procedures applied in the audit

Our audit procedures to address this matter consisted, among others, of obtaining the impairment tests carried out by the Group, verifying the clerical accuracy of the calculations performed, and assessing the reasonableness of the main assumptions considered therein, mainly those relating to future cash flow forecasts and the discount rate.

For this purpose, we analysed whether the estimated cash flows considered in the tests were consistent with the budgets approved by the Board of Directors and the Group and investor's business plan, as well as the Group's operating and economic results in 2017. In addition, we analysed the deviations occurred in prior years and in the present year, with the related projections included in the Group's budget and business plan, in order to validate the estimate process. Regarding the key assumptions considered (such as inflows and outflows of assets under management, average volume servicing fee and average management fee, and gross margins) we performed an independent sensitivity analysis.

We involved our internal valuation experts in order to evaluate, among other things, the methodology employed by the Group in the impairment tests conducted and the reasonability of the discount rate considered together with the risk factor

Recoverability of "Other Intangible Assets"

Description

Procedures applied in the audit

used by the Group in the estimate process.

Lastly, we reviewed whether the disclosures included in Note 6 to the accompanying consolidated financial statements in connection with this matter are in conformity with those required by the applicable accounting regulations.

Recognition of revenue in a context of concentration of transactions

Description

As described in Notes 1 and 16 to the accompanying consolidated financial statements, the Group engages mainly in the exclusive asset management of real estate owned assets and real estate developer loans of four customers who account for substantially all of its revenue and accounts receivable.

The aforementioned management of assets owned by its customers is instrumented through service level agreements (SLAs) that establish the terms and conditions under which the service is provided.

The recognition of this revenue, although not complex, arises from the application to a multitude of transactions with assets owned by the Group's clients, of the various terms and conditions established in the service level agreements entered into with them. As a result of this circumstance, and of the aforementioned concentration of revenue, this matter was an area of significant auditor attention in our audit.

Procedures applied in the audit

Our audit procedures to address this matter included, among others, obtaining confirmation from the four major clients of the revenue billed and recognised in the accompanying consolidated statement of profit or loss relating to volume servicing fees accrued for transactions involving assets managed by the Group in 2017, to asset management fees and to the other commissionable items under the service level agreements entered into with those customers, and of the trade and financial accounts receivable from the clients recognised at year-end.

In addition, substantive analytical procedures were performed which made it possible to assess the reasonableness of the revenue volumes, billed and not yet billed, and of the margins for 2017 with respect to the trends of previous years and to the budget prepared for the current year. Moreover, we carried out tests of details on a sample of transactions managed by the Group, in order to check the accrual basis of the revenue and that the fee applied agrees with the related SLA conditions and terms.

Recognition of revenue in a context of concentration of transactions	
Description	**Procedures applied in the audit**
	Lastly, we evaluated whether the disclosures made in this connection meet the requirements of the regulatory financial reporting framework applicable to the Group (see Notes 4.14 and 16 to the accompanying consolidated financial statements).

Emphasis of Matter

We draw attention to Note 3.3 to the accompanying consolidated financial statements, which indicates that, in preparing the consolidated financial statements for 2017, the Parent's directors have changed an accounting policy in order to provide more reliable and relevant information of the transaction related to the payment made to SAREB in 2014 to obtain the asset management service contract. In that sense, such payment has been treated as an intangible asset consisting of the costs of acquiring the asset management service agreement, in consistency with the accounting treatment given to other similar agreements and transactions entered into by the Group.

In accordance to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, such change in the accounting policy involved the restatement of the information for the years 2016 and 2015 presented for comparative purposes in 2017, being described in note 3.3 to the accompanying consolidated financial statements, the impacts that the change in such accounting policy had on the consolidated financial statements for 2016 and 2015.

Our audit opinion is not modified in respect of this matter.

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2017, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated directors' report. Our responsibility relating to the consolidated directors' report, in accordance with the applicable audit regulations, consists of evaluating and reporting on whether the consolidated directors' report is consistent with the consolidated financial statements, based on our knowledge of the Group obtained in the audit of those consolidated financial statements and excluding any information other than that obtained as evidence during the audit. Also, our responsibility consists of evaluating and reporting on whether the content and presentation of the consolidated directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described in the preceding paragraph, the information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2017 and its content and presentation are in conformity with the applicable regulations.

Responsibilities of the Parent's Directors for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the Group's consolidated equity, consolidated financial position and consolidated results in accordance with EU-IFRSs and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Parent's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

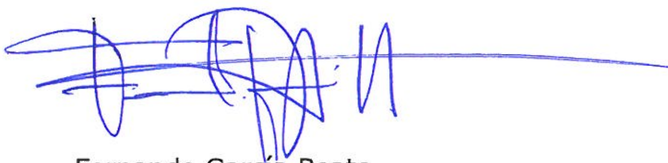
Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is included in the Appendix to this auditor's report. This description, which is on pages 6 and 7, forms part of our auditor's report.

DELOITTE, S.L.
Registered in ROAC under no. S0692



Fernando García Beato
Registered in ROAC under no. 18142

2 April 2018

Appendix to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

As part of an audit in accordance with the audit regulations in force in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's directors.

- Conclude on the appropriateness of the use by the Parent's directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We communicate with the Parent's directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the significant risks communicated with the Parent's directors, we determine those risks that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the most significant assessed risks.

We describe those risks in our auditor's report unless law or regulation precludes public disclosure about the matter.

HAYA REAL ESTATE, S.L.U.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017
(Thousands of euros)

ASSETS	Notes	31/12/2017 (*)	31/12/2016 (*)	31/12/2015 (*)	01/01/2015 (*)
NON-CURRENT ASSETS:					
Intangible assets	**5**	344,878	331,191	395,516	467,873
Property, plant and equipment		1,815	1,605	1,820	1,180
Non-current financial assets	**7**	88,468	376	374	324
Deferred tax assets	**18.6**	10,297	9,336	6,113	3,245
Goodwill	**6**	6,079	6,079	6,079	-
Total non-current assets		**451,537**	**348,587**	**409,902**	**472,622**
CURRENT ASSETS:					
Current financial assets-		174,033	124,884	101,470	131,769
Trade and other receivables	**9**	131,527	69,303	7,504	8,825
Current financial assets	**7**	496	-	18,513	29,966
Cash and cash equivalents	**9**	42,010	55,581	75,453	92,978
Other current assets		326	261	261	211
Total current assets		**174,359**	**125,145**	**101,731**	**131,980**
TOTAL ASSETS		**625,896**	**473,732**	**511,633**	**604,602**
EQUITY:					
Share capital	**10.1**	9,683	9,683	9,683	9,233
Share premium	**10.2**	45,831	51,826	51,826	83,070
Reserves of the Parent	**10.3**	2,118	15,201	767	4,467
Reserves of the subsidiaries	**10.3**	2,201	215	(1,170)	-
Other shareholder contributions	**10.4**	3,900	-	-	-
Profit for the period attributable to the Parent		32,570	31,334	15,819	4,838
Interim dividend	**19**	(14,063)	-	-	-
Equity attributable to the Parent		**82,240**	**108,259**	**76,925**	**101,608**
Total equity		**82,240**	**108,259**	**76,925**	**101,608**
NON-CURRENT LIABILITIES:					
Debts with credit institutions, bonds and other securities	**11**	464,011	201,954	270,253	267,727
Debts with Group companies and associates	**11**	-	59,373	59,345	90,000
Long-term provisions		35	35	294	302
	5	-	-	10,600	-
Deferred income		201	-	306	-
Total non-current liabilities		**464,247**	**261,362**	**340,798**	**358.029**
CURRENT LIABILITIES:					
Debts with credit institutions, bonds and other securities	**11**	21,065	40,247	52,345	53,348
Debts with Group companies and associates	**11**	-	3,781	314	21,899
Other financial liabilities	**5**	6,908	16,503	3,420	13,704
Other current liabilities	**12**	23,204	18,171	14,568	13,356
Short-term provisions		12	500	523	-
Trade payables	**12**	28,220	24,909	22,740	20,160
Total current liabilities		**79,409**	**104,111**	**93,910**	**144,965**
TOTAL EQUITY AND LIABILITIES		**625,896**	**473,732**	**511,633**	**604,602**

(*) Restated figures

The accompanying Notes 1 to 25 are an integral part of the consolidated statement of financial position as at 31 December 2017.

HAYA REAL ESTATE, S.L.U.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017
(Thousands of euros)

	Notes	(Debit)/Credit 2017	2016 (*)	2015 (*)
CONTINUING OPERATIONS:				
Revenue	**15**	256,580	234,246	239,494
Supplies		-	-	(1,532)
Other operating expenses	**16.2**	(63,142)	(54,009)	(68,299)
Personnel expenses	**16.1**	(50,908)	(46,835)	(49,427)
Depreciation and amortisation charge	**4.4 & 5**	(80,494)	(74,095)	(72,231)
Impairment and gains or losses on disposals of non-current assets		(12)	(79)	(7)
Consolidation adjustments	**2**	-	-	910
Operating profit		**62,024**	**59,228**	**48,908**
Finance income		495	84	58
Finance expense		(19,207)	(17,604)	(26,370)
Profit before tax		**43,312**	**41,708**	**22,596**
Income tax	**18.3**	(10,742)	(10,374)	(6,777)
Profit for the period of continuing operations		**32,570**	**31,334**	**15,819**
Profit/(Loss) for the period of discontinued operations	**2**	-	-	-
Profit for the period		**32,570**	**31,334**	**15,819**
Attributable to the Sole Shareholder of the Parent	**17**	32,570	31,334	15,819
Earnings per share				
Basic and diluted (in euros)	**22**	3.36	3.24	1.63

(*) Restated figures

The accompanying Notes 1 to 25 are an integral part of the consolidated statement of profit or loss for the year ended 31 December 2017.

HAYA REAL ESTATE, S.L.U.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

(Thousands of euros)

	Notes	2017	2016 (*)	2015 (*)
PROFIT PER CONSOLIDATED STATEMENT OF PROFIT OR LOSS (I)		**32,570**	**31,334**	**15,819**
Income and expenses recognised directly in equity		-	-	-
TOTAL INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY (II)		**-**	**-**	**-**
Transfers to the consolidated statement of profit or loss		-	-	-
TOTAL TRANSFERS TO CONSOLIDATED PROFIT OR LOSS (III)		**-**	**-**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR (I+II+III)		**32,570**	**31,334**	**15,819**

(*) Restated figures

The accompanying Notes 1 to 25 are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2017.

HAYA REAL ESTATE, S.L.U.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Thousands of euros)

	Share Capital	Share Premium	Reserves of the Parent	Reserves of Subsidiaries	Other shareholder contributions	Profit for the period	Interim dividend	Total Equity
Balance at 1 January 2015	**9,233**	**83,070**	**4,467**	**-**	**-**	**4,838**	**-**	**101,608**
Transactions with partners or owners-								
- Capital increase	450	4,050	-	-	-	-	-	4,500
- Distribution of dividends	-	(35,294)	(9,706)	-	-	-	-	(45,000)
Transfers to retained earnings	-	-	6,008	(1,170)	-	(4,838)	-	-
Income and expenses recognised in 2015	-	-	-	-	-	15,819	-	15,819
Others	-	-	(2)	-	-	-	-	(2)
Balance at 31 December 2015	**9,683**	**51,826**	**767**	**(1,170)**	**-**	**15,819**	**-**	**76,925**
Transfers to retained earnings	-	-	14,346	1,473	-	(15,819)	-	-
Income and expenses recognised in 2016	-	-	-	-	-	31,334	-	31,334
Changes in the scope of consolidation	-	-	88	(88)	-	-	-	-
Balance at 31 December 2016	**9,683**	**51,826**	**15,201**	**215**	**-**	**31,334**	**-**	**108,259**
Transfers to retained earnings	-	-	29,348	1,986	-	(31,334)	-	-
Income and expenses recognised in 2017	-	-	-	-	-	32,570	-	32,570
Dividends paid (Note 10 & 19)	-	(5,995)	(42,431)	-	-	-	(14,063)	(62,489)
Other movements (Notes 10.4 & 16.1)	-	-	-	-	3,900	-	-	3,900
Balance at 31 December 2017	**9,683**	**45,831**	**2,118**	**2,201**	**3,900**	**32,570**	**(14,063)**	**82,240**

(*) Restated figures

The accompanying Notes 1 to 25 are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2017.

HAYA REAL ESTATE, S.L.U.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(Thousands of euros)

	Notes	2017	2016 (*)	2015 (*)
1. CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		43,312	41,708	22,596
Adjustments for:				
Depreciation and amortisation charge (+)	**4.4 & 5**	80,494	74,095	72,231
Provisions (net) (+/-)		(341)	(274)	6,422
Finance income (-)		(495)	(84)	(58)
Finance expense (+)		19,207	17,604	26,370
Impairment and losses on disposals (+)		12	79	7
Other income and expenses	**10.4**	3,900	-	-
		-	-	(910)
Adjusted profit		**146,089**	**133,128**	**126,658**
Income tax paid		**(11,284)**	**(9,102)**	**(9,384)**
Increase/Decrease in current assets and liabilities				
(Increase)/Decrease in current assets		(44,559)	6,095	27,013
Increase/(Decrease) in current liabilities		3,474	1,045	(14,807)
Increase/Decrease in other current assets and liabilities		201	6	(148)
Total net cash flows from operating activities (1)		**93,921**	**131,172**	**129,332**
2. CASH FLOWS FROM INVESTING ACTIVITIES				
Payments due to investment:				
Tangible assets		(845)	(426)	(901)
Business combination	**1**	(85,000)	-	(2,421)
Other intangible assets		(19,167)	(6,786)	(5,053)
Other financial assets		(29)	(31)	(120)
Investments in group companies	**2 & 7**	(91,990)	-	-
Proceeds from disposal:				
Material assets		1	3	16
Other intangible assets	**5**	-	33	6,126
Other financial assets and interest received		40	7,617	2,422
Total net cash flows from investing activities (2)		**(196,990)**	**410**	**69**
3. CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds and payments relating to equity instruments:				
Dividends paid	**10 & 19**	(62,489)	-	(45,000)
Proceeds and payments relating to financial liability instruments:				
Obtaining financing with-				
Credit institutions	**11**	468,920	-	321,139
Other institutions		28	-	-
Repayment of borrowings from-				
Group companies	**11**	(55,473)	-	(53,340)
Related credit institutions	**11**	-	-	(290,225)
Credit institutions	**11**	(246,710)	(83,290)	(52,250)
Interest paid (-)		(15,110)	(11,224)	(24,909)
Total net cash flows from financing activities (3)		**89,166**	**(94,514)**	**(144,585)**
4. Net increase/(decrease) in cash and cash equivalents (1+2+3)		**(13,903)**	**37,068**	**(15,184)**
Cash and cash equivalents at beginning of period		**55,581**	**18,513**	**29,966**
Incorporation in scope of consolidation	**5**	332	-	3,731
Cash and cash equivalents at end of period		**42,010**	**55,581**	**18,513**

(*) Restated figures

The accompanying Notes 1 to 25 are an integral part of the consolidated statement of cash flows for the year ended 31 December 2017.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 3 and 25). In the event of a discrepancy, the Spanish-language version prevails.

Haya Real Estate, S.L.U. and Subsidiaries (Haya Group)

Notes to the consolidated financial statements for the annual period ended 31 December 2017

1. Group activity

Haya Real Estate, S.L.U. (hereinafter, the Parent) was incorporated for an indefinite term on 28 May 2013, and is duly registered in the Mercantile Registry of Madrid in Volume 1547, General, Book 31,153, Folio 10, Section 8, Sheet No. M-560,663, Entry 1 with VAT Registration No. (CIF) B-86744349. The Parent originally commenced trading as Cornalata Servicios y Gestión, S.L., changing its company name to Promontoria Plataforma, S.L.U. on 1 August 2013, once again changing its name to its current one on 21 April 2014. The Parent's registered address is in Calle Vía de los Poblados, 3, Edificio 9, Madrid (Spain).

In accordance with its bylaws, the corporate purpose of Haya Real Estate, S.L.U. is:

- The provision of financial and investment consultancy services to financial institutions and companies in general;

- The preparation of business reports, whether for its own use or for third party use, compiled from any public or private body.

- Collection of payments owed to them on behalf of third parties, represented by any public or private payment documents or otherwise;

- Development, lease and sale of software and provision of all manner of IT services, particularly those related to financial services; and

- Provision of all manner of services related to the administration, management and marketing of real estate.

Excluded from the Parent's corporate purpose are any activities that are reserved by law for certain types of companies and any that require authorisation or permits that the Parent does not have.

The activity performed by the Group in 2017 consisted mainly of managing real estate owned assets ("REOs") and real estate developer loans ("REDs"). The activity engaged in by the subsidiary Haya Titulización, Sociedad Gestora de Fondos de Titulización, S.A.U. (Haya Titulización) consisted of the incorporation, management and legal representation of asset securitisation funds, mortgage securitisation funds and bank assets funds.

Haya Real Estate, S.L.U. is the sole shareholder of the subsidiaries Haya Titulización, Sociedad Gestora de Fondos de Titulización, S.A.U., Haya Finance 2017, S.A.U. and Mihabitans Cartera, S.A.U. (see Note 2) which all together form the Haya Group (hereinafter, the Group).

The Parent is a Sole Shareholder company wholly owned by Promontoria Holding 62, B.V. (the Sole Shareholder). The Parent is therefore subject to the rules applicable to Sole Shareholder companies and has disclosed this to the Mercantile Registry. In this respect, the contracts entered into and the balances and transactions maintained with its Sole Shareholder are disclosed in Note 20. The consolidated financial statements for 2016, which were prepared by the Parent's Board of Directors on 28 March 2017, were approved by the Sole Shareholder on 30 March 2017.

On 8 August 2017, the Parent obtained effective control over Mihabitans Cartera, S.A.U. (Mihabitans), the subsidiary of Liberbank, S.A. (see Note 2) engaged in the management of the real estate assets of Liberbank, S.A. and other related entities (the Liberbank group), as a result of which the workforce of the acquired company was transferred to the Group. As part of the same transaction, Mihabitans signed an agreement with Liberbank group to acquire its real estate asset management business for a period of seven years. This acquisition, valued at EUR 84,800 thousand (see Note 5), was funded in full through a loan extended by the Sole Shareholder, Promontoria Holding 62, B.V. (see Note 11) and a loan arranged with Liberbank, S.A. for the amount of EUR 17,808 thousand, corresponding to the VAT accrued on the transaction (see Note 11). Additionally, the agreement signed with the Liberbank group establishes the financial and operating terms of the management services provided for these assets, which include certain performance obligations (see Note 15). Both transactions were arranged as part of a sole business combination comprising the acquisition of the Liberbank group's real estate management business. In 2017, the subsidiary Mihabitans engaged in no activities other than the rendering of the aforementioned management services.

On 27 November 2017, the Parent acquired 100% of the share capital of Haya Finance 2017, S.A.U. (Haya Finance) from its Sole Shareholder for the sum of EUR 60 thousand (see Note 2). The main business of this subsidiary is the acquisition and granting of funding to third parties, and especially to Group companies.

Group activity

The Group’s activity consists mainly in providing asset management and is regulated by the servicing agreements (Service Level Agreements or SLA) that it enters into with its clients, being the most relevant the following ones:

1.a. Business combination - Bankia

On 3 September 2013, the Group signed an agreement with the Bankia group for the purchase of a business relating to the management of certain real estate assets and loans granted to companies engaged in the real estate industry (developer loans) which are owned by the Bankia group and Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (SAREB), the latter being managed up to the date of the business combination by the Bankia group.

At the same time, within the framework of the business combination, the following contracts were signed between the Group and the Bankia group:

- Exclusive service agreement for the management of assets owned by the Bankia group, which, at the time of the business combination, were included within the agreed scope for a period of ten years.

- Outsourcing agreement extended by the Bankia group in favour of the Parent as a management services provider for assets belonging to SAREB for a period ending on 31 December 2013, which included the possibility of annual renewals. This contract was renewed until 31 December 2014.

- Agreement extended by the Bankia group to the Parent for the provision of IT services, asset marketing services through the Bankia group branch network and retail financing in favour of potential buyers of the assets belonging to SAREB currently managed by the Parent.

- Service agreement between the Parent and the Bankia group (as the service provider) in relation to other IT, leasing and administrative services.

The different agreements arranged with the Bankia group establish that additions may be made to the volume of assets owned by the Bankia group under the management of the Parent as the Bankia group identifies and includes in its scope of consolidation assets with the same characteristics as those of the assets included in the initial scope.

The acquisition cost established for the business included a fixed amount and a variable amount conditional on certain variables being met and the degree of success in achieving the milestones set out in the Parent's business plan (see Note 5).

1.b. 2014 SAREB contract

The aforementioned service-level agreement for the management of assets belonging to SAREB entered into with Bankia ended on 31 December 2014. During the second half of 2014, SAREB called a tender to award a service agreement for the administration and management of its assets in favour of several real estate operator and the Parent was awarded a package of financial assets originally owned by the Bankia group on 30 December 2014, for a period of five years. The agreement was executed in a public deed on 30 December 2014 and the service became effective as of 1 January 2015.

As consideration for the acquisition of the new contract with SAREB, the Parent made an upfront payment of EUR 235,100 thousand, fully disbursed on December 30, 2014.

The services that the Parent provides are focused on the management of real estate and financial assets, for which the Parent charges a commission, and on activities relating to the sale or collection thereof, for which the Parent charges an additional commission according to the transactions made during the year.

Pursuant to this asset management service agreement, there will be no additions to the volume of assets managed by the Parent during the life of the agreement.

1.c. Business combination - Cajamar

On 10 June 2014, former subsidiary Laformata Servicios y Gestiones, S.L.U. ("Laformata") entered into a business purchase agreement with Grupo Cooperativo Cajamar and Cimenta2 Gestión e Inversiones, S.A. (the “Cajamar group”) for the purchase of a business relating to the management of real estate assets, mortgage and non-mortgage loans and securitised loans. Under this agreement, Laformata acquired the management of the abovementioned business.

At the same time, as part of this business purchase transaction, the parties entered into an exclusive service agreement for the management of the Cajamar group's assets which, at the time of the business combination (“initial assets”), were included within the agreed scope for a period of ten years.

The different agreements arranged with the Cajamar group establish that additions may be made to the volume of assets owned by the Cajamar group under the management of the Parent as the Cajamar group identifies and includes in its scope of consolidation assets with the same characteristics as those of the initial assets.

The business purchase agreement was executed as a company transfer. The subsidiary Laformata assumed all the assets and liabilities related to the business, and subrogated to all of the Cajamar group's rights and obligations with regard to all employees assigned to that business and under all supplier contracts relating thereto. The date for the business transfer was set as 1 July 2014.

The subsidiary Laformata was merged into the Parent in 2016.

1.d. Business combination - Liberbank

On 8 August 2017, the Group entered into certain agreements with the Liberbank group to acquire the real estate asset management business for assets owned by the Liberbank group, for a total price of EUR 85,000 thousand (see section 1.c above and Note 5). The asset management agreement gives the Group exclusive rights, for a period of seven years, extendable for further one year periods, over the management of these assets and establishes that additions of new assets may occur as the Liberbank group identifies and includes in its scope of consolidation assets with the same characteristics as those in the initial scope.

The Group also signed an agreement with the Liberbank group for the temporary provision of transitional services by Liberbank as the supplier to the Group as the receiver of said services. These are support services that are key for the transitional provision of part of the services included in the asset management agreement. The agreement expired on 31 December 2017.

Environmental information

Given the nature of the activities conducted by the different Group companies, the Group Management considers that the Group does not have any environmental liabilities, expenses, assets, provisions or contingencies that might be material in connection with the Group's equity, financial situation or profit and loss. Therefore, no specific disclosures relating to environmental issues are included in these notes to the consolidated financial statements.

2. Group companies

The following table lists the fully consolidated Group subsidiaries, which are all located in Spain, and includes information related thereto:

2017

Company	Direct stake (d)	Thousands of euros								
		Share capital (b)	Share premium (b)	Un-restricted reserves (b)	Equity holder contribu-tions (b)	Interim dividend (b)	Operating profit or loss (b)	Profit/(loss) for the year (b) (c)	Carrying amount of the interest	Net book value of the interest
Parent										
Haya Real Estate, S.L.U. (a)	-	9,683	45,831	1,937	3,900	(14,063)	45,945	20,711	-	-
Group company										
Haya Titulización, Sociedad Gestora de Fondos de Titulización, S.A.U. (a)	100%	1,000	-	8,107	-	-	2,569	1,899	11,006	11,171
Haya Finance 2017, S.A.U. (a)	100%	60	-	-	-	-	(1)	(449)	(389)	60
Mihabitans Cartera, S.A.U. (a)	100%	60	-	133	-	-	13,914	10,225	10,418	200
Housell Inmo Online Services, S.L.U. (a) (e)	-	30	270	-	3,600	-	(3,397)	(2,549)	-	-

(a) Companies whose financial statements as at 31 December 2017 will be audited by Deloitte, S.L.
(b) Details obtained from the companies' separate financial statements as at 31 December 2017.
(c) There are no profits or losses from discontinued operations.
(d) All equity instruments of subsidiaries are pledged to secure a guarantee for a specific loan (see Note 11).
(e) The company was no longer included in the consolidation scope at 31 December 2017.

2016

Company	Direct stake Direct	Thousands of euros						
		Share capital (b)	Share premium (b)	Reserves (b)	Operating profit or loss (b)	Profit/(loss) for the year (b) (c)	Carrying amount of the interest	Net book value of the interest
Parent								
Haya Real Estate, S.L.U. (a)	-	9,683	51,826	15,201	56,399	29,167	-	-
Group company								
Haya Titulización, Sociedad Gestora de Fondos de Titulización S.A.U. (a)	100%	1,000	-	6,121	2,648	1,986	9,107	11,171

(a) Companies whose financial statements as at 31 December 2016 were audited by Deloitte, S.L.
(b) Details obtained from the companies' individual financial statements as at 31 December 2016.
(c) There is no profit or loss from discontinued operations.

2015

Company	Direct interest	Thousands of Euros						
		Share capital (b)	Share premium (b)	Reserves (b)	Operating profit or loss (b)	Profit or loss for the year (b) (c)	Notional value of interest	Net book value of interest
Parent								
Haya Real Estate, S.L.U. (a)	-	9,683	51,826	767	31,077	10,749	-	-
Group company								
Laformata Servicios y Gestiones, S.L.U. (a)	100%	5,403	48,600	(1,170)	16,219	3,625	56,459	54,004
Haya Titulización, Sociedad Gestora de Fondos de Titulización S.A.U. (a)	100%	1,000	-	5,354	850	768	7,121	11,171
Gesnova Gestión Inmobiliaria Integral, S.L.U. (a)	100%	500	-	1,712	94	35	2,247	4,100
Haya Online, S.A.U. (d)	100%	100	-	924	891	645	1,669	400

(a) Companies whose financial statements as at 31 December 2015 were audited by Deloitte, S.L.
(b) Details obtained from the companies' separate financial statements as at 31 December 2015.
(c) Excluding profit or loss from discontinued operations.
(d) The company is under no obligation to undergo an audit.

The fully consolidated companies referred to in the table above are deemed to be subsidiaries within the meaning of the International Financial Reporting Standards.

Changes in the scope of consolidation

2017

The Group obtained effective control over Mihabitans on 8 August 2017 in the context of the business combination described in Note 1-d above. This was achieved through the initial acquisition by the Sole Shareholder of 100% of the share capital of Mihabitans. These shares were subsequently acquired by the Parent on 27 November 2017, for the same amount. The Group Management and the Sole Shareholder consider that the Group obtained effective control over Mihabitans on 8 August 2017, given that from that moment the Parent has held control over the entity in line with the definition of control set down in IFRS 10 Consolidated Financial Statements (see Note 3.5). Therefore, the profit and loss of this component included the accompanying financial statements correspond to profit and loss from its operations from 8 August 2017, the date that effective control was taken. As a result, the revenue, operating income and profit or loss contributed by Mihabitans to the Group corresponding to a period of approximately five months from the date it was acquired and included in these consolidated statements total EUR 25,423 thousand, EUR 13,914 thousand and EUR 10,225 thousand, respectively. Revenue, operating income and profit or loss from 1 January 2017 until the Group took control of the subsidiary totalled EUR 2,639 thousand, EUR 155 thousand and EUR 110 thousand, respectively.

As described in Note 1, on 27 November 2017, Haya Finance was added to the scope of consolidation.

As part of the financing operation described in Note 11, the Parent resolved to carry out a merger with its subsidiary Haya Finance 2017, S.A.U. in 2018.

On 28 February 2017, the Parent created a new company, Gestión Integral de Marketing Inmobiliario Online, S.L.U. (now named "Housell Inmo Online Services, S.L.U."), with a share capital and share premium of EUR 30 thousand and EUR 270 thousand, respectively. The new company acts mainly as an intermediary in the private sale of real estate assets online. In its first months of life, the company incurred expenses and investment costs that were financed by the Parent, to the amount of EUR 3,600 thousand. On 24 November 2017, the Parent resolved to capitalise this amount through a non-monetary contribution, thereby raising its investment in the company to EUR 3,900 thousand. On 27 November 2017, the Parent sold its entire interest in the share capital of the company to its Sole Shareholder, for an amount EUR 3,900 thousand, which was settled by offsetting the debt that the Parent held with the Sole Shareholder at that date (see Note 11). The income and expenses generated by that company while it was part of the Group came to a net loss of EUR 2,746 thousand, recognised under “Profit/(loss) for the year from discontinued operations” in the accompanying consolidated financial statements for 2017. This net loss is the result of revenue of EUR 48 thousand and operating expenses of EUR 2,794 thousand, and no tax income or expense was recognised. The EUR 2,746 thousand from the sale of the interest in the company was recognised under the same heading, so that the impact on the Group's 2017 results was zero. Cash flow generated by the company while it formed part of the Group comprised a net cash outflow of EUR 2,399 thousand and EUR 1,172 thousand for operating and investing activities, respectively. These were largely financed through the aforementioned contributions made by the Parent.

2016

In the financial year 2016, a merger occurred through the acquisition of the companies Laformata Servicios y Gestiones, S.L.U., Gesnova Gestión Inmobiliaria Integral, S.L.U. and Haya Online, S.A.U. (hereinafter Laformata, Gesnova and Haya Online, respectively) as absorbed companies with Haya Real Estate, S.L.U. being the absorbing company. The said merger was approved by the Parent’s Sole Shareholder on 12 May 2016. In this sense, the criteria followed by the Parent, for accounting purposes and for the recording of the assets and liabilities provided in the merger, was to value them in the amount that corresponded to them in the respective financial statements of 2015 of the absorbed companies, which does not differ from the amount that would correspond to them in the consolidated financial statements of Haya Real Estate, S.L.U. of the financial year 2015. The amount of the main figures at 31 December 2015 of the absorbed companies was the following:

	Thousands of euros			
	Laformata Servicios y Gestiones, S.L.U.	Gesnova, Gestión Inmobiliaria Integral, S.L.U.	Haya Online, S.A.U.	Total
Total assets	212,231	2,559	2,688	217,478
Net equity	56,459	2,247	1,669	60,375
Net business turnover	58,289	1,045	2,608	61,942
Operating result	16,219	(52)	496	16,663
Net profit	3,625	(40)	360	3,945

This operation does not have any impact on the Group's consolidated financial statements.

2015

In the 2015 financial year, the following subsidiaries were included within the scope of consolidation:

Haya Titulización, Sociedad Gestora de Fondos de Titulización, S.A.U. (hereinafter, Haya Titulización)

On April 9, 2015, the Parent obtained authorization from the CNMV to execute the sale and purchase of shares of the company Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, SA (now Haya Titulización, Sociedad Gestora de Fondos de Titulización, SAU), which began in 2014. The purchase price of the shares was EUR 11,171 thousand. The difference between the acquisition cost thereof and the fair value of the identifiable assets and liabilities of Haya Titulización at the acquisition date is recognized in the "Goodwill" section, for the amount of EUR 4,265 thousand (see Note 6).

Gesnova Gestión Inmobiliaria Integral, S.L.U. and Haya Online, S.A.U. (hereinafter, Gesnova and Haya Online)

On 25 June 2015 the Sole Shareholder carried out an increase in the Parent's share capital of EUR 450 thousand, with a share premium of EUR 4,050 thousand. The capital increase was funded by a non-cash contribution consisting in the handover of 100% of the shares in Gestión Inmobiliaria Integral, S.L.U (hereinafter, Gesnova) and Haya Online, S.A.U (hereinafter, Haya Online).

The value assigned to the shares in Gesnova, with respect to the non-monetary contribution, amounted to EUR 4,100 thousand, and the equity of said company on the date of acquisition amounted to EUR 2,286 thousand. The difference between both amounts led to goodwill for the amount of EUR 1,814 thousand in the consolidated balance statement as of 31 December 2015 attached hereto (see Note 6).

The value assigned to the shares in Haya Online in the non-monetary contribution amounted to EUR 400 thousand, and the equity of said company on the date of acquisition amounted to EUR 1,310 thousand. The difference between both amounts made up a negative consolidation difference of EUR 910 thousand, registered in the "Consolidation adjustments" heading of the consolidated statement of profit or loss for the year ended 31 December 2015.

3. Basis of presentation and consolidation principles

3.1 Financial reporting standards applicable to the Group

The Group's 2017 consolidated financial statements have been prepared:

- In accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council.
- Applying all the mandatory accounting principles, standards and measurement criteria that have a material impact on the consolidated financial statements. There are no mandatory accounting principles that have not been applied.

- The significant accounting principles and measurement criteria used in preparing the Group's 2017 consolidated financial statements are set out in Note 4.
- In order to provide a true and fair view of the consolidated Group's equity and financial position as at 31 December 2017, as well as the results of its operations, changes in its consolidated equity and consolidated cash flows for the year then ended.
- On the basis of the accounting records kept the Parent and by other Group companies.

The consolidated financial statements for 2017, prepared by the Parent's directors, and the separate financial statements of Haya Real Estate, S.L.U. and of its subsidiaries shall be submitted for approval by their respective sole shareholder, and are expected to be approved unchanged.

However, since the accounting principles and valuation standards used to prepare the consolidated financial statements of the Group for 2017 (IFRS) differ from the rules and standards applied by the Group companies in their separate statements (local rules), all necessary adjustments and reclassifications were made as part of the consolidation process, to harmonise such principles and standards and to bring them into line with the International Financial Reporting Standards adopted by the European Union.

3.2 Responsibility for information and estimates

The Parent's directors are responsible for the information contained in these consolidated financial statements.

In the preparation of the accompanying consolidated financial statements, estimates have been made based on historical experience and other factors that are considered to be reasonable in light of prevailing circumstances. These estimates form the basis for establishing the carrying amount of certain assets, liabilities, income, expenses and commitments which cannot be easily measured using other sources. These estimates are reviewed by the Parent on an ongoing basis. These estimates relate basically to the following:

- The cost of business combinations (see Note 4.2).
- The useful life of intangible and tangible assets (see Notes 4.1 and 4.4).
- The measurement of assets and goodwill to determine possible impairment losses (see Notes 4.3 and 4.5).
- Valuation of certain financial instruments (see note 4.7).
- Calculation of impairment on trade receivables (see Note 4.7).
- Assessment of the recoverability of deferred tax assets (see Note 4.15).
- Calculation of provisions, contingencies and other obligations to employees (see Notes 4.12 and 4.13).

Even though these estimates have been made based on the best information available as of 31 December 2017, on the events analysed and changes therein up to the date of authorisation for issue of these consolidated financial statements, they may, however, need to be revised (upward or downward) in subsequent financial years due to the occurrence of future events. Any such revisions will be applied prospectively, recognising the effect of the change in estimates and assumptions in the corresponding consolidated statement of profit or loss, in accordance with IAS 8 Accounting policies. Changes in accounting estimates and errors.

In 2017, no significant changes took place regarding the estimates made as of 31 December 2016 and 2015.

3.3 Comparative information and changes in accounting criteria

The accounting policies applied in preparing the consolidated financial statements for the year 2017 are the same than those applied in preparing the comparative information related to years 2016 and 2015, and therefore there are no transactions that have been accounted for using different accounting policies that could cause discrepancies in the interpretation of the comparative figures for the three periods.

In 2017, and in order to provide more reliable and relevant information of the transaction related to the payment made to SAREB in 2014 to obtain the asset management service contract (see Note 1.b), the Parent's directors have changed the accounting policy applied to this payment, treating it in 2017 as an intangible asset consisting of the costs of acquiring the asset management service agreement, in consistency with the accounting treatment given to other similar agreements and transactions entered into by the Group (see Notes 1 and 5). Such accounting policy change was implemented upon confirmation with the Spanish securities and markets authority.

In accordance to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, such change in the accounting policy to better express the fair view and consistency in the Group's operations, involved the restatement of the information for the years 2016 and 2015 presented for comparative purposes in 2017. The impacts of the accounting policy change in the consolidated financial statements for 2016 and 2015, prepared by the Board of Directors of the Parent on 28 March 2017 and 29 March 2016, respectively, and approved by the Sole Shareholder on 30 March 2017 and 26 April 2016, respectively, are as follows:

Consolidated statement of financial position as at 1 January 2015

	Thousands of euros		
	Balance as at 31/12/2014	Accounting policy change	Balance as at 01/01/2015 restated
Other intangible assets (Note 5)			
Cost	-	235,100	235,100
Total net book value	-	**235,100**	**235,100**
Financial assets (Note 7)			
Non-current	194,680	(194,680)	-
Current	40,420	(40,420)	-
Total financial assets	**235,100**	**(235,100)**	**-**
Total SAREB contract asset in the consolidated statement of financial position	**235,100**	**-**	**235,100**

Consolidated statement of financial position as at 31 December 2015

	Thousands of euros		
	Balance as at 31/12/2015	Accounting policy change	Balance as at 01/01/2016 restated
Other intangible assets (Note 5)			
Cost	28,096	200,938	229,034
Amortization	(5,619)	(40,591)	(46,210)
Total net book value	**22,477**	**160,347**	**182,824**
Financial assets (Note 7)			
Non-current	117,601	(117,601)	-
Current	42,746	(42,746)	-
Total financial assets	**160,347**	**(160,347)**	**-**
Total SAREB contract asset in the consolidated statement of financial position	**182,824**	**-**	**182,824**

Consolidated statement of financial position as at 31 December 2016

	Thousands of euros		
	Balance as at 31/12/2016	Accounting policy change	Balance as at 01/01/2017 restated
Other intangible assets (Note 5)			
Cost	30,107	198,927	229,034
Amortization	(11,741)	(81,326)	(93,067)
Total net book value	**18,366**	**117,601**	**135,967**
Financial assets (Note 7)			
Non-current	76,074	(76,074)	-
Current	41,527	(41,527)	-
Total financial assets	**117,601**	**(117,601)**	**-**
Total SAREB contract asset in the consolidated statement of financial position	**135,967**	**-**	**135,967**

Consolidated statement of profit or loss

	Thousands of euros					
	2016			2015		
	Balance as at 31/12/2016	Accounting policy change	Balance as at 31/12/2016 restated	Balance as at 31/12/2015	Accounting policy change	Balance as at 31/12/2015 restated
Revenue	193,511	40,735	234,246	198,903	40,591	239,494
Depreciation and amortisation charge	(33,360)	(40,735)	(74,095)	(31,640)	(40,591)	(72,231)
Net effect on consolidated statement of profit or loss (*)		**-**			**-**	

(*) Given the nihil impact of the accounting policy change on the consolidated statement of profit or loss, such change had no impact neither on the earnings per share calculation.

Consolidated statement of cash flows

	Thousands of euros					
	2016			2015		
	Balance as at 31/12/2016	Accounting policy change	Balance as at 31/12/2016 restated	Balance as at 31/12/2015	Accounting policy change	Balance as at 31/12/2015 restated
1. Cash flows from operating activities						
Adjustments for:						
Depreciation and amortisation charge	33,360	40,735	74,095	31,640	40,591	72,231
Total net cash flows from operating activities	**90,437**	**40,735**	**131,172**	**88,741**	**40,591**	**129,332**
2. Cash flows from investing activities						
Proceeds from disposal:						
Other intangible assets	33	-	33	60	6,066	6,126
Other financial assets and interest received	48,352	(40,735)	7,617	49,079	(46,657)	2,422
Total net cash flows from investing activities	**41,145**	**(40,735)**	**410**	**40,660**	**(40,591)**	**69**
4. Net increase/(decrease) in cash and cash equivalents	**37,068**	**-**	**37,068**	**(15,184)**	**-**	**(15,184)**

As shown in the tables above, the accounting policy change had no impact on the net profit, total equity or net cash flows of the Group for the years 2016 and 2015.

In addition, according to IAS 1, Presentation of financial statements, the Parent's directors present a consolidated statement of financial position as at 1 January 2015, also restated to reflect the impact of adopting this new accounting policy.

3.4 Functional currency

These consolidated financial statements are presented in euros as this is the currency of the main economic area in which the Group operates. There were no foreign currency transactions in 2017, 2016 and 2015.

3.5 Consolidation principles

Subsidiaries

A subsidiary is a company in which another company, the Parent, is capable of exercising effective control. This capacity manifests itself in general when the following three elements are met, in accordance with IFRS 10: (i) having power over the investee; (ii) being exposed to or being eligible for variable returns from its involvement with the investee; and (iii) having the ability to use its power over the investee to affect the amount of returns from the company controlled. Information on the Group companies is provided in Notes 1 and 2

At the time of acquisition of a subsidiary, its assets and liabilities and contingent liabilities are calculated at their fair values at the date of acquisition that gives rise to the takeover, according to IFRS 3 - Business combinations. When the cost of acquisition is higher than the fair value of the identified net assets, the difference is recognised as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets, the difference is taken to profit or loss at the acquisition date.

The results of subsidiaries acquired during the year are only those included in the consolidated statement of profit or loss from the date effective control is obtained to year-end. Similarly, the results of subsidiaries disposed of during the year are included in the consolidated statement of profit or loss from the beginning of the year to the date of disposal.

The financial statements of subsidiaries are fully consolidated with those of the Parent. Accordingly, all material balances and effects of the transactions between consolidated companies are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to adapt the accounting policies used to those used by the Group.

These consolidated financial statements for 2017 include all the Group companies, using the applicable consolidation methods in each case, in accordance with Article 42 of the Spanish Code of Commerce. In this regard, in the opinion of the Parent's directors, these consolidated financial statements include all the companies belonging to the Group as of 31 December 2017.

3.6 Standards and interpretations applied

In preparing the consolidated financial statements for 2017, the Group applied all the principles, amendments and interpretations applicable to the International Financial Reporting Standards ("IFRSs") adopted by the European Union in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, taking into account all mandatory accounting principles and standards and measurement bases with a material effect, in addition to the Code of Commerce, the mandatory standards approved by the Institute of Accounting and Auditing and other Spanish regulations applicable.

The accounting standards of new application in the years 2015 and 2016 did not have any impact on the financial information corresponding to the aforementioned financial years, prepared by the Parent's directors.

3.7. Effective dates of new accounting standards

3.7.1 New standards, amendments and interpretations are mandatorily effective for the annual period beginning 1 January 2017

In 2017, new accounting standards entered into effect, which have been taken into account in the preparation of these consolidated financial statements.

The following standards were applied to these consolidated financial statements, without having any significant impact on the reported figures or on the presentation and breakdown of these consolidated financial statements:

- IAS 7 (amendment), *Statement of cash flows*. Introduces additional disclosure requirements in relation to the reconciliation of the movement of financial liabilities with the cash flows from financing activities.
- IAS 12 (amendment), *Income Taxes*. Clarification of the principles established for recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.

Application of the new standards did not have a significant impact on the Group.

3.7.2 New standards, amendments and interpretations mandatorily effective for annual periods beginning after the calendar year starting on 1 January 2017 (applicable to 2018 and thereafter)

As at the date of preparation of these consolidated financial statements, the following standards and interpretations had been issued by the International Accounting Standards Board (IASB), but were not yet effective, either because the effective date was after the date of the consolidated financial statements or because they had yet to be adopted by the European Union:

Standards, amendments and interpretations		Mandatory application in annual periods beginning on or after
Approved by the EU		
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15 is the new, comprehensive standard for recognition of revenue from customers, and replaces the following current standards and interpretations: IAS 18 *Revenue*, IAS 11 *Construction contracts*, IFRIC 13 *Customer loyalty programmes*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers* and SIC 31 *Revenue-Barter transactions involving advertising services*.	1 January 2018

Standards, amendments and interpretations		Mandatory application in annual periods beginning on or after
Clarification of IFRS 15, *Revenue from Contracts with Customers*	Clarification of the identification of performance obligations, principal versus agent considerations, the granting of licences and their accrual at a point in time or over time, and clarifications on transition rules.	1 January 2018
IFRS 9, *Financial Instruments*	This standard replaces the current IAS 39 and will apply for financial years starting as of 1 January 2018 under IFRS-IASB. It has three main sections: Classification and Valuation, Hedges and Impairment. The conceptual change is significant in all of them. Change in the classification and valuation method for financial assets, the main focus of which will be the business model. The focus of the hedge accounting model aims for closer alignment with economic risk management and demands fewer rules. Lastly, the impairment model changes from the current incurred losses to a forecast losses model.	1 January 2018
Amendment to IFRS 4, *Insurance Contracts*	This will allow entities the option, within the scope of the IFRS 4, of applying IFRS 9 ("overlay approach") or a temporary exemption.	1 January 2018
Improvements to the IFRSs, 2014-2016 cycle	This concerns minor amendments to a series of standards.	1 January 2018
IFRS 16, *Leases*	This standard will be applicable for the financial years beginning from 1 January 2019 under IFRS-IASB. It permits advance application for entities that apply IFRS 15, "Revenue from contracts with customers". This standard sets out a unique recognition model for leases by the lessees, having to recognise the assets and liabilities associated with all the lease contracts, except those that have an expiration equal to or less than 12 months or if the value of the related asset is not significant. The lessors will continue classifying the leases according to their operational or financial nature, with the changes introduced by this standard for the lessors with respect to this applicable standard, the IAS 17, not being significant.	1 January 2019
Not approved for use in the EU		
Amendment to IFRS 2*, Share-based Payment (classification and measurement of share-based payments)*	This concerns minor amendments that clear up specific questions about the aforementioned standard, such as the effect of accrual conditions for cash-settled share-based payments, the classification of share-based payment with net settlement features, and certain aspects of the modifications to the type of share-based payment (cash or shares).	1 January 2018
Amendment to IAS 40, *Real Estate Investments. Reclassification of investment property)*	This clarifies that the reclassification of an investment from or to a real estate investment is only allowed when there is evidence of a change of use.	1 January 2018
IFRIC 22, *Foreign Currency Transactions and Advance Consideration*	This sets out the "transaction date" for the purposes of determining the exchange rate applicable in transactions with advances in foreign currency.	1 January 2018
IFRIC 23, *Uncertainty over Income Tax Treatments*	This interpretation clarifies application of the recognition and measurement criteria set out in IAS 12, "Income taxes", when there is uncertainty regarding whether a tax authority will accept a given tax treatment applied by the entity.	1 January 2019
Amendments to IFRS 9, *Financial Instruments,*	This permits measurement at amortised cost for some financial assets that can be prepaid for a smaller amount than the pending principal and interest on that principal.	1 January 2019

Standards, amendments and interpretations		Mandatory application in annual periods beginning on or after
(Prepayment Features with Negative Compensation)		
Amendments to IAS 28, *Investments in Associates and Joint Ventures (long-term interests in associates and joint ventures)*	This clarifies that IFRS 9 must be applied to long-term investments in associates or joint ventures if the equity method is not applied.	1 January 2019
Improvements to IFRSs, 2015-2017 cycle	This concerns minor amendments to a series of standards.	1 January 2019
Amendment of IAS 19, *Modification, Reduction or Settlement of a Plan*	In accordance with the amendments proposed, when a defined benefit plan is changed (as a result of an amendment, curtailment or settlement), the Group will use the updated assumptions to determine the cost of the services and the net interest for the period after the change of plan.	1 January 2019
IFRS 17, *Insurance contracts*	This will replace IFRS 4, setting out the recognition, measurement, disclosure and breakdown principles for insurance contracts.	1 January 2021
Amendment to IFRS 10, *Consolidated Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures (sale or contribution of assets between an investor and their associate or joint venture).*	Clarification regarding the results of these operations in the case of businesses or assets. When a business is involved, there will be a total profit or loss, as in losses of control. If assets are the object of the transaction, the profit or loss will be partial, and dependent on the percentage carried out with third parties).	Undefined date

All mandatory accounting principles and measurement bases with a significant effect on the consolidated financial statements were applied.

The Group Management has assessed the potential impact of the future application of these standards, amendments and interpretations and considers that the application of most of these would not have a significant effect on the Group's consolidated financial statements in the initial application period. For those coming into force after 2018, specifically IFRS 15 and IFRS 9, the Group has performed an assessment of the potential impact of these standards on the consolidated financial statements when applied in the manner described below. The Group concluded that the application of these standards will not have a significant impact at the time they are adopted

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive model for the recognition of revenue with customers. The new requirements of this standard establish that revenue must be recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, its establishes a five-step model framework:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

According to IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when the "control" over the goods and services underlying the performance obligation is transferred to the customer.

The Group recognises revenue deriving mainly from services relating to the management of real estate assets and loans extended to real estate sector companies, as described in Notes 4.14 and 16. Revenue is recognised in accordance with the stage of completion of the transaction and it is understood to be complete when all milestones have been met. Subsequently, the Group applies to the sale price of the real estate asset and/or the amount repaid on the loan under management the corresponding percentage fee depending on the nature of each real estate asset sale and/or repayment of customer loan, according to the conditions established in the management service agreement contracts governing their activity.

The Group Management has determined that the service relating to the management of real estate assets and loans extended to real estate sector companies represents a single performance obligation and revenue must therefore be recognised when the control over the above services is transferred to the customer.

Pursuant to IFRS 15, the Group requires the transaction price to be allocated to the performance obligations in accordance with their respective independent sale price rather than their current residual value. This will have no impact on the current recognition of revenue as a single performance obligation is identified, i.e. the management of real estate assets and loans extended to real estate sector companies. The transaction price will be the same as the independent sale price of the service described above.

With regard to identified performance obligations, the Group Management expects the timing of revenue recognition to remain unchanged from the methods currently employed.

In addition, even though the Group is contractually subject to the measurement of service level indicators from its clients (see Note 15), those indicators do not make up different performance obligations under IFRS 15. According to the SLAs, non-complying those indicators involves penalties which, if they happen, would be registered by netting the revenue recognized from the related SLA. The Group management has not identified that such accounting treatment will be different under IFRS 15.

Under IFRS 15, the Group will apply the retrospective approach with any cumulative effect, on initial application, with recognition in the opening balance for reserves in the initial period after the standard comes into force.

Aside from providing more detailed disclosure of the Group's revenue transactions, the Group Management does not expect the application of IFRS 15 to have an impact on its financial position or results of operations. In the future, the Group will continue to analyse its new service level agreements on a case by case basis, to correctly recognise the revenue deriving therefrom, as stipulated in IFRS.

IFRS 9 Financial Instruments

All financial assets and liabilities (primarily accounts receivable, the upstream loan to the Sole Shareholder, other financial assets, the senior secured notes and accounts payable held by the Group) are subject to IFRS 9.

IFRS 9 will replace IAS 39 for annual periods beginning on or after 1 January 2018, with an impact on both financial assets and financial liabilities and covering three main areas: recognition and measurement, impairment and hedge accounting. There are key differences compared to the recognition and measurement of financial instruments under current standards, the most significant of which are:

- Investments in financial assets which give rise to cash flows that are solely payments of principal and interest and which are held within a business model whose objective is to hold financial assets to collect their contractual cash flows are generally measured at amortised cost. When the same assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and sell financial assets, shall be measured at fair value through other comprehensive income. All other financial assets that give rise to cash flow that are not solely payments of principal and interest and held within a business model whose objective is sell financial assets, shall be measured at fair value through profit or loss. However, the Group may opt to irrevocably designate the changes in fair value in certain equity instruments in other comprehensive income and, in this case, dividend income is generally recognised in profit or loss.

- For financial liabilities designated optionally as at fair value through profit and loss, the amount of the change in the liability's fair value attributable to changes in the credit risk must be recognised through other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch, and is not subsequently transferred to profit or loss.

- In relation to the impairment of financial assets, IFRS 9 introduces a new impairment model based on expected losses, compared to incurred loss as per IAS 39. Under this model, the Group will measure expected losses, and changes thereto, at each presentation date, to reflect changes in credit risk from initial recognition. In other words, it is no longer necessary for an impairment event to take place before a credit loss is recognised.

- IFRS 9 introduces more flexibility in regard to the types of transactions that are eligible for hedge accounting, increasing the types of instruments that are eligible to be designated as hedging instruments, and the types of risk components of non-financial items eligible to be used for hedge accounting. The effectiveness test has been reviewed and replaced by the "economic relationship" principle. The retrospective testing of the effectiveness of the hedge is no longer necessary.

The Group intends to apply IFRS 9 without restating prior year comparatives, i.e. the difference between the previous carrying amounts and the new amounts at the initial recognition date of the standard will be recognised as an adjustment to reserves. Based on an analysis of the financial assets and liabilities on the Group's consolidated financial statements for 2017, the Group Management has made a preliminary assessment of the impact of IFRS 9, described below:

Classification and measurement

The preliminary analysis reveals no significant changes in classification and measurement of financial assets based on the Group's current model.

The Group renegotiated its financial liabilities (syndicated loan) which, in accordance with IAS 39, were considered substantial and hence requiring the cancellation of the original liability and subsequent recognition of a new financial liability. The expected treatment under IFRS 9 does not differ from treatment under IAS 39.

Impairment

The new standard replaces the "incurred loss" model established in IAS 39 with the "expected losses" model. This model requires the measurement on initial recognition of the financial assets, in addition to the uncollected amounts from customers, the expected losses resulting from a default event during the subsequent 12 months or throughout the life of the contract.

The Group has made provisions for trade receivables. As a result of the preliminary assessment of the potential impact under the expected losses model, the Group Management considers that no additional provisions will be required following the introduction of IFRS 9.

Hedge accounting

At year-end 2017, the Group has a derivative financial instrument in place that has not been considered as a hedging instrument (see Notes 11 and 13). The Group has assessed the IFRS 9 impacts in relation with this instrument and concluded that there will be no changes with respect to its present accounting treatment.

In addition, the Group has no hedging instruments in place at year-end 2017 and, if any are arranged in the future, the new rules for hedge accounting will be applied.

4. Accounting principles and policies and measurement standards applied

As described in Note 2, the Group has applied these accounting principles in accordance with the accounting principles and standards set down in International Financial Reporting Standards adopted by the European Union, in addition to other company law in effect at the date of publication of these consolidated financial statements.

Therefore, only the policies that are specific to the Group's activities and those considered to be significant to the nature of its activities are detailed below.

4.1 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance which arise as a result of a legal transaction or which are developed internally by the consolidated companies. Only assets whose cost can be estimated reasonably objectively and from which the consolidated companies consider it probable that future economic benefits will be generated are recognised.

Intangible assets are initially recognised at cost of acquisition or production. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

In general, intangible assets can have an indefinite useful life - when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the consolidated entities - or, in all other cases, a finite useful life.

Intangible assets with indefinite useful lives are not amortised, but rather at the end of each reporting period the consolidated companies review the remaining useful lives of the assets in order to ensure that they continue to be indefinite or, if this is not the case, to take the appropriate steps. As at 31 December 2017, 2016 and 2015, there were no assets recognised in the accompanying consolidated statement of financial position with indefinite useful lives, other than the recognised goodwill (see Note 4.3).

Intangible assets with a finite useful life are amortised over their useful life, applying similar criteria to those used in the depreciation of items of property, plant and equipment.

In both cases, the consolidated entities recognise any impairment with a charge to "Net impairment losses" in the consolidated statement of profit or loss. The criteria used for recognition of impairment losses on these assets and, where applicable, reversal of impairment losses incurred in previous years are similar to those applied to property, plant and equipment.

Patents, licenses, trademarks and similar

This heading comprises the amounts paid for the purchase of intellectual property or user rights for the various manifestations thereof, as well as the costs incurred for the registration of any internally developed intellectual property. The Group amortises these assets on a straight line basis throughout their useful life, which is estimated to be ten years.

Computer software

The acquisition and development costs incurred in relation to the basic computer systems used in the Group Management are recognised with a charge to “Intangible assets” on the consolidated statement of financial position.

Computer system maintenance costs are recognised with a charge to the consolidated statement of profit or loss for the year in which they are incurred.

Computer software is recognised at the amount paid to third parties for the acquisition of the software or of any rights of use in connection therewith. It is amortised on a straight-line basis over its estimated useful life, which is three years. However, the Parent acquired computer software for portfolio assessment for a price of EUR 2,000 thousand (see Note 5) in 2014, with an estimated useful life of six years.

Other intangible assets

The cost of the business acquisitions, comprising the asset management business, made in 2013, 2014 and 2017 respectively is recognised under “Other intangible assets – Management business - Bankia group 2013”, “Other intangible asset – Management business - Cajamar group 2014” and “Other intangible assets – Management

business - Liberbank group 2017", as described in Notes 1.a, 1.c and 1.d. Said business acquisitions are registered according to the business combination criteria described in Note 4.2.

In addition, the amount paid to SAREB to obtain the asset management contract (see Note 1.b), for EUR 235,100 thousand, has been recorded under this line item, and has been considered by the Parent as a cost necessary of acquiring the contract. This asset will be amortized in five years according to the duration of the contract, and based on the economic benefits obtained. Such method does not differ significantly from the linear amortization method, according to the business plan associated with the contract.

4.2 Business combinations

Business combinations are recognised using the acquisition method for which the date of acquisition is determined and the cost of combination is calculated, recognising any identifiable acquired assets and assumed liabilities, both certain and contingent, at their fair value on said date. The value of the assets acquired is reduced by the corresponding accumulated depreciation, recognised on a straight-line basis and according to the assigned service life, and by any impairment losses, in accordance with the criteria in Note 4.5.

Any positive or negative differences from business combinations are determined by the difference between the combination cost and the fair value of the acquired assets and assumed liabilities recognised as of the acquisition date.

The cost of the combination is the sum of:

- The fair values on the acquisition date of the acquired assets, the liabilities incurred or assumed the equity instruments issued.

- The fair value of any contingent payment depending on future events or fulfilment of specified conditions.

Any costs related to the issue of equity instruments or financial liabilities delivered in exchange for the acquired items are not part of the combination costs.

Likewise, the costs of any legal advisors or other professionals who have taken part in the combination are excluded from the costs, as are any other costs internally produced through these concepts. Said amounts are directly attributed to the profit and loss account.

In the exceptional case of negative differences arising in business combinations, these are attributed to the profit and loss account as income.consolidated statement of profit or loss

If the measurement procedures of a business combination necessary to apply the acquisition method explained above are incomplete by the end of the reporting period, the acquirer will report the provisional amounts. The acquirer may adjust the provisional amounts recognised during the period necessary to obtain the required information. The measurement period will not exceed one year. The effects of any adjustments made during the measurement period are accounted for retrospectively, modifying the comparative information if necessary.

Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss, unless the consideration was classified as equity, in which case, subsequent changes in its fair value are not recognised.

The business combinations under common control in 2017 (see Notes 1 and 2) have been accounted for using the acquisition method as established in this section.

4.3 Goodwill

Positive differences between the acquisition cost of ownership interests in consolidated companies and their corresponding underlying carrying amount at the time of the acquisition or at the date of initial consolidation, provided that the acquisition did not take place after the acquisition of control, are accounted for as follows:

- If they are attributable to specific equity accounts of the acquirees, by writing up the carrying value of assets to fair value where their market value was in excess of the carrying amounts recognised on their consolidated statements of financial position and which enjoy a similar accounting treatment to the Group's equivalent assets.

- If they are attributable to non-contingent liabilities, by recognising them in the consolidated statement of financial position, if it is likely that the outflow of funds to settle the obligation will include economic benefits, and their fair value can be measured reliably.

- If they can be allocated to specific intangible assets, it is explicitly recognised in the consolidated statement of financial position, provided the fair value at the date of acquisition can be reliably measured.

The remaining differences are recognised as goodwill.

Changes in the stake in subsidiaries that do not give rise to a loss of control are recognised as equity transactions. Additional investments in subsidiaries made after the acquisition of control and decreased holdings with no loss of control do not entail changes to goodwill. At the time of loss of control over a subsidiary, the respective amounts of the assets, liabilities, and external shareholders' interests are de-registered from the accounts (including goodwill), recognising the fair value of the consideration received and any stake in the subsidiary retained. The resulting difference is recognised as a profit or loss in the income statement for the financial year.

The assets and liabilities acquired are measured provisionally at the date on which the investment is acquired and the related value is reviewed within a maximum of one year following the acquisition date. Therefore, until the definitive fair value of the assets and liabilities has been established, the difference between the acquisition price and the carrying amount of the company acquired is provisionally recognised as goodwill.

Goodwill is considered as an asset of the company acquired and therefore, in the case of a subsidiary with a functional currency other than the euro, it is valued in that subsidiary's functional currency and translated to euros using the exchange rate prevailing at the date of the consolidated statement of financial position.

4.4 Property, plant and equipment

Assets included under the heading "Property, plant and equipment" that are used internally by the Group are valued at acquisition cost, less accumulated depreciation and any recognised impairment losses, according to the criteria described in Note 4.5.

Upkeep and maintenance expenses are taken to the consolidated statement of profit or loss in the year in which they are incurred. Conversely, amounts invested in increasing capacity or efficiency or that extend the useful life of the assets are recognised as an increase in the cost of the said assets.

The Group depreciates its tangible assets on a straight-line basis, distributing the costs of assets over their estimated useful life from the time that they come into service, or over the term of the lease contract for the buildings in which they are installed, whichever is shorter, as per the following table:

	Years of estimated useful life
Buildings	3
Other facilities	10
Furniture	10
Computer equipment	4
Other property, plant and equipment	10

The Group carries out its business activity in leased buildings. The costs incurred in adapting the property leased by the Group are basically renovation work and investment in fixed installations that are definitively attached to these properties and depreciated on a straight line basis distributing them over the estimated useful life of the

assets or the term of the lease contract, whichever is shorter, from the moment activity commences in each of the properties. These are itemised according to their nature, in the “Property, plant and equipment” section of the consolidated statement of financial position.

The depreciation of property, plant and equipment in 2017 amounted to EUR 672 thousand (EUR 607 and 417 thousand in 2016 and 2015, respectively).

4.5 Impairment of property, plant and equipment and intangible assets

At the date of each consolidated statement of financial position, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with an indefinite useful life are subject to impairment testing once a year.

An asset’s recoverable amount is the higher of its fair value less costs to sell or value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is immediately recognised as an expense, except where the asset is stated at revalued cost, in which case the impairment loss is recognised as a decrease to the revaluation reserve.

When an impairment loss is subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but in such a way that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. Such reversals are recognised in profit or loss unless the asset is carried at its revalued amount, in which case the reversal is treated as an increase in the revaluation reserve.

4.6 Operating leases

Leases of assets where the risks and rewards of ownership effectively remain with the lessor are classified as operating leases.

Operating lease payments are recognised as expenses on a straight-line basis over the term of the lease.

The aggregate benefit of incentives granted by the lessor under an operating lease is recognised as a reduction in lease rental expense, on a straight-line basis, over the term of the lease.

4.7 Financial assets

Classification

The financial assets held by the Group are classified into the following categories:

a) Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the Group's trade, or those not arising from trade that are not equity instruments or derivatives and whose collections are for a fixed and determinable amount and are not traded in an active market.

b) Investments held to maturity: debt securities with fixed or determinable payments traded in an active market which the Group intends and is able to hold to maturity.

c) Deposits and guarantees extended: these are recognised at the amount effectively delivered to create them, which does not differ significantly from fair value.

Initial recognition

Financial assets are initially recognised at the fair value of the consideration given plus directly attributable transaction costs.

Subsequent measurement

Loans, receivables and investments held to maturity are measured at amortised cost.

At least at each year-end, the Group tests its financial assets not measured at fair value for impairment. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss is recognised in the consolidated statement of profit or loss.

More specifically, concerning impairment allowances for trade and other accounts receivable, impairment losses are recognised in accordance with the risk of non-collection. The criteria employed by the Group to calculate these impairment allowances, as and when applicable, is to make provisions for receivables in which payment collection exceeds twelve months, or before if the difficulty of recovery is actually known.

The guarantees provided and deposits made are measured at their fair value.

The Group derecognises financial assets when the contractual rights to the cash flows from the financial asset expire or have been transferred, and substantially all the risks and rewards of ownership have been transferred, such as in outright sales of assets.

On the other hand, the Group does not cancel financial assets, and recognises a financial liability for an amount equal to the received consideration, in financial asset transfers where the risks and benefits inherent to the ownership are substantially retained, such as discount facilities, sale of financial assets with repurchase agreements at a fixed price or sale price plus interest and where the transferring company retains the subordinate financing or other type of guarantees that substantially absorb all expected losses.

4.8 Equity instruments

Equity instruments are classified in accordance with the relevant contractual agreements. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by the Parent are recognised in equity at the proceeds received, net of direct issue costs.

4.9. Financial liability instruments:

The Group's main financial liabilities are classified as financial liabilities at maturity and are measured at amortised cost, using the effective interest method.

Debts with credit institutions, bonds and other securities

Interest-bearing bank loans and debt securities are recognised at the proceeds received, net of direct issue costs. Finance costs, including premiums payable upon settlement or repayment and direct issue costs, are taken to the consolidated statement of profit or loss as accrued using the effective interest method and added to the carrying amount of the instrument if not paid during the period in which they accrue.

Trade payables

Trade payables are not interest-bearing and are stated at their nominal value, which does not differ substantially from their fair value.

4.10 Derivative financial instruments

Derivatives are initially recognised at their fair value on the date of the derivatives contracts are arranged and later measured again at fair value at the close of every financial year. The resulting gain or loss is immediately recognised in the income statement unless the derivative is designated, and effective, as a hedging instrument, in which case the time of recognition in the income statement will depend on the nature of the hedging relationship.

In 2015, the Group arranged a derivative financial instruments to manage its exposure to interest rate risk. The Group arranged no hedging instruments in 2017 or 2016.

4.11 Valuation techniques and assumptions used to measure fair value

The fair values of financial assets and financial liabilities are determined as follows:

- Fair values of financial assets or liabilities with standard terms and conditions traded on active liquid markets are determined by reference to their quoted market price.

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally-accepted valuation models on the basis of discounted cash flows using the prices of observable market transactions.

Financial instruments measured subsequent to their initial recognition at fair value are categorised into levels 1 to 3, based on the extent to which the fair value is observable.

- Level 1: measurements derived from (unadjusted) quoted prices in active markets for identical assets or liabilities to which the entity has access at the measurement date.
  The most reliable evidence of fair value is the quoted price in an active market, used unadjusted to measure the fair value whenever available.

- Level 2: measurements derived from "inputs" other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

- Level 3: valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At the end of 2017, 2016 and 2015, the Group does not hold financial assets or liabilities that are measured at fair value on a recurring basis, with the exception of a specific derivative financial instrument, whose fair value at 2017, 2016 and 2015 year-ends was close to zero euros (see Note 11).

4.12 Termination benefits and other obligations to employees

Under current legislation, the Group is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognised as an expense in the year in which the decision to terminate the employment relationship is taken.

As at 31 December 2017, the Group has recognised a total of EUR 14 thousand under "Current liabilities - Other current liabilities" on the accompanying consolidated statement of financial position for outstanding compensation pending settlement (EUR 55 and 935 thousand as of 31 December 2016 and 2015, respectively).

A company related to the Sole Shareholder of the Parent has established a specific incentive plan with part of its workforce in order to remunerate these employees in cash for the loyalty to the Group over a certain period of time, and for other employees, for meeting their performance targets over the specified time. This remuneration is conditional on complying with a determined minimum internal rate of return with respect to the initial investment made by investors, and is indexed to the aforementioned cash returns in a percentage agreed with each employee adhering to the plan. The right to receive this remuneration arises once the minimum internal rate of return has been surpassed, and will remain in force until the investors withdraw, as defined in the plan.

4.13 Provisions

In preparing the consolidated financial statements, the Parent's directors drew a distinction between:

- Provisions: balances payable covering obligations existing at the date of the consolidated statement of financial position arising as a result of past events which could give rise to liabilities for the Group that are specific in nature but which require estimations as to their amount and/or timing; and

- Contingent liabilities: possible obligations arising from past events, whose existence will be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group.

The consolidated financial statements include all the provisions with respect to which it is considered more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements, but rather are disclosed in the notes, unless they are considered remote.

Provisions are stated at the present value of the best possible estimate of the amount necessary to cancel or transfer the obligation, taking into account the information available regarding the event and its consequences, and recognising those adjustments that arise from the restatement of those provisions as a financial expense as they accrue.

As of 31 December 2017, "Long-term Provisions" and "Short-term Provisions" on the accompanying consolidated statement of financial position included a total of EUR 35 thousand and EUR 12 thousand, respectively (EUR 35 thousand and EUR 500 thousand under "Long-term Provisions" and "Short-term Provisions" respectively, as of 31 December 2016, EUR 294 y 523 thousands thousand under "Long-term Provisions" and "Short-term Provisions" respectively, as of 31 December 2015) mainly for ongoing litigation proceedings. At 31 December 2016, the subsidiary Haya Titulización had recognised a provision of EUR 500 thousand, resulting from the risk assessment for a certain lawsuit involving one of the funds it manages. In 2017, the subsidiary reversed the provision in full, with a charge to the statement of profit or loss, as the lawsuit was resolved without any payment being required.

4.14 Revenue and expense recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for the goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. In general, expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

Volume servicing fees and other revenues are recognised according to the stage of completion of the transaction at the date of the consolidated statement of financial position. In this regard, it is considered that a service has been fully rendered when all the associated milestones have been met. Concretely the volume servicing fees are recognized when the assets under management, property of the Group's clients, have been sold in the case of REOs or recovered in the case of REDs. At that moment, the Group applies to the sale price of the REO, or to the appraisal value in case of a REO conversion process, or to the amount repaid of a RED under management, the corresponding percentage fee depending on the nature of each REO, REO conversion or repayment of RED, respectively, according to the conditions established in the management service agreement contracts governing their activity.

The "Other" revenues mainly includes the revenue recognized for the provision of funds securitization management services through the subsidiary Haya Titulización, for advisory and valuation services related to portfolios of real estate assets, for management services of rentals and other value-added services that complement the Group's core business.

The Group also recognises on a monthly basis the revenue deriving from asset management activities, applying the corresponding fee to the contractually-agreed reference value of the assets under management.

In addition, the Group recognises on a monthly basis the management fees related to the assets included in the management perimeters agreed with its clients, applying the relevant commission fee to the reference value, contractually defined, of the assets under management. The nature of the basis taken into account to contractually determine the reference value of the assets under management in the different SLAs, varies according to the SLAs,

and may match with their gross book value in the client's books, or with a value defined when entering into the agreement, or with other values that were then agreed with the clients.

The Group makes trade provisions at the time of the sale to cover any future risks resulting from sale transactions entered into with clients. These provisions are estimated separately based on recent past experience and the characteristics of the transactions for which the Group has recognised revenue.

4.15 Income tax and deferred tax assets and liabilities

Income tax expense is recognised in the consolidated statement of profit or loss, unless it arises as a consequence of a transaction the result of which is recognised directly in equity, in which case the income tax expense is also recognised in equity.

Income tax expense is the sum of the current income tax expense for the period and changes in recognised deferred tax assets and liabilities.

Income tax expense for the year is the sum of current tax, calculated by applying the tax rate to taxable income for the year, after recognising any allowable tax deductions, plus any changes in deferred tax assets and liabilities, including unused tax losses and credits.

Deferred tax assets and liabilities 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 carry forwards and unused tax credits. These amounts are measured by applying to the corresponding temporary difference or tax asset the tax rate at which the asset is expected to be realised or the liability is expected to be settled.

Deferred tax liabilities are recognised for all taxable temporary differences, unless the difference arises from initial recognition of goodwill. Deferred tax assets on deductible temporary differences are only recognised to the extent that it is probable that the consolidated entities will have sufficient taxable profit in future against which the deductible temporary differences can be applied. Other deferred tax assets (unused tax losses and credits) are only recognised if it is considered probable that the consolidated companies will have sufficient future taxable profits against which they can be applied.

Deferred tax assets and liabilities are reviewed at the end of each reporting period to verify that they remain current, and the appropriate adjustments are made on the basis of the results of the review.

Deferred tax assets and liabilities are offset only if they refer to an income tax applied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4.16 Foreign currency transactions

The Group's functional currency is the euro. Accordingly, transactions denominated in currencies other than the euro are considered foreign currency transactions and are recognised accordingly at the rates of exchange prevailing at the transaction dates.

As of 31 December 2017 and 2016, the functional currency of all of the companies included in the consolidation scope is the Euro.

In 2017 and 2016, there were no transactions in foreign currencies recognised by the Group. As a result, no specific information is included in the notes to these consolidated financial statements.

4.17 Transactions with related parties

The Group's transactions with related parties are all carried out at market prices (see Note 20). Additionally, supporting documents on transfer prices are currently being updated according to applicable tax regulations and are expected to be completed within the established deadline (before the filing of corporate income tax for 2017). The Group Management believes there are no significant risks associated with this matter that could give rise to material liabilities in the future.

4.18 Consolidated statement of cash flows

The consolidated statement of cash flows was prepared by using the indirect method and the terms used are defined as follows:

- Cash flows: inflows and outflows of cash and cash equivalents; defined as highly liquid, short-term investments with low risk of experiencing significant fluctuations in their value.

- Operating activities: regular activities engaged in by companies that belong to the consolidated Group, in addition to other activities that do not fall under the categories of investing or financing activities.

- Investing activities: the acquisition and disposal of non-current assets and other investments not included in cash equivalents.

- Financing activities: activities that result in changes in the size and composition of equity and borrowings that are not part of the operating activities.

4.19 Uniformity

To ensure a consistent presentation of the items included in the accompanying consolidated financial statements, the valuation rules and standards used by the Parent have been applied to all the consolidated entities in aspects that could have a significant effect, in the preparation of these financial statements.

The financial year of all consolidated companies ends on 31 December.

4.20 Classification of balances as current or non-current

In the accompanying consolidated statement of financial position, balances are classified as current and non-current. Balances are classified as current when the Group expects to sell, consume, realise or settle them in its normal course of business; if they do not meet these criteria, they are classified as non-current.

5. Intangible assets

Changes in “Intangible assets” and accumulated amortisation for 2017, 2016 and 2015 were as shown below:

2017

	Thousands of euros			
	Balance as at 31/12/2016 (*)	Inclusions in the scope of consolidation	Additions	Balance as at 31/12/2017
Cost:				
Patents, licenses, trademarks and similar	28	2	7	37
Computer software	20,428	54	8,646	29,128
Other intangible assets				
Management business - Bankia group 2013	18,245	-	-	18,245
Management business - Cajamar group 2014	224,692	-	-	224,692
SAREB contract 2014	229,034	-	-	229,034
Management business - Liberbank group 2017 (Note 1)	-	84,800	-	84,800
Total cost	**492,427**	**84,856**	**8,653**	**585,936**
Accumulated amortisation:				
Patents, licenses, trademarks and similar	(8)	-	(3)	(11)
Computer software	(6,175)	-	(5,126)	(11,301)
Other intangible assets				
Management business - Bankia group 2013	(5,878)	-	(1,825)	(7,703)
Management business - Cajamar group 2014	(56,108)	-	(22,468)	(78,576)
SAREB contract 2014	(93,067)	-	(45,576)	(138,643)
Management business - Liberbank group 2017 (Note 1)	-	-	(4,824)	(4,824)
Total accumulated amortisation	**(161,236)**	**-**	**(79,822)**	**(241,058)**
Net book value	**331,191**	**84,856**	**(71,169)**	**344,878**

(*) Restated figures

2016

	Thousands of euros				
	Balance as at 31/12/2015 (*)	Additions	Disposals	Transfers	Balance as at 31/12/2016 (*)
Cost:					
Development	195	-	-	(195)	-
Patents, licenses, trademarks and similar	24	4	-	-	28
Computer software	11,060	9,240	(67)	195	20,428
Other intangible assets					
Management business - Bankia group 2013	18,245	-	-	-	18,245
Management business - Cajamar group 2014	224,692	-	-	-	224,692
SAREB contract 2014	229,034	-	-	-	229,034
Other	33	-	(33)	-	-
Total cost	**483,283**	**9,244**	**(100)**	**-**	**492,427**
Accumulated amortisation:					
Development	(44)	-	-	44	-
Patents, licenses, trademarks and similar	(5)	(3)	-	-	(8)
Computer software	(3,821)	(2,329)	19	(44)	(6,175)
Other intangible assets					
Management business - Bankia group 2013	(4,046)	(1,832)	-	-	(5,878)
Management business - Cajamar group 2014	(33,641)	(22,467)	-	-	(56,108)
SAREB contract 2014	(46,210)	(46,857)	-	-	(93,067)
Total accumulated amortisation	**(87,767)**	**(73,488)**	**19**	**-**	**(161,236)**
Net book value	**395,516**	**(64,244)**	**(81)**	**-**	**331,191**

(*) Restated figures

2015

	Miles de Euros						
	Balance as at 31/12/2014	Change of accounting criteria (Note 3.3)	Balance 01/01/2015 (*)	Inclusions in the scope of consolidation	Additions	Disposals	Balance as at 31/12/2015 (*)
Cost:							
Development	-	-	-	123	72	-	195
Patents, licenses, trademarks and similar	24	-	24	-	-	-	24
Computer software	4,995	-	4,995	801	5,264	-	11,060
Other intangible assets							
Management business - Bankia group 2013	18,305	-	18,305	-	-	(60)	18,245
Management business - Cajamar group 2014	224,692	-	224,692	-	-	-	224,692
SAREB contract 2014	-	235,100	235,100	-	-	(6,066)	229,034
Other	-	-	-	-	33	-	33
Total cost	**248,016**	**235,100**	**483,116**	**924**	**5,369**	**(6,126)**	**483,283**
Accumulated amortisation:							
Development	-	-	-	(9)	(35)	-	(44)
Patents, licenses, trademarks and similar	(2)	-	(2)	-	(3)	-	(5)
Computer software	(1,856)	-	(1,856)	(701)	(1,264)	-	(3,821)
Other intangible assets							
Management business - Bankia group 2013	(2,213)	-	(2,213)	-	(1,833)	-	(4,046)
Management business - Cajamar group 2014	(11,172)	-	(11,172)	-	(22,469)	-	(33,641)
SAREB contract 2014	-	-	-	-	(46,210)	-	(46,210)
Total accumulated amortisation	**(15,243)**	**-**	**(15,243)**	**(710)**	**(71,814)**	**-**	**(87,767)**
Net book value	**232,773**	**235,100**	**467,873**	**214**	**(66,445)**	**(6,126)**	**395,516**

(*) Restated figures

Computer software

Additions in 2017 under "Computer software" are mainly due to the investments being made by the Parent in computer software to manage its clients' real estate and credit assets and, thus, achieve technological autonomy with respect thereto. As at 31 December 2017, all the computer software capitalised in the consolidated statement of financial position is in use (EUR 6,638 and 1,255 thousand corresponded to computer software under development and therefore not in use at 31 December 2016 and 2015, respectively). At 31 December 2017, additions of computer software pending payment to the relevant suppliers amount to EUR 5,960 thousand (EUR 5,878 and 1,520 thousand in 2016 and 2015, respectively) and are recognised under "Current liabilities - Other financial liabilities" on the accompanying consolidated statement of financial position.

Other intangible assets - Management business - Bankia group 2013

The purchase agreement for the Bankia group's asset management business and the assets of SAREB, managed by the Bankia group until the date of the business combination arranged in 2013, implied the Group's acquisition of the exclusive management of the assets of the Bankia group and SAREB (see Note 1.a).

The acquisition price established in the purchase agreement and subsequent amendments comprised a fixed amount of EUR 39,170 thousand, to be paid according to a calendar of payments, the last of which took place in 2015, and a variable amount of up to EUR 12,500 thousand that was accrued and recognised in 2015 and paid partly in 2016, for the amount of EUR 1,900 thousand. The remaining EUR 10,600 thousand was paid in 2017. The purchase agreement for the business also established an additional contingent incentive payment, which was to be conditional on the Parent meeting specified operating targets over a specified time period. At the time of the contract, such operating targets included the activity from the SAREB's assets which were subsequently taken out from the perimeter of assets under management when the Group signed the servicing agreement directly with SAREB, in December 2014. At 31 December 2017, based on the results achieved to date and the results expected to be achieved in the remaining measurement period for the incentive, the Group Management considers that no additional liabilities will derive from this contingent incentive payment.

Following the Purchase Price Allocation process, the Group recognised an intangible asset for the amount of EUR 38,932 thousand corresponding to the value of the asset management business acquired. This figure was registered according to the best estimate of the current value of the projected revenue from the management services provided, in accordance with the baseline scenarios of the investors' business plans and with a minimum expected term of ten and three years for the management of the assets owned by Bankia and SAREB, respectively. The application of this criterion did not significantly differ from the application of the cash flow updating criterion based on the Group's business plan.

As a result of the transfer, in late 2014, of the service agreement for the management of SAREB's assets, the Group derecognised, with a charge to the consolidated statement of profit or loss for 2014, the cost corresponding to the price paid, assigning it to the management contract for SAREB's assets, the cost and accumulated amortisation of which totalled EUR 20,627 thousand and EUR 8,668 thousand, respectively.

Further, on 16 March 2017, the Parent paid EUR 3,500 thousand which was pending at the close of the prior year, in relation to an agreement reached with the Bankia group on specific operating and commercial matters associated with the services rendered by Bankia group as the Group's bank partner in servicing SAREB. This amount was recognised in the consolidated statement of profit or loss for 2016.

Other intangible assets - Management business - Cajamar group 2014

In 2014, the Group acquired the exclusive management business for the real estate and credit assets of the financial institution Cajamar and certain related entities (see Note 1.c). The acquisition price of the business was set as a fixed portion in the amount of EUR 225,000 thousand and a variable portion if new entities of the Cajamar group subscribed to the contract. This did not occur in 2017, 2016 and 2015.

Following the Purchase Price Allocation process carried out in 2014, the Group recognised an intangible asset for the amount of EUR 224,692 thousand corresponding to the value of the asset management business acquired. This figure was estimated according to the best estimate of the current value of the projected revenue generated by the business acquired, in accordance with the baseline scenarios of the investors' business plans and with the

contract term of ten years for the management of the assets owned by the Cajamar group. The application of this criterion did not significantly differ from the application of the cash flow updating criterion based on the Group's business plan.

Other intangible assets - SAREB contract 2014

As described in Note 1.b, on 30 December 2014 the Parent entered into a service agreement with SAREB for the management of specific credit assets owned by SAREB (assets originally from Bankia, as transferor), by paying an amount of EUR 235,100 thousand. During 2015, there was a reduction in the perimeter under management, which involved the return by SAREB of an amount of EUR 6,066 thousand, which is presented in the column "Disposals" of the table of the movement of intangible assets for the year 2015.

The services to be delivered under this contract are as follows:

- Migration services, consisting of all services necessary to develop, execute, and finalise the migration of the assets whose management has been awarded to the Parent from the platforms of the original financial institutions, which had been providing such services to SAREB until the date of the new contract.

- Administration and management services for the portfolio of assets awarded to the Parent, as they are migrated from the platforms of the original financial institutions. These services include the marketing and sale of the real estate assets in the portfolio.

- Legal services in relation to the administration and management services the Parent must provide in connection with the managed assets.

The amortisation charge corresponding to the aforementioned intangible asset, recognised in the accompanying consolidated statement of profit or loss for the year ended 31 December 2017, amounted to EUR 45,576 thousand (EUR 46,857 and 46,210 thousand in 2016 and 2015, respectively).

Other intangible assets - Management business - Liberbank group 2017

The business combination associated with the management of the real estate assets belonging to the Liberbank group, described in Note 1.d, means that, in compliance with prevailing accounting standards, the Group Management has made a best estimate of the allocation of the price paid for the fair value of the assets acquired and the liabilities assumed (PPA), considering that these were carried under Level 3 in the IFRS classification system, given that their fair value is obtained using valuation techniques that include inputs for the asset or liability that are not based on observable market data (non-observable inputs).

The total price established in these agreements for the business acquisition totals EUR 85,000 thousand, which had been paid in full at 31 December 2017.

The Purchase Price Allocation based on the best estimate of the Group Management is shown below:

	Thousands of euros
Consideration paid	85,000
Assets acquired	
Computer software	54
Other intangible assets	2
Property, plant and equipment	40
Management business - Liberbank group 2017	84,800
Trade and other receivables	73
Financial assets	18
Cash	332
Liabilities assumed	
Provisions	6
Borrowings	1
Trade and other payables	312
Goodwill / (Negative goodwill)	**-**
Business combination net cash flow	**84,668**

Based on the analysis of the fair value of the assets and liabilities acquired, made in 2017, the Group recognised an intangible asset for the amount of EUR 84,800 thousand, corresponding to the best estimate of the value of the business for the exclusive management of Liberbank's real estate assets. This figure was obtained according to the best estimate of the current value of the projected revenue generated by the business acquired, in accordance with the baseline scenarios of the investors' business plans and with an expected term of seven years for the management of the assets owned by the Liberbank group. To carry out the net revenue estimate, the Group considered, (i) asset inflows during the contract term and contractually committed, globally equivalent to 40% of the initial volume of assets under management and, among other variables, (ii), a annual selling pace of around 25% of the assets under management, during the contract term, and (iii) selling prices of the real estate owned assets around 80% and 90% of the assets' reference value. The application of this criterion does not significantly differ from the application of the cash flow updating criterion based on the Group's business plan.

Further, the Group Management has not identified any additional liabilities associated with the exclusive agreement or any potential obligations or contingencies assumed with respect to the acquired entity Mihabitans.

As mentioned above, the assets acquired in the business combinations are amortised on a straight-line basis according to the useful life estimated by the Group Management. The exclusive management business has been assigned a useful life of seven years.

Impairment test

At least annually, the Group Management performs an impairment test, which involves calculating the value in use of the assets according to the cash-generating unit's discounted cash-flows methodology. This test is based on the preparation of a business plan covering a period of time that is in line with the term of the contracts described in Note 1, which constitute the Group's main business activity. The main elements of this plan are as follows:

- Projections of the asset under management outflows: REOs sales and REDs recoveries, taking into account the units sold or recovered and the corresponding price.

- Projections of the asset under management inflows (REOs and REDs).

- Projections on REO conversions.

- Projections of the investment in IT systems.

Projections of the asset under management outflows, inflows and conversions are based on historical experience gathered from the Group's activity beginning and are determined taking into account each client's profile and the information obtained when preparing with the clients the operating budgets for the next year. Specifically, the Group Management estimates the outflow units on the basis of (i) the trends observed by operating over the last years, (ii) the level of clients' willingness in concluding transactions, according to their own budgets and objectives, (iii) other exogenous factors such as regulatory changes that may impact its clients, basically from the banking industry, and their assets. In addition, the Group Management estimates the outflows' price on the basis of its historical experience and considers a moderate growth of the real estate industry. With respect to inflows, when the inflows are contractually established, the Group Management takes into account those contractually committed inflows and, otherwise, it takes into account an average inflow level observed when operating with each clients over the previous years.

Projections of the investment in IT systems gather the capital expenditures that are estimated to be necessary to improve and maintain the IT systems used in servicing the clients. As mentioned above, the Group has recently reached the technological independence in servicing its clients, which will entail a certain level of recurring capital expenditures that the Group has estimated on the basis of historical ratios and of the volume of assets expected to be under management in the next years.

The Group Management considers that the measurement of fair value has a low sensitivity to changes in input data which cannot be observed, because much of the income received by the Group is directly linked to the volume of assets under management.

In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

At year-end 2017, after testing the impairment of each one of the intangible assets acquired through business combinations and considering the aforementioned assumptions, the Group has determined that the estimated recoverable amount is higher than the net book value, so that there is no sign of impairment for such assets. Further, the Group Management has not identified any additional liabilities associated with the acquired businesses in relation to the projected cash flows and projected term of the contracts.

With respect to the sensitive analysis of the impairment test, the Group Management carried out a sensitive test of the outputs of the impairment test by stressing the following variables:

- Increase by 200 basic points of the discount rate.
- Decrease by 20% of the projected free cash flows.

Such sensitive tests independently performed on each aforementioned variable, assuming the rest of variables to be constant, would not lead to any impairment.

6. Goodwill

The breakdown of Group goodwill as of 31 December 2017, 2016 and 2015 was as follows:

	Thousands of euros		
	2017	2016	2015
Haya Titulización	4,265	4,265	4,265
Haya Property Management cash-generating unit	1,814	1,814	1,814
Total	**6,079**	**6,079**	**6,079**

At year-end, or whenever there are signs of impairment, the Group proceeds to estimate, through an impairment test, the potential existence of permanent losses in value that reduce recoverable goodwill value to an amount lower than the recognised net cost.

For the purpose of impairment testing, goodwill is allocated to one of more of the Group's cash-generating units. The recoverable amount of each cash-generating unit is determined to be the higher of the value in use and the net sale price that would be obtained from the assets associated with the cash-generating unit. The recoverable value of the main cash-generating units to which goodwill has been assigned is their value in use.

Value in use was calculated on the basis of estimated future cash flows, on the basis of the latest business plans prepared by the Group management. These plans include the best available estimated income and costs of the cash-generating units, using industry forecasts and future prospects.

These future forecasts cover the next five years, including a suitable residual value for each business, in which a constant expected growth rate near zero applies.

In order to calculate the net present value of these cash flows, they are discounted at a rate that reflects the weighted average cost of the capital employed, adjusted for the country risk and business risk corresponding to each cash-generating unit.

Haya Titulización

The main variables used by the Group Management to establish the value in use of the securitisation fund management business at Haya Titulización are the following:

- Volume of securitisation fund managed: the Group Management has not taken into account new securitisation funds to be managed, and has only considered the cash flows associated with the portfolio under management as at 31 December 2017.

- Fee income evolution: The Group Management has only considered fee income from the management of securitisation funds, ignoring potential ancillary income from its management activity. It has not considered any increase in the percentage fee.

- A discount rate according to the industry in which the subsidiary operates and the characteristics of the subsidiary.

On the basis of this analysis, the Group Management has concluded there is no impairment in the goodwill associated with the Haya Titulización business unit, in the years 2017, 2016 and 2015.

Haya Property Management cash generating unit

The Haya Property Management (HPM) cash-generating unit engages in the management of leased properties, which was carried out by the subsidiary Gesnova Gestión Inmobiliaria Integral, S.L.U., before its merger by acquisition by the Parent in 2016 (see Notes 2).

The main variables used by Group Management to determine the value in use of the leased property management business are the following:

- Volume of managed real estate assets: the Group Management has considered the addition of new properties to be managed, considering the expected flow of the conversion of financial assets managed by the Parent into real estate assets, even though these additions do not imply a significant impact on total projected cash flows.

- Fees: The Group Management has only considered fee income from the management of leased buildings, ignoring potential ancillary income from its management activity. It has not considered any increase in the percentage fee.

On the basis of this analysis, the Group Management has concluded there is no impairment in the goodwill associated with the cash-generating unit Haya Property Management.

7. Financial assets

Changes in “Non-current financial assets” and “Current financial assets” during the years 2017, 2016 and 2015, in the accompanying consolidated statement of financial position are as follows:

Non-current and current financial assets

	Thousands of euros												
	Balance as at 31/12/2014	Change of accounting criteria (Note 3.3)	Balance as at 01/01/2015 (*)	Inclusions in the scope of consolidation	Additions	Disposals	Balance as at 31/12/2015 (*)	Additions	Disposals	Balance as at 31/12/2016 (*)	Inclusions in the scope of consolidation	Additions	Balance as at 31/12/2017
Non-current financial assets – SAREB	194,680	(194,680)	-	-	-	-	-	-	-	-	-	-	-
Credits to Group companies	-	-	-	101	-	(101)	-	-	-	-	-	-	-
Credits to third parties	-	-	-	18	-	(16)	2	-	(2)	-	-	-	-
Other financial assets	324	-	324	104	120	(176)	372	31	(27)	376	-	2	378
Upstream loan to the Sole Shareholder	-	-	-	-	-	-	-	-	-	-	-	88,090	88,090
Total non-current financial assets	**195,004**	**(194,680)**	**324**	**223**	**120**	**(293)**	**374**	**31**	**(29)**	**376**	**-**	**88,092**	**88,468**
Non-current financial assets – SAREB	40,420	(40,420)	-	-	-	-	-	-	-	-	-	-	-
Other financial assets	75	-	75	9,501	-	(2,072)	7,504	-	(7,504)	-	18	-	18
Interest on loan to the Sole Shareholder	-	-	-	-	-	-	-	-	-	-	-	478	478
Financial assets – Haya Titulización	8,750	-	8,750	(8,750)	-	-	-	-	-	-	-	-	-
Total current financial assets	**49,245**	**(40,420)**	**8,825**	**751**	**-**	**(2,072)**	**7,504**	**-**	**(7,504)**	**-**	**-**	**478**	**496**

(*) Restated figures

On 27 November 2017, the Parent extended a loan of EUR 88,090 thousand to its Sole Shareholder, maturing at the end of November 2022. This loan accrues interest at market rates, with half-yearly settlements, which totalled EUR 478 thousand in 2017 and are pending collection in full at the year end.

By entering into the scope of consolidation of the subsidiary Haya Titulización (see Note 2), the Group acquired safe deposits, which amounted to EUR 7,500 thousands as of December 31, 2015, that matured and became liquid in August 2016. The financial income generated by the deposits mentioned is not relevant for these consolidated annual accounts.

As a result of the takeover of the company Haya Titulización (see Note 2), the payment made in 2014 for the amount of EUR 8,750 thousand was eliminated in 2015 through the entry into the scope of consolidation of the company.

The Group Management considers that the carrying amount of financial assets at 31 December 2017, 2016 and 2015 does not differ significantly from their fair value.

8. Leases

As of 31 December 2017, 2016 and 2015, the Group held contracts with lessors of property with the following minimum lease payments in accordance with the currently valid contracts, without taking into account the effects of community charges, future CPI increases, or future rent updates as agreed contractually (in thousands of euros):

	Nominal value		
	2017	2016	2015
Less than one year	1,946	1,475	1,432
One to five years	443	1,841	1,213
Total	**2,389**	**3,316**	**2,645**

The committed lease payments at year-end 2017, 2016 and 2015 mainly correspond to the leases of the offices in Madrid, Valencia and Almeria, which expire in the short term, with tacit renewals of between one and two additional years. The Group Management considers that there are no significant doubts about the renewal of these contracts and therefore, they have disclosed the contractual income deriving from these renewals in the above table.

The amount of the operating lease payments recognised as an expense in 2017 amounted to EUR 2,059 thousand (EUR 1,630 and 1,681 thousand in years 2016 and 2015, respectively) and is recognised under the heading “Other operating expenses” in the accompanying consolidated statement of profit or loss (see Note 16.2).

9. Other current financial assets

Cash and cash equivalents

As of 31 December 2017, 2016 and 2015, the heading “Cash and cash equivalents” in the accompanying consolidated statement of financial position includes the Group's cash, which is pledged to secure the funding received (see Note 11).

The Group Management considers that the carrying amount for this item at 31 December 2017, 2016 and 2015 does not differ significantly from its fair value.

Trade and other receivables

The breakdown of the heading “Trade and other receivables” in the accompanying consolidated statement of financial position at 31 December 2017, 2016 and 2015 is as follows:

	Thousands of euros		
	2017	2016	2015
Trade receivables	113,056	67,927	74,398
Related party receivables (Note 20.2)	889	1,187	919
Trade provisions	(182)	(18)	(144)
Staff	65	-	-
Sundry debtors	57	16	86
Current tax assets (Note 18.2)	-	188	190
Other tax receivables (Note 18.2)	17,642	3	4
	131,527	**69,303**	**75,453**

As of 31 December 2017, virtually all of the accounts receivable presented in "Receivables for sales and services" under the heading "Trade and other receivables" in the accompanying consolidated statement of financial position are with four clients, SAREB, Bankia, Cajamar and Liberbank (three clients, SAREB, Bankia and Cajamar as of 31 December 2016 and 2015) and correspond to invoices issued and provisions for invoices pending issue, according to the frequency agreed in the service agreements with those clients (see Note 1), not existing any defaulting party additional to those provisioned for by the Group on 31 December 2017, 2016 and 2015, respectively (see Note 15).

Of the accounts receivable presented under "Receivables for sales and services" in the heading "Trade and other receivables" in the accompanying consolidated statement of financial position at 31 December 2017, an amount of EUR 112,236 thousand (EUR 67,173 and 73,292 thousand at 31 December 2016 and 2015, respectively) has been pledged to secure the financing received by the Group (see Note 11).

The balance held under "Trade and other receivables - Other tax receivables" on the consolidated statement of financial position at 31 December 2017 corresponds mainly to the value added tax associated with the acquisition of exclusive asset management business of the Liberbank group (see Notes 1, 11 and 18).

In the opinion of the Group Management, the carrying amount of trade and other receivables as of 31 December 2017, 2016 and 2015 does not differ significantly from their fair value.

10. Equity

10.1 Share capital

As described in Note 1, the Parent was incorporated in 2013 with a share capital of EUR 3,010 divided in 3,010 shares with a face value of EUR 1 each.

On 1 August 2013, Promontoria Holding 62, B.V. purchased all 3,010 shares at a price equal to the face value of the shares, becoming the Sole Shareholder of the Parent.

In a public deed dated 10 October 2013, Promontoria Holding 62, B.V. (Sole Shareholder) fully subscribed a capital increase in the Parent, for the amount of EUR 830 thousand with a share premium of EUR 7,470 thousand, through a cash contribution of EUR 8,300 thousand. The capital increase was registered in the Mercantile Registry on 24 October 2013. It was carried out with the objective of strengthening the equity structure of the Parent and providing it with greater balance. It was formalised through the creation of 830,000 shares, each with a face value of EUR 1 and a share premium of EUR 9.

In a public deed granted on 3 July 2014, the Sole Shareholder fully subscribed a share capital increase in the Parent for the amount of EUR 5,400 thousand, with a share premium of EUR 48,600 thousand, through a cash contribution of EUR 54,000 thousand. The capital increase was registered in the Mercantile Registry on 8 August 2014 This capital increase was carried out in order to provide the Parent with sufficient resources to purchase the shares and increase the share capital of its subsidiary Laformata Servicios y Gestiones, S.L.U. (see Note 1), and was formalised through the creation of 5,400,000 shares each with a face value of EUR 1 and a share premium of EUR 9.

Likewise, in a public deed granted on 30 December 2014 the Parent performed another capital increase, fully subscribed by the Sole Shareholder on 29 December 2014, for the amount of EUR 3,000 thousand, with a share premium of EUR 27,000 thousand through a cash contribution of EUR 30,000 thousand. This capital increase, formalised through the creation of 3,000,000 shares each with a face value of EUR 1 and a share premium of EUR 9, was registered in the Mercantile Registry on 26 January 2015. The purpose of this increase was to partially finance the payment associated to the contract signed with SAREB (see Note 1.b).

On 3 July 2015, the Sole Shareholder fully subscribed an increase of EUR 450 thousand in the Parent’s share capital, with a share premium of EUR 4,050 thousand. The capital increase was funded by a non-cash contribution consisting of the delivery of 100% of the shares of Haya Online, S.A.U and Gesnova, Gestión Inmobiliaria Integral, S.L.U. This capital increase, formalised through the creation of 450,000 new shares each with a face value of EUR 1 and a share premium of EUR 9, was registered in the Mercantile Registry on 3 August 2015.

The share capital as of 31 December 2017, 2016 and 2015 is therefore represented by 9,683,010 company shares, each with a face value of EUR 1, all of the same class, fully subscribed and paid up, with Promontoria Holding 62, B.V. holding 100% of the shares in the Parent.

The shares of the Parent are pledged in full as collateral for the financing obtained on 27 November 2017 (see Note 11). This pledge extends to all new shares of the Parent and any element replacing those shares in the event of a merger, spin off, dissolution, liquidation, capital increase or decrease, conversion, change or transformation of the shares, or any similar event involving the Parent or its shares. Further, this pledge shall extend to all amounts deriving from refunds, interest, dividends or distributions deriving from the shares or corresponding to them.

10.2 Share premium

In accordance with current regulations the Parent has recognised the share premium linked to the aforementioned capital increases described in the previous section. The nominal unit value of the share premium is EUR 4.7 per share at 31 December 2017 (EUR 5.4 at 31 December 2016 and 2015).

On 27 November 2017, the Parent's Sole Shareholder approved the distribution of an extraordinary dividend against the share premium for the amount of EUR 5,995 thousand, which was paid in full in 2017.

10.3 Reserves

At 31 December 2017, 2016 and 2015, reserves by type and company are broken down as follows:

2017

	Thousands of euros			
	Restricted reserves	Unrestricted reserves	Other reserves	Total
Haya Real Estate, S.L.U. (Parent)	1,937	-	181	2,118
Haya Titulización, Sociedad Gestora de Fondos de Titulización, S.A.U. (Subsidiary)	200	2,001	-	2,201
Total	**2,137**	**2,001**	**181**	**4,319**

2016

	Thousands of euros		
	Restricted reserves	Unrestricted reserves	Total
Haya Real Estate, S.L.U. (Parent)	1,842	13,359	15,201
Haya Titulización, Sociedad Gestora de Fondos de Titulización, S.A.U. (Subsidiary)	200	15	215
Total	**2,042**	**13,374**	**15,416**

2015

	Thousands of euros		
	Restricted reserves	Unrestricted reserves	Total
Haya Real Estate, S.L.U. (Parent)	767	-	767
Laformata Servicios y Gestiones, S.L.U. (Subsidiary)	-	(1,170)	(1,170)
Total	**767**	**(1,170)**	**(403)**

Restricted reserves

Under the Consolidated Text of the Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

The legal reserve may be used to increase capital in an amount equal to the portion of the balance that exceeds 20% of capital after the increase.

Otherwise, until it exceeds 20% of share capital and provided there are no sufficient available reserves, the legal reserve may only be used to offset losses. At 31 December 2017 this reserve had been fully constituted (at 31 December 2016 and 2015, it was partially constituted).

Unrestricted reserves

On 30 March 2017, the Parent's Sole Shareholder approved the distribution of a dividend with a charge against “Unrestricted reserves” of the Parent for amount of EUR 21,489 thousand, which was paid in full in 2017.

Further, on 27 November 2017, the Parent's Sole Shareholder approved the distribution of an extraordinary dividend with a charge against “Voluntary reserves” of the Parent for amount of EUR 20,942 thousand, which was paid in full in 2017.

On year 2015 the Sole Shareholder approved a dividend payment of EUR 45,000 thousand, with a charge to the “Share premium” of EUR 35,294 thousand and a charge of EUR 9,706 thousand to “Other Reserves”, which was liquidated in full in 2015.

At year-end 2017, there are certain restrictions on the distribution of dividends deriving from agreements signed by the Group, in the context of the financing obtained (described in Note 11).

Other reserves

"Other reserves" in the table above correspond to the cumulative effect of certain differences in the accounting treatment of goodwill between the regulatory frameworks for the individual and consolidated financial information of the Parent.

10.4 Other shareholder contributions

The amount of EUR 3,900 thousand recognised under "Other shareholder contributions" on the accompanying consolidated statement of financial position at 31 December 2017 corresponds to the best estimate made by the Group Management of the amount accrued by the executive chairman, the CEO, eleven senior management personnel and fifty-two employees of the Group, in relation to an incentive plan designed in 2013 and arranged with a company related to the Sole Shareholder of the Parent, remunerating these members of staff for their loyalty to the Group for a certain period of time, and in some cases for meeting specific economic or financial targets (see Notes 4.12 and 21.1). This plan will end in October 2018.

The Group Management has made its best estimate of the amount accrued at year-end 2017 on the basis of the information available at the date of authorisation for issue, consisting of the individual remuneration percentages agreed and the estimated cash returns received and to be received by the Sole Shareholder from the start of the Group's business activities until completion of the plan, net of the total investment made by the Sole Shareholder from the same date, increased by an established internal rate of return. As payment of this remuneration is the sole obligation of the company related to the Sole Shareholder of the Parent, the estimated amount has been recognised under "Other shareholder contributions" in the accompanying consolidated statement of financial position, with a charge to "Personnel expenses" on the accompanying consolidated statement of profit or loss for 2017. No amounts were recognised in prior years as payment of this remuneration was considered to be remote. On 16 February 2018, the aforementioned company related to the Sole Shareholder of the Parent paid an amount of EUR 3,222 thousand and the remaining amount recognised at year-end 2017 is expected to be paid in the next twelve months.

In case new distributions would be made to the Sole Shareholder, through dividends, shares sale or other operations with the Parent's equity instruments, the people granted with the plan would receive their respective percentage of such distributions, not being possible assessing at the date of these consolidated financial statements if such distributions will occur, neither their amount, if so. In the context of a potential IPO, the Group Management would reassess the currently accrued amount, taking into account the most reliable information on the capital market situation at any time, together with the stake that the Sole Shareholder would consider to divest. Assuming a divestment percentage between 30% and 50% in 2018, considering the returns, net of incurred expenses and of upstream loan payback by the Sole Shareholder (see Note 7) that would simultaneously occur in an IPO, the Sole Shareholder could distribute to the sixty-five people granted with the plan, an amount between EUR 6 and 16 million, after tax. Considering a full exit from the Sole Shareholder, the total distribution related to this plan could approximatively amount between EUR 28 and 36 million, after tax.

10.5 Capital management

The Group manages its capital to ensure that its entities can continue to comply with the going-concern principle while at the same time maximising profitability for the Sole Shareholder by optimising the balance between debt and equity.

The Group's capital structure consists of net debt (loans, broken down in Note 11, offset by cash and liquid financial assets) and the Group's equity (consisting of its share capital, share premium, reserves and undistributed profits, as itemised in this Note).

The Group's strategy in 2017 focused on maintaining sufficient and necessary financing to sustain the investments described in Notes 1, 2, 5 and 7 and plan debt repayments, considering the contractually established maturities and cash surpluses in order to reduce the financial burden. This involved regular monitoring of the net debt/ equity and net debt/EBITDA ratios, as well as the level of cash available for settling current debt. The Group also ensures that the financial ratios established under its financing agreements are upheld (see Note 11) and that the business plan for the forthcoming financial years will allow them to be met in each measurement period.

Financial indebtedness

Financial indebtedness at year end 2017, 2016 and 2015 was as follows:

	Thousands of euros		
	2017	2016	2015
Debts with credit institutions, bonds and other securities (Note 11)	485,076	242,201	322,598
Cash and cash equivalents	(42,010)	(55,581)	(18,513)
Net debt	**443,066**	**186,620**	**304,085**
Equity	82,240	108,259	76,925
Indebtedness (Net debt/Equity)	**539%**	**172%**	**395%**

The Group calculates its debt ratio defining net debt as total financial debt, defined as the sum of the nominal value of its current and non-current loans, bonds and other debts and accrued interest payable, less current deposits, guarantees and sight deposits and cash.

11. Non-current and current debts

The details of the long-term debt for bonds issued and non-current and current borrowing with banks and Group companies as of 31 December 2017, 2016 and 2015, according to their composition and maturity, are as follows:

31 December 2017

	Thousands of euros						
	Nominal	2018	2019	2020	2021	2022	Total
Senior secured notes	475,000	-	-	-	-	464,011	464,011
Super senior revolving credit facility	15,000	-	-	-	-	-	-
Liberbank business - VAT loan	17,808	17,808	-	-	-	-	17,808
Accrued interest (notes)	-	3,151	-	-	-	-	3,151
Accrued interest (VAT loan)	-	105	-	-	-	-	105
Other	-	1	-	-	-	-	1
Total debts	**507,808**	**21,065**	**-**	**-**	**-**	**464,011**	**485,076**

31 December 2016

	Thousands of euros							
	Nominal	2017	2018	2019	2020	2021	2022 and subsequent years	Total
Sole Shareholder loans	59,373	-	-	-	30,605	-	28,768	59,373
Interest on Sole Shareholder loans	-	3,781	-	-	-	-	-	3,781
Total debts with Group companies	**59,373**	**3,781**	**-**	**-**	**30,605**	**-**	**28,768**	**63,154**
Syndicated loan	246,710	39,271	75,852	77,611	48,491	-	-	241,225
Credit facilities	15,000	-	-	-	-	-	-	-
Syndicated loan interest	-	976	-	-	-	-	-	976
Total bank borrowings	**261,710**	**40,247**	**75,852**	**77,611**	**48,491**	**-**	**-**	**242,201**
Total debts	**321,083**	**44,028**	**75,852**	**77,611**	**79,096**	**-**	**28,768**	**305,355**

31 December 2015

	Thousands of euros							
	Nominal	2016	2017	2018	2019	2020	2022 and subsequent years	Total
Sole Shareholder loans	59,345	-	-	-	-	30,577	28,768	59,345
Interest on Sole Shareholder loans	-	314	-	-	-	-	-	314
Total debts with Group companies	**59,345**	**314**	**-**	**-**	**-**	**30,577**	**28,768**	**59,659**
Syndicated loan	330,000	50,886	70,690	75,906	76,421	47,236	-	321,139
Credit facilities	15,000	-	-	-	-	-	-	-
Syndicated loan interest	-	1,459	-	-	-	-	-	1,459
Total bank borrowings	**345,000**	**52,345**	**70,690**	**75,906**	**76,421**	**47,236**	**-**	**322,598**
Total debts	**404,345**	**52,659**	**70,690**	**75,906**	**76,421**	**77,813**	**28,768**	**382,257**

Senior secured notes

The Group carried out a notes issue in the Euro MTF market in Luxemburg on 15 November 2017, through its subsidiary Haya Finance 2017, S.A.U. This comprised a EUR 250 million tranche with a fixed annual coupon of 5.25%, to be settled half-yearly, and a EUR 225 million tranche with a floating coupon of three month Euribor (subject to a floor of 0%) plus a spread of 5.125% per annum, reset quarterly. The bonds mature in November 2022 and all or part of them can be redeemed at the Group's discretion in accordance with, and at the prices set forth in the terms of the notes. Moody's and Standard & Poor's have rated the notes B3 and B-, respectively. The amount effectively received by the Group amounted to EUR 468,920 thousand, being this amount the one offset by the bank fees up to EUR 6,080 thousand, deducted at the issue.

The financing obtained through the notes issue and the cash on hand at 27 November 2017 were used to: (i) repay the outstanding amount on the syndicated loan and corresponding interest; (ii) repay the debts due to the Sole Shareholder as the result of the acquisition of the management business of Liberbank group's assets (see Notes 1, 2 and 5); (iii) repay the loan granted by the Sole Shareholder to the Group in prior years to fund its activities, and the related interests payable; (iv) grant a long-term loan to the Sole Shareholder (see Notes 7 and 20); (v) distribute

dividends to the Sole Shareholder (see Notes 10 and 19);(vi) maintain a minimum cash on hand and (vii) pay expenses associated with the transaction.

The debt deriving from the bond issue is accounted for at amortised cost, considering the costs incurred in the arrangement of the financing, including the arrangement fee and consultants and notary fees totalling EUR 11,198 thousand, including the aforementioned bank fees up to EUR 6,080 thousand. The amortised cost recognised on the consolidated statement of profit or loss in 2017 was EUR 209 thousand.

To obtain this funding, the Group arranged the following guarantees:

- Pledge on the shares representing the share capital of the Parent (Note 10).
- Pledge over equity instruments (shares or participations) representative of the share capital of the subsidiaries, Haya Titulización, Sociedad Gestora de Fondos de Titulización, S.A.U., Mihabitans Cartera, S.A.U. and Haya Finance 2017 S.A.U. (see Note 2).
- First ranking pledge over the credit rights deriving from certain servicing agreements with its clients (see Notes 1.a, 1.b, 1.c, 1.d and 9).
- Pledge of credit rights held by the Parent owed by the Sole Shareholder (see Notes 7 and 20).
- Pledge of bank accounts: first ranking pledge on the credit rights deriving from bank accounts in the Parent´s name and in the name of its subsidiaries Mihabitans Cartera, S.A.U. and Haya Finance 2017, S.A.U. (see Note 7).
- Pledge over the credit rights deriving from certain insurance policies.

In addition to these of pledges, the subsidiaries Haya Titulización, Mihabitans and Haya Finance act as joint and several guarantors in the funding agreements.

The bond indenture also established certain limits that are generally applied in this kind of financing and affect the availability of new credit facilities, of the assets and of the equity items of the Group.

Super Senior Revolving Credit Facility

On 27 November 2017, the Parent, with is subsidiaries acting as guarantors, arranged a credit facility with certain financial institutions for a maximum amount of EUR 15,000 thousand to finance its working capital. This funding is guaranteed by the same pledges as those extended for the bonds, with determined priorities, and accrues interest at market rates. At year-end 2017, the Group had made no draw downs on this facility, which expires in May 2022.

The funding is conditional on a specified consolidated debt ratio being achieved each quarter. Given that at 31 December 2017, it had not been drawn down, the Group Management considers at the year-end there is no contractual requirement to achieve the aforementioned debt ratio.

This funding replaces Tranche B of the Financing Agreement cancelled during the year (see section on “Syndicated loan (Financing Contract)” below).

Liberbank business - VAT loan

On 8 August 2017, in relation with the acquisition of the Liberbank group's asset management business, the subsidiary Mihabitans entered into a financing agreement with Liberbank for an amount of EUR 17,808 thousand to cover its value added tax (VAT) obligations corresponding to this acquisition (see Note 18.1). This funding is guaranteed in full by the Sole Shareholder of the Parent and through a pledge on the corresponding bank account of Mihabitans. It has a term of 18 months, is repayable once the VAT return has been received from the Spanish tax authorities and accrues interest on a quarterly basis at a rate of 4%. Interest accrued in 2017 amounted to EUR 182 thousand (with EUR 105 thousand pending payment at year-end).

On 13 February 2018, the VAT return was issued by the Spanish tax authorities to Mihabitans and on 21 February 2018, the latter repaid the amount drawn down on the loan, which was cancelled in full along with the associated pledges.

Syndicated loan (Financing Agreement)

In 2015, the Parent undertook a refinancing process of its bank debt, signing on 26 November 2015 the "Financing Agreement" consisting of a syndicated loan, with Bankia as the agent bank, for a maximum amount of EUR 345,000 thousand. The loan consisted of a first tranche (Tranche A) for a maximum amount of EUR 330,000 thousand and a second tranche (Tranche B) renewable for a maximum amount of EUR 15,000 thousand. In 2017, the Parent repaid the loan early (see above) and cancelled the associated guarantees and pledges. The amount actually received by the Group amounted to EUR 321,139 thousand, which was the net amount of bank fees that amounted to EUR 8,861 thousand, deducted at the time of issuance.

This refinancing involved the repayment during 2015 of the amounts owed by the Group to the related financial entity Bawag PSK. During that year, the Group paid out a total amount of EUR 290,225 thousand to cancel the entire debt with Bawag PSK.

The credit consists of a first tranche (Tranche A) for a maximum amount of EUR 330,000 thousand and a second tranche (Tranche B) renewable for a maximum amount of EUR 15,000 thousand. In 2017, the Parent amortized an amount of EUR 10,500 thousand corresponding to the cash sweep set by the contract (EUR 83,290 thousand in 2016, corresponding to EUR 52,290 thousand for ordinary amortization established contractually and EUR 31,000 thousand for advance payments). Subsequently, the Group early amortized the entire financing, for the remaining amount of EUR 236,140 thousand (see previous section) and the cancellation of the corresponding guarantees and associated pledges. The financial expense for the interest associated with the aforementioned financing amounted to EUR 6,506 thousand in the year 2017 (EUR 10,590 thousand in 2016), having been settled in the year 2017, together with the due interests as at 2016 year-end, for an amount of EUR 976 thousand.

The syndicated loan was accounted for at amortised cost, considering the costs incurred in the arrangement of the financing, including the arrangement fee and consultants and notary fees. The early repayment of the syndicated loan led to a charge being made to the consolidated statement of profit or loss for 2017 for the full amortised cost pending recognition in profit or loss at the start of the year, for the amount of EUR 5,485 thousand. In 2016, factoring in the effective interest rate, the amount recognised by the Group on the consolidated statement of profit or loss was EUR 3,368 thousand (no amount in 2015).

In addition, the amortised cost included the cost of the financial derivative instrument contracted to cover interest rate variations, for the amount of EUR 675 thousand, as a requirement for signing the Financing Agreement. At year-end 2017, 2016 and 2015, the fair value and carrying amount of this financial instrument were approximately zero.

The credit line of EUR 15,000 thousand (Tranche B), was intended to finance general corporate needs and the working capital of the Group. At the close of 2017 it had also been cancelled (at year-end 2016 the credit line was undrawn and fully available).

Sole Shareholder loan

On 30 December 2014, the Parent’s Sole Shareholder granted a loan to the Parent, in the amount of EUR 45,000 thousand, to partially finance the payment associated with the contract signed with SAREB for the contract signed between the parties on the same date (see Note 1.b). This loan accrued a fixed interest rate of 5.5% and matured on 31 December 2019 or any subsequent date in which all the obligations derived from the aforementioned syndicated loan had been extinguished. The Sole Shareholder of the Parent also extended a loan to the former subsidiary Laformata for an amount of EUR 45,000 thousand, maturing in 2024, which accrues interest at a floating rate equal to Euribor plus a market spread. The total due amount of these loans at 31 December 2016 was EUR 59,373 thousand, in addition to the outstanding interests of EUR 3,781 thousand (EUR 59,345 thousand on 31 December 2016 and EUR 314 thousand on 31 December 2015).

The interest expense associated with this financing in 2017, in the amount of EUR 3,157 thousand (EUR 3,494 and 5,110 thousand on years 2016 and 2015, respectively), is recognised under “Finance expenses" in the accompanying consolidated statement of profit or loss (see Note 20.1).

In 2017, these loans taken out with the Sole Shareholder were fully early repaid, through the new financing obtained (see section above) and offsetting with the credit rights of EUR 3,900 thousand held by the Parent in the transaction to sell to its Sole Shareholder the shares of Housell (see Note 2).

In 2015, the Parent and the subsidiary Laformata each returned to the Sole Shareholder of the Group an amount of EUR 16,670 thousand of this loans.

On the other hand, in 2015, the Parent returned the total amount of a participative loan granted by its Sole Shareholder, amounting to EUR 20,000 thousand. In 2015, the financial expenses associated with this financing amounted to EUR 1,813 thousand (see Note 20.1).

The Group Management considers that the carrying amount of the borrowings at 31 December 2017, 2016 and 2015 does not differ significantly from their fair value.

12. Payables and other current liabilities

Trade payables

The balance under the heading "Trade payables" of the accompanying consolidated statement of financial position as of 31 December 2017 and 2016 includes payables resulting from the Group's ordinary trade transactions.

In the opinion of the Group Management, the carrying amount of trade payables does not significantly differ from their fair value.

Following are the disclosures required for 2017 and 2016 pursuant to additional provision three of Law 15/2010 of 5 July (amended by final provision two of Law 31/2014, of 3 December) prepared in accordance with the ICAC resolution of 29 January 2016 on information to be disclosed in the notes to financial statements on the average payment period in commercial transactions.

	Days		
	2017	2016	2015
Average period of payment to suppliers	54	55	41
Ratio of transactions paid	59	60	41
Ratio of transactions pending payment	43	42	32

	Thousands of euros		
	2017	2016	2015
Total payments made	67,703	61,438	67,427
Total payments outstanding	28,220	24,909	22,740

The figures shown in the foregoing table in relation to payments to suppliers relate to suppliers that because of their nature are trade creditors for the supply of goods and services and, therefore, they include the figures relating to "Trade payables" under current liabilities in the accompanying consolidated statement of financial position. At year-end 2017, the Group had recognised provisions for pending invoices amounting to EUR 17,430 thousand (EUR 17,381 and 17,055 thousand at year-end 2016 and 2015, respectively) under these headings of the accompanying consolidated statement of financial position. These provisions correspond to services received during 2017, 2016 and 2015 for which the invoices corresponding to 31 December 2017, 2016 and 2015, respectively, had not been received.

In relation to the 2015 financial year, the amount of the payments made from the previous table included the payments made between the companies included in the consolidation perimeter, as well as the payments for the year 2015 made by the components Haya Titulización, Gesnova and Haya Online before its incorporation into the consolidation perimeter of the Group (see Note 2).

The maximum legal payment term applicable to the Group is thirty days for 2017, 2016 and 2015 unless another date or payment term is established in the contract, without this term exceeding sixty days under any circumstances.

"Average payment period to suppliers" means the time elapsed between the date of receipt of the goods or services by the Parent and the date of actual payment.

The payment term for suppliers is significantly influenced by the speed of the suppliers and creditors in invoicing for their services and/or, to a lesser extent, delivery of their products. The Group applies a procedure known to its suppliers and creditors under which most payments are made on the 5th and 20th day of each month.

Other current liabilities

The breakdown of this heading of the consolidated statement of financial position at 31 December 2017, 2016 and 2015 is as follows:

	Thousands of euros		
	2017	2016	2015
Personnel, remuneration payable (Note 16.1)	6,970	6,155	7,576
Current tax liabilities (Note 18.2)	5,311	2,541	433
Amounts payable to Public Administrations (Note 18.2)	10,479	8,418	5,804
Current accruals	444	1,057	755
Total	**23,204**	**18,171**	**14,568**

13. Information on the nature and level of risks

Management of the Group's financial risks is centralised in the Finance Department of the Group, which has the mechanisms necessary to control exposure to interest rate fluctuations and to credit and liquidity risks. The main financial risks to which the Group is exposed are outlined below:

a) Credit risk:

In general, the Group holds its cash and cash equivalents in financial institutions with high credit ratings.

There is a high level of concentration, as the Group's activity stems from the contracts with the four clients described in Note 1. However, these clients are highly solvent, and the contracts all include clauses to mitigate the risk of the client cancelling the contract, covering all financial damage from lost profit that might result from cancellation for causes not attributable to the Group. Further, since its incorporation the Group has proven itself capable of arranging service agreement with new clients in addition to expanding the range of services it offers to the market, underpinned by the development of software applications that are able to incorporate the asset bases of any company. Therefore, the Group Management considers that this range of services and outstanding technology factor offset the high level of concentration.

The Haya Group's revenues stem mainly from volume-servicing and management fees from clients. Any delay or default on such payments by clients could have a material adverse impact on the Group's operating profit. These deferred payments sometimes happen, although the Group works actively to manages and resolve any such delay efficiently.

b) Liquidity risk:

In order to guarantee liquidity and be able to deal with payment commitments relating to its normal business, the Group has cash and cash equivalents as shown on its consolidated statement of financial position, and credit and financing lines as described in Note 11. Additionally the Group Management has prepared cash flow projections based on prudent assumptions from which it is evident that the Group is able to meet its current and forecast financial commitments for 2018. In addition, the Group Management has prepared a five-year business plan, which shows that the Group should be in a position to meet its obligations on the maturity date of the bond, by generating cash flows through its operations, their retention as there are certain limitations to the distribution of dividends (see Notes 10 and 11) and by the return of the credit by the Sole Shareholder (see Note 7), which will occur simultaneously with the maturity of the bonds (see Note 10) or at the time of a potential

IPO. The Group Management, however, foresees that the Group will be able to refinance the bond before it expires.

c) Market risk (including interest rate risk, exchange rate risk and other price risks):

Changes in interest rates modify the fair value of those assets and liabilities that accrue a fixed interest rate, as well as the future flows of the assets and liabilities referenced to a variable interest rate. The risk produced by the variation in the rate is managed by contracting derivative instruments that have the function of covering the Group with said risks. The Group has hedged possible interest rate increases through a derivative financial instrument maturing in November 2018 and with a strike of 0.4%.

In accordance with the information requirements of IFRS 7, the Group has carried out a sensitivity analysis in relation to possible fluctuations in interest rates that may occur in the markets in which it operates. Based on these requirements, the Group Management estimates that an increase in the 3-month Euribor of 50 basic points, to which the variable tranche of the bonds issued during the year 2017 is referenced (see Note 11), would imply a increase in the Group's financial expense of EUR 60 thousand in 2017 (a decrease of 50 basis points in the 3-month Euribor would not imply any change in the Group's financial expense in 2017, given that the bond issue includes a minimum of 0% for such variable index, minimum that has been applicable in 2017).

As of 31 December 2017 and 2016, the Group does not have any accounts receivable in a currency other than the euro.

d) Business risk:

Significant consolidation has occurred in the Spanish financial sector since 2008, and certain regulators, investors and securities analysts believe that further consolidation may occur in the future. A change of control of one of our core clients (or the acquisition of another entity by one of our core clients, which might not result in a change of control) could trigger an early termination right by the client and there is a risk that the portfolio we manage for the client may be given to a new servicer, preventing our access to future revenues. Even if there is no change of control in one of our core clients, further consolidation in the sector could adversely affect our future revenues if newly merged entities decide to renegotiate their servicing contracts and the portfolios that we currently manage for our clients are given to a new servicer. Furthermore, our Core Servicing Contracts provide our clients with an early termination right in the event that we are subject to any process that may result in a change of control. Although we would generally receive a “make-whole payment” or other compensation as a result of the early termination, the amount we would receive would be in a single, lump sum payment and may not fully compensate us for the loss of future revenues.

Similarly, our clients may decide to sell a significant part of or the entire portfolio we manage to another institution, which would decrease our fees. If this were to occur we would receive as compensation a single, lump sum payment with no future management or volume fees on the portion sold. Furthermore, if one or more of our clients or potential clients decide to sell a substantial portion or the portfolio we manage for them to institutional investors or investment firms that are competitors of Cerberus Capital Management, L.P., it may be difficult for us to renew or enter into new servicing contracts to manage those portfolios, given that Cerberus is the indirect sole shareholder of the Group. Failure to renew existing contracts or enter into new servicing contracts with these potential new clients may have a material adverse effect on our business, results of operations or financial condition.

Concentration in the financial sector or the sale of portfolios by our clients could also imply opportunities for the Group to compete for the consecution of future new servicing contracts for both financial institutions and institutional investors what would have a positive impact in the Group’s future revenues. Likewise, the evolution of the Spanish real estate sector will affect the future activity of the Group as part of its revenues are linked to the commercialization of real estate assets and the recovery of loans given to real estate developers..

14. Operating segments

The Group provides global and interrelated asset management services to its clients in the real estate sector. As a result of the services rendered to its clients through service agreements (SLA) that establish the terms and conditions of the services offered, the information prepared and analysed by the Parent’s directors, who take all decisions relating to the distribution of resources and assess the Group's results, refers mainly to the transaction

volumes associated with the assets under management. Therefore, internal financial information does not included information by segment, as defined in IFRS 8 Operating Segments. However, the Group's Management is currently analyzing the existence of operating segments, the criteria for allocating direct and indirect costs to them and the development of the internal financial reporting to prepare it according to the segments that will finally be defined. In this context, the Group's Management is evaluating the following income segmentation:

	Thousands of euros		
	Volume servicing fees		
	2017	2016	2015
RED	71,676	72,676	79,391
REO Conversion	20,779	26,751	22,405
REO	68,673	37,391	32,324
Total	**161,128**	**136,818**	**134,120**

15. Income

The breakdown of the “Revenue” heading of the accompanying consolidated statement of profit or loss for 2017, 2016 and 2015 is as follows:

	Thousands of euros		
	2017	2016	2015
Volume servicing fees	161,128	136,818	134,120
Management fees	78,770	81,731	84,035
Other	16,682	15,697	21,339
Total	**256,580**	**234,246**	**239,494**

All of the revenue recognised by the Group in the year 2017 have been registered for operations carried out in Spain and the 95,6 % corresponds to the revenue derived from the management contracts held with four clients, Bankia, SAREB, Cajamar and Liberbank, as described in Notes 1.a, 1.b., 1.c. and 1.d. (95,7% and 94,6% in her year 2016 and 2015 respectively, corresponds with three clients, Bankia, SAREB and Cajamar). Furthermore, practically all of the accounts receivable presented in the “Trade and other receivables” section of the accompanying consolidated statement of financial position are held with the aforementioned clients (see Note 9).

Certain SLAs entered into by the Group establish certain service level indicators, to be met periodically by the Group, included in the year 2017. These service level indicators in general include operational requirements, reporting obligations and fulfilment of milestones or dates related to the management of the assets. A breach in the required service levels would lead to different types of consequences. For minor breaches, the Group may be forced to assume an economic penalty, usually determined as a percentage of the revenues generated in the month of non-compliance. In case of certain serious and recurrent breaches, the client could terminate the contract without compensatory payment for the lost future income. Given the performance levels achieved in 2017 and the ongoing dialogue with the clients regarding the results of these indicators, the Group Management considers that at 31 December 2017 there are no liabilities that should be recognised as associated with these.

16. Expense

16.1 Personnel expenses

The breakdown of the “Personnel expenses” heading of the consolidated statement of profit or loss for 2017, 2016 and 2015 is as follows:

	Thousands of euros		
	2017	2016	2015
Salaries and wages	39,731	34,041	35,223
Social security	7,703	7,560	7,398
Termination benefits	1,436	3,469	5,652
Other social charges	1,289	1,506	375
Contributions to pension plans	749	259	779
Total	**50,908**	**46,835**	**49,427**

The “Salaries and wages” heading includes a total of EUR 6,463 thousand (EUR 5,674 and 7,576 thousand in 2016 and 2015, respectively) in connection mainly with variable remuneration pending payment as at 31 December 2017, which is recognised under “Personnel (salaries pending payment)” of the heading “Other current liabilities” on the accompanying consolidated statement of financial position (see Note 12) and is linked to the achievement of results and the accomplishment of objectives by each employee. This heading also includes EUR 3,900 thousand (zero in years 2016 and 2015) relating to the incentive plan extended by a party related to the Sole Shareholder of the Parent to part of the Group's workforce (see Note 10.4).

The average number of employees in the Group in 2017, 2016 and 2015, which was not significantly different from the workforce at year-end, is detailed by professional categories and gender in the table below:

2017

	Number of employees			Disabled employees (a)
	Men	Women	Total	
Senior Management	12	3	15	-
Directors and qualified staff	68	41	109	-
Clerical staff and department heads	263	322	585	3
Total	**343**	**366**	**709**	**3**

(a) Average number of employees in the consolidated companies with a degree of disability greater than or equal to 33% (or equivalent local classification).

2016

	Number of employees			Disabled employees (a)
	Men	Women	Total	
Senior Management	12	2	14	-
Directors and qualified staff	62	32	94	-
Clerical staff and department heads	256	307	563	5
Total	**330**	**341**	**671**	**5**

(a) Average number of employees in the consolidated companies with a degree of disability greater than or equal to 33% (or equivalent local classification).

2015

	Number of employees			Disabled employees (a)
	Men	Women	Total	
Senior Management	10	2	12	-
Directors and qualified staff	32	21	53	-
Clerical staff and department heads	296	332	628	7
Total	**338**	**355**	**693**	**7**

(a) Average number of employees in the consolidated companies with a degree of disability greater than or equal to 33% (or equivalent local classification).

16.2 Other operating expenses

The breakdown of “Other operating expenses” in the accompanying consolidated statements of profit or loss for 2017, 2016 and 2015 was as follows:

	Thousands of euros		
	2017	2016	2015
External services	**62,533**	**53,227**	**58,852**
Independent professional services	51,019	44,194	52,088
Advertising and public relations	4,499	3,643	1,008
Other services	4,069	2,640	2,749
Leases and royalties (Note 8)	2,059	1,630	1,681
Insurance premiums	488	705	742
Supplies	217	256	315
Banking and similar services	119	62	205
Repairs and maintenance	63	97	60
Transport	-	-	4
Losses, impairment and changes in provisions for trade receivables (reversals)	**146**	**(40)**	**(3,729)**
Other charges	**569**	**608**	**324**
Other current operating expenses	**(106)**	**214**	**12,852**
Total	**63,142**	**54,009**	**68,299**

In 2017, the “Independent professional services” heading in the above table includes non-recurring expenses in the amount of EUR 836 thousand relating to potential investments by the Group in other companies and/or businesses within its scope of activity (EUR 5,008 and 4,845 thousand in the years 2016 and 2015, respectively).

Virtually all the remaining amount included in the item “Independent Professional Services” relates to the cost of real estate agents who intermediate in the sale of real estate assets and the cost of commissions for loan collections managed by the Group.

At the end of 2014, following a prudential criterion, the Group kept provisions recorded in relation to items invoiced in acceptance process until their definitive resolution, ascending said provisions to EUR 9,946 thousand. In 2015, these provisions have been applied based on the final resolution with customers, assuming an income of EUR 3,729 thousand, due to excess provision, recorded under the heading "Losses, impairment and variation of provisions for commercial operations" of the heading "Other Operating Expenses" in the accompanying consolidated income statement for the year 2015.

Audit fees

During 2017, 2016 and 2015, the amounts for fees charged relating to auditing services and other services provided by the Group auditor, Deloitte, S.L. or by other companies related to the auditor through control, shared property, or management, were the following:

	Thousands of euros		
	2017	2016	2016
Audit services	112	112	155
Other assurance services	292	5	3
Total audit services and related	**404**	**117**	**158**
Other services	173	170	46
Total other professional services	**173**	**170**	**46**

The other assurance services provided by the auditor in 2017 corresponded almost entirely to work carried out for the Parent relating to the issuance of comfort letters on the financial information included in the prospectus prepared for the bond issue (see Note 11). Other services provided in the years 2017, 2016 and 2015 consisted mainly of advisory services provided to the Parent for the preparation of the reports sent to one of its clients, in the context of the service level agreement, and, in the year 2015, to other advisory services.

17. Contribution to profit and loss

The contribution of each of the companies included within the scope of consolidation to consolidated profit and loss after income tax and consolidation adjustments is as follows:

	Thousands of euros		
	2017	2016	2015
Haya Real Estate	20,895	29,348	14,346
Mihabitans	10,225	-	-
Haya Titulización	1,899	1,986	220
Haya Finance	(449)	-	-
Laformata	-	-	4,572
Gesnova	-	-	(2,318)
Haya Online	-	-	(1,001)
Total profit or loss for the year	**32,570**	**31,334**	**15,819**

In the financial year 2016, a merger occurred through the acquisition of the companies Laformata Servicios y Gestiones, S.L.U., Gesnova Gestión Inmobiliaria Integral, S.L.U. and Haya Online, S.A.U. (hereinafter Laformata, Gesnova and Haya Online, respectively) as absorbed companies with Haya Real Estate, S.L.U. being the absorbing company (see Note 2).

18. Tax situation

18.1 Financial years open to inspection

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute of limitations period has expired. At 31 December

2017, the Parent has 2015 and subsequent years open to inspection by the tax authorities for corporate income tax and VAT, and 2013 and subsequent years for the rest of taxes.

On 26 January 2016, the tax authorities made the Parent aware of the beginning of verification and investigation activities with respect to Value Added Tax and Corporate Income Tax for 2013 and 2014. The aforementioned verification procedure ended during 2016. With respect to Value Added Tax, a certificate of compliance was signed for the two aforementioned years, without any regularisation taking place. With respect to Corporate Income Tax for both financial years, a settlement agreement was received on 28 November 2016 in relation to the inspection certificate issued in this inspection procedure and signed in disagreement by the Parent. From the aforementioned settlement agreement, appealed by the Parent before the Tax Appeal Board, a payable in the amount of EUR 2,276 thousand and interest on arrears in the amount of EUR 97 thousand derived, both of which were paid by the Group in January 2017. The said payment was principally the consequence of a difference in criteria of the tax authorities with respect to the Parent concerning the accounting distribution of the acquisition cost of a particular asset (see Note 5), involving a difference in the timing of the deductibility of the amortisation associated with this asset. As a consequence of this, the Parent recognised: an amount of EUR 2,373 thousand charged against “Other current liabilities” on the consolidated statement of financial position at 31 December 2016; “Deferred tax assets” for a temporary difference and deductions pending application in the amounts of EUR 2,120 and EUR 14 thousand, respectively; and expenses in the amount of EUR 142 and EUR 97 thousand, charged against the “Income Tax" and “Finance expenses” sections of the accompanying consolidated statement of profit or loss for 2016, respectively.

Furthermore, on 20 January 2017 the Parent received the notification of the resolution agreement of the disciplinary proceedings, in which a penalty in the amount of EUR 1,450 thousand was imposed. This has been appealed before the Tax Appeal Board and its enforcement suspended while the tax appeal process is completed. At year-end 2017, the Group Management and their tax advisers consider it probable that the aforementioned appeals will fall in favour of the Parent and, consequently, they consider that the described situation represents a contingency but not a liability for the Parent. For this reason, the Group Management did not consider it appropriate to recognise any provisions in relation to the sanction in the accompanying consolidated statement of financial position at 31 December 2017.

The Group Management consider that the settlements of all the non-prescribed taxes have been carried out adequately. Even if discrepancies arise in the interpretation of existing legislation on the tax treatment of the operations, any possible liabilities that might result would not significantly affect these consolidated financial statements.

18.2 Balances with Public Administrations

The consolidated statement of financial position at 31 December 2017, 2016 and 2015 includes the following balances with Public Administrations:

	Thousands of euros					
	2017		2016		2015	
	Current	Non-current	Current	Non-current	Current	Non-current
Receivables:						
Amounts receivable from tax authorities for						
Corporate income tax	-	-	188	-	190	-
VAT	17,642	-	3	-	4	-
Deferred tax assets	-	10,297	-	9,336	-	6,113
	17,642	**10,297**	**191**	**9,336**	**194**	**6,113**
Payables:						
Amounts payable to tax authorities for:						
Corporate income tax – 2017	5,311	-	2,541	-	433	-
Corporate income tax – previous years	-	-	2,373	-	-	-
VAT	9,035	-	4,380	-	4,361	-
Withholdings	597	-	804	-	543	-
	-	-	-	-	85	-
Amounts payable to social security	847	-	861	-	815	-
	15,790	-	**10,959**	-	**6,237**	**-**

The amount included under the caption “Amounts receivable from tax authorities for VAT” of year 2017 was mainly made of an amount of EUR 17,808 thousand related to the VAT incurred in the acquisition of the Liberbank group's asset management business and which has been fully collected from the tax authorities in February 2018 (see Note 11).

18.3 Reconciliation of accounting profit/(loss) to taxable profit/(tax loss)

Next, the reconciliation of the 2017, 2016 and 2015 periods between the expense for the income tax and the expense recorded for the aforementioned tax is presented. The corporate income tax settlements for 2016 and 2015 were filed based on the corresponding financial statements of the companies that make up the Group and the accounting policies then applied, some of them having been changed in these consolidated financial statements (see Note 3.3). The Group Management considers that the change in the accounting policy implemented in 2017 has no effect on the corporate tax settlements filed by the Parent in prior years.

2017

	Thousands of euros		
	Increase	Decrease	Total
Accounting profit/(loss) in period			32,570
Corporate income tax			10,742
Permanent differences			
Non-deductible expenses and non-computable revenues	197	(536)	(339)
Related party incentive programme (Notes 10.4 and 16.1)	3,900	-	3,900
Temporary differences			
Arising in the year			
Differences between depreciation and amortisation for accounting and tax purposes	6,247	-	6,247
Arising in previous years			
Tax deduction limit for depreciation of fixed assets	2	(444)	(442)
Differences between depreciation and amortisation for accounting and tax purposes	-	(1,816)	(1,816)
Tax base (taxable income)			**50,862**

2016

	Thousands of euros		
	Increase	Decrease	Total
Accounting profit/(loss) in period			31,334
Corporate income tax			10,374
Permanent differences			
Non-deductible expenses	101	-	101
Temporary differences			
Arising in the year			
Differences between depreciation and amortisation for accounting and tax purposes	6,248	-	6,248
Arising in previous years			
Limit on the deduction of financial costs	-	(1,149)	(1,149)
Tax deduction limit for depreciation of fixed assets	2	(938)	(936)
Differences between depreciation and amortisation for accounting and tax purposes	-	(245)	(245)
Tax base (taxable income)			**45,727**

2015

	Thousands of Euros		
	Increase	Decrease	Total
Profit or loss for the year (before taxes)			15,819
Corporate Income Tax			6,777
Permanent differences			
Non-deductible expenses	721	(83)	638
Business combination	-	(910)	(910)
Temporary differences:			
Arising in year			
Differences between tax and accounting amortization	18,121		18,121
Arising in previous years			
Non-deductible trade insolvency provision	-	(4,857)	(4,857)
Tax deduction limit on interest costs	-	(483)	(483)
Tax deduction limit on amortisation of fixed assets	-	(937)	(937)
Taxable income (profit or loss for tax purposes)			**34,168**

Negative permanent differences in 2017 correspond mainly to a negative adjustment for the recovery of non-deductible provisions, originating from the reversal of the provision for certain lawsuits amounting to EUR 500 thousand (see Note 4.13).

Furthermore, temporary negative differences in 2017 include the amount of EUR 444 thousand (EUR 938 and 483 thousand in the years 2016 and 2015, respectively) corresponding to part of the non-deducted amount of amortisation and depreciation in 2014 and 2013 for the special tax measures limiting the tax deductibility of amortisation and depreciation for accounting purposes in force in those financial years. The amortisation and depreciation not deducted for tax purposes in 2013 and 2014 is deductible in 2015 for some items over their remaining useful life, and over ten years for others.

The main positive temporary difference in 2017, 2016 and 2015 corresponds to the temporary difference between the amortisation and depreciation for accounting purposes and for tax purposes of a particular intangible asset deriving from the asset management contract arranged by the Parent. This temporary difference will revert before the expiration of the aforementioned contract.

Furthermore, in 2015 the Group recovered the temporary differences corresponding to the provisions for traffic insolvencies, which acquired the consideration of fiscally deductible in the year 2015, amounting to EUR 4,857 thousand.

18.4 Calculation of corporate income tax

The calculation of corporate income tax for 2017, 2016 and 2015 is as follows:

	Thousands of euros		
	2017	2016	2015
Accounting profit before tax	43,312	41,708	22,596
Permanent differences	3,561	101	(272)
Consolidation adjustments	(184)	(181)	-
Total	**46,689**	**41,628**	**22,324**
Tax rate	25%	25%	28%
Tax payable	11,672	10,407	6,251
Deductions	(1,228)	(43)	(40)
Adjustments in the allocation of profit	-	-	566
Other	298	10	-
Total income tax expense recognised in consolidated profit and loss	**10,742**	**10,374**	**6,777**

"Deductions" in the table above correspond mainly to the deduction for Technological Innovation through the development of a new technological tool for the comprehensive management of the real estate services of property valuation services and credit recovery processes corresponding to 2014, 2015 and 2016 for the amount of EUR 1,182 thousand accredited and applied by the Parent in 2017 after receiving the informative report issued by the competent authorities.

18.5 Breakdown of Corporate Income Tax expense

The breakdown of the corporate income tax expense for 2017, 2016 and 2015 is as follows:

	Thousands of euros		
	2017	2016	2015
Current tax:			
Continuing operations	11,705	11,326	9,567
Deferred tax:			
Continuing operations	(963)	(952)	(2,790)
Total income tax expense recognised in consolidated profit and loss	**10,742**	**10,374**	**6,777**

18.6 Deferred tax assets

The breakdown of deferred tax assets in 2017, 2016 and 2015 is as follows:

2017

	Thousands of euros			
	Beginning balance	Additions	Disposals	Closing balance
Non-deductible amortisation and depreciation of fixed assets	614	123	(111)	626
Pension insurance contract	166	-	-	166
Differences between depreciation and amortisation for accounting and tax purposes	6,032	1,561	(454)	7,139
Other temporary differences	125	-	(125)	-
Deduction for 37th Transitory Provision of the Corporation Tax Act	279	-	(183)	96
Inspection regularisation (Note 18.1)	2,120	-	-	2,120
Tax loss carryforwards	-	150	-	150
Total	**9,336**	**1,834**	**(873)**	**10,297**

2016

	Thousands of euros			
	Beginning balance	Additions	Disposals	Closing balance
Limit on the deduction of financial expenses	291	-	(291)	-
Non-deductible amortisation and depreciation of fixed assets	846	-	(232)	614
Pension insurance contract	169	-	(3)	166
Differences between depreciation and amortisation for accounting and tax purposes	4,531	1,501	-	6,032
Other temporary differences	125	-	-	125
Deduction for 37th Transitory Provision of the Corporation Tax Act	151	146	(18)	279
Inspection regularisation (Note 18.1)	-	2,120	-	2,120
Total	**6,113**	**3,767**	**(544)**	**9,336**

2015

	Thousands of Euros					
	Opening Balance	Inclusion in scope of consolidation	Additions	Disposals	Allocation adjustment	Closing Balance
Provision for insolvency	1,360	22	-	(1,382)	-	-
Non-deductible depreciation of fixed assets	1,266	-	-	(420)	-	846
Non-deductible finance costs	462	-	-	(171)	-	291
Social welfare insurance	157	10	2	-	-	169
Difference between tax and accounting amortization	-	-	5,075	-	(544)	4,531
Other temporary differences	-	147	-	-	(22)	125
Deductions	-	-	151	-	-	151
Total	**3,245**	**179**	**5,228**	**(1,973)**	**(566)**	**6,113**

The Group Management, in accordance with the best estimate of taxable income, have capitalised deferred taxes as they consider that recoverability is probable within the deadlines established by applicable legislation.

Deductions pending application

In 2017, 2016 and 2015 the Group carried out technological innovation activities that may entitle it to apply the deduction established in article 35 of Royal Legislative Decree 4/2004, of 5 March, which approved the Consolidated Text of the Corporate Income Tax Law and article 35 of Law 27/2014, of 27 November, on Corporate Income Tax, insofar as they imply a technological advance and a substantial improvement of existing products and production processes, which will be demonstrated pursuant to the applicable legislation.

19. Distribution of the profit or loss of the Parent

The proposed distribution of 2017 earnings drawn up by the Parent's Directors and pending approval by the Sole Shareholder is the following:

	Thousands of euros
Dividends	14,063
Voluntary reserves	6,648
Total	**20,711**

At 31 December 2017, the Parent recognises under "Interim dividend" on the accompanying consolidated statement of financial position, an amount of EUR 14,063 thousand corresponding to the distribution of extraordinary dividends approved the Sole Shareholder of the Parent on 27 November 2017 (see Note 10) and settled on the same date. In accordance with the requirements of article 277 of the Spanish Limited Liability Companies Law, the Parent's director have drawn up a provisional liquidity statement, attached to its annual financial statements for 2017, showing that it has sufficient liquidity to distribute this dividend.

In the past five years, the Parent has distributed the following dividends to the Sole Shareholder: EUR 45,000 thousand in November 2015, EUR 21,489 thousand in March 2017 and EUR 41,000 thousand in November 2017.

20. Related-party transactions

Transactions and amounts between the Parent and its subsidiaries have been eliminated on consolidation and are not disclosed herein. These transactions and amounts are disclosed in each of the companies' separate financial statements.

20.1 Related party transactions

Related party transactions for 2017, 2016 and 2015, which were all at arm's length, are as shown below:

2017

	Thousands of euros		
	Sole shareholder	Group companies and associates	Other Related parties
Revenue			
Rendered services	-	2,733	1,238
Finance income from upstream loan to the Sole Shareholder (Note 7)	478	-	-
Total revenue	**478**	**2,733**	**1,238**
Expenses			
Finance expenses on loan to the Sole Shareholder (Note 11)	3,157	-	-
Independent professional services	-	563	-
Board of Directors expenses	-	-	450
Total expenses	**3,157**	**563**	**450**

2016

	Thousands of euros		
	Sole shareholder	Group companies and associates	Other related parties
Revenue			
Rendered services	-	1,972	343
Total revenue	**-**	**1,972**	**343**
Expenses			
Finance expenses on loan to the Sole Shareholder	3,494	-	-
Independent professional services	-	1,109	2
Board of Directors expenses	-	-	370
Total expenses	**3,494**	**1,109**	**372**

2015

	Thousands of Euros		
	Sole shareholder	Group companies and associates	Others Related parties
Revenue-			
Rendered services	-	1,608	612
Total income	**-**	**1,608**	**612**
Expenses-			
Finance costs	6,923	-	15,505
Independent professional services	-	652	-
Board of Directors expenses	-	-	370
Total costs	**6,923**	**652**	**15,875**

The amount recognised as "Income - Services rendered" in the column "Group companies and associates" in 2017, 2016 and 2015 is accounted for almost entirely by the portfolio valuation services and advisory services provided by the Group to Cerberus.

In 2017, 2016 and 2015, the Parent only signed the financing contracts described in Note 11 subscribed with their Sole Shareholder. During the years 2017, 2016 and 2015, no contracts were concluded, amended or terminated between the Parent and the Sole Shareholder, or Parent's directors or person that acts on their behalf, for operations not related to the Parent's ordinary course of business or not under normal conditions.

In 2017 and 2015, the Parent paid dividends to the Sole Shareholder (see Notes 11 and 20). In 2016, no dividend was distributed.

20.2 Related party balances

Balances with related parties in the consolidated statement of financial position at 31 December 2017, 2016 and 2015 were as follows:

2017

	Thousands of euros		
	Sole shareholder	Group companies and associates	Other related parties
Trade receivables for sales and services (Note 9)	-	582	307
Upstream loan granted (Note 7)	88,090	-	-
Interest accrued on loan granted (Note 7)	478	-	-
Accounts payable for professional services	-	38	-
Total (absolute values)	**88,568**	**620**	**307**

2016

	Thousands of euros		
	Sole shareholder	Group companies and associates	Other related parties
Trade receivables for sales and services (Note 9)	-	1,091	96
Loans (Note 11)	59,373	-	-
Interest on loans (Note 11)	3,781	-	-
Accounts payable for professional services	-	213	-
Total (absolute values)	**63,154**	**1,304**	**96**

2015

	Thousands of Euros		
	Sole shareholder	Group companies and associates	Other related parties
Trade receivables for sales and services (Note 9)	-	842	77
Loans (Note 11)	59,345	-	-
Interest on loans (Note 11)	314	-	-
Accounts payable for professional services	-	235	-
Total (absolute values)	**59,659**	**1,077**	**77**

21. Remuneration of the Board of Directors and Senior Management

21.1 Remuneration of the Board of Directors and Senior Management

During 2017, the functions corresponding to directors of the Parent were performed by six men and one woman (seven men in 2016 and six men in 2015). Also, the functions corresponding to senior management of the Parent were performed by twelve men and three women (twelve men and two women in 2016 and ten men and two women in 2015), two men of them are executive directors of the Parent and hold the function of chairman and chief executive officer, respectively. The nature and amount of the remuneration received by directors of the Parent and senior management, not directors, is as follows:

2017

	Thousands of euros						
	Fixed remuneration	Variable remuneration	Incentive plan (Note 10.4)	Remuneration in kind	Compensation	Total	Pending
Directors	1,270	1,460	1,721	1	-	4,452	3,261
Senior Management	2,456	1,295	1,463	12	13	5,240	2,506

2016

	Thousands of euros						
	Fixed remuneration	Variable remuneration	Remuneration in kind	Compensation	Termination benefits	Total	Pending
Directors	1,190	925	1	-	-	2,116	925
Senior Management	2,384	1,277	10	13	494	3,684	1,277

2015

	Thousands of euros						
	Fixed remuneration	Variable remuneration	Remuneration in kind	Compensation	Termination benefits	Total	Pending
Directors	1,208	910	1	-	750	2,869	1,217
Senior Management	1,782	991	8	1	-	2,782	991

The amount shown in the "Incentive plan" column related to "Directors" of the table for the year 2017 has been accrued by the chairman and the chief executive officer, only.

The amounts shown in the "Pending" column in the above tables correspond to the amount pending reception by directors and senior management personnel at year-end 2017, 2016 and 2015, respectively.

The commitments of the Parent in 2017 for pensions for senior management personnel amount to EUR 95 thousand (EUR 86 and 59 thousand in the year 2016 and 2015, respectively) and no commitments of this kind were made by the Parent with respect to its directors in 2017 (EUR 3 thousand in 2016, and no amount in 2015). In 2017, obligations were also assumed for life insurance for senior management personnel for a total of EUR 18 thousand (EUR 19 and 22 thousand in the years 2016 and 2015 respectively), no commitments of this kind were assumed by the Parent with respect to its directors, (EUR 1 thousand in 2016 and no amount in 2015).

In the year 2017, a total of EUR 25 thousand was paid for the civil liability insurance premium of the Parent's directors (EUR 28 thousand in 2016).

21.2 Other information on the Parent's directors

In accordance with prevailing legislation, at year-end 2017, the Parent's directors have communicated to the secretary of the Board that neither they or persons related to them, as defined in the Spanish Companies' Act, have been engaged in any conflict, direct or indirect, with the interests of the Group in 2017, except Sr. Jose María Aznar Botella who has communicated that he has the position of shareholder of Siroco Real Estate S.L., which presents a similar company object to the Parent's one.

22. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Group by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares held in the year, where applicable. At 31 December 2017, 2016 and 2015, basic earnings per share are as follows:

	31/12/2017	31/12/2016	31/12/2015
Profit/(loss) for the year (thousands of euros)	32,570	31,334	15,819
Weighted average number of ordinary shares outstanding (Note 11)	9,683,010	9,683,010	9,683,010
Basic earnings per share (in euros)	**3.36**	**3.24**	**1.63**

At 31 December 2017, 2016 and 2015, diluted earnings per share coincide with basic earnings per share.

23. Guarantees and surety

As of 31 December 2017, 2016 and 2015, there were no guarantees or surety other than as referred to in Note 11 of these notes to the consolidated financial statements.

24. Events after the reporting period

The Parent set up the company Haya Real Estate Servicing, S.A.U. on 31 January 2018, with a similar corporate purpose to the Parent. On 13 March 2018, the Parent has sold all the shares it holds of this new company to its Sole Shareholder, for an amount of EUR 60 thousand, which is equivalent to the share capital of the new company. Since its incorporation to the date of aforementioned shares sale, the new company had not carried out any activity.

At the date of formulation of these consolidated financial statements, the Group is exploring the possibility of executing an IPO, after observing, among other reasons, the awakening of the capital markets' interest when issuing the bonds in November 2017 (see Note 11). Such operation will depend on the situation of the Group and of the capital market at any time, being possible that such operation does not occur in 2018. As at 31 December 2017 the Parent had not incurred in any significant expense in relation with this potential operation. At the date of formulation of these consolidated financial statements, the Group Management estimates that the expenses accrued in relation with it, amount approximately to EUR 2 million. In addition, if the IPO is confirmed, the Group will analyse the existing incentive plan (see Note 10.4) and will assess the convenience of introducing changes to it or of approving a new one.

25. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 3.1). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Formulation of the consolidated financial statements and directors' report

Pursuant to article 253 of the Spanish Limited Liability Companies Law, the signatories hereto, being the directors of HAYA REAL ESTATE, S.L.U., have agreed the formulation of the consolidated financial statements of HAYA REAL ESTATE, S.L.U. for the year ended 31 December 2017, comprising the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of changes in equity and the consolidated statement of cash flows, and the notes to the consolidated financial statements and the consolidated directors' report, which was drawn up by the Board of Directors on 28 March 2018.

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